



ANNUAL REPORT 2014 **OF BANK ZACHODNI WBK GROUP**

2014



Bank Zachodni WBK

 Grupa Santander

FINANCIAL HIGHLIGHTS	PLN k		EUR k		
	for reporting period ended:		31.12.2014	31.12.2013	31.12.2014
Consolidated financial statements of Bank Zachodni WBK Group					
I	Net interest income	3 996 822	3 276 560	954 055	778 095
II	Net fee and commission income	1 847 761	1 778 556	441 067	422 360
III	Operating profit	2 638 656	2 498 420	629 856	593 308
IV	Profit before tax	2 640 041	2 514 717	630 187	597 178
V	Net profit attributable to owners of BZ WBK S.A.	1 914 711	1 982 328	457 048	470 750
VI	Total net cash flow	60 496	2 722 294	14 441	646 472
VII	Total assets	134 501 874	106 059 967	31 556 172	25 573 873
VIII	Deposits from banks	8 359 856	6 278 797	1 961 349	1 513 985
IX	Deposits from customers	94 981 809	78 542 982	22 284 168	18 938 798
X	Total liabilities	116 450 180	91 577 024	27 320 972	22 081 651
XI	Total equity	18 051 694	14 482 943	4 235 200	3 492 222
XII	Non-controlling interests in equity	1 520 799	610 855	356 802	147 293
XIII	Profit of the period attributable to non-controlling interests	132 581	32 283	31 648	7 666
XIV	Number of shares	99 234 534	93 545 089		
XV	Net book value per share in PLN/EUR	181,91	154,82	42,68	37,33
XVI	Solvency ratio *	12,91%	13,92%		
XVII	Profit per share in PLN/EUR	19,91	21,24	4,75	5,04
XVIII	Diluted earnings per share in PLN/EUR	19,86	21,17	4,74	5,03
XIX	Declared or paid dividend per share in PLN/EUR**	**	10,70	**	2,58

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

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

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

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

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



**CONSOLIDATED FINANCIAL STATEMENTS
OF BANK ZACHODNI WBK GROUP
FOR 2014**

2014



Bank Zachodni WBK

 Grupa Santander

Dear All,

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

Economic success in a challenging environment

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

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

The banking sector in the whirlwind of change

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

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

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

Bank Zachodni WBK as the efficiency leader

In 2014, Bank Zachodni WBK Group clearly strengthened its position among top Polish financial institutions, posted better financial results than a year before and won the trust of nearly half a million of new customers. Our profit before tax exceeded PLN 2.64bn and was 5% higher versus 2013, including the profit generated by Santander Consumer Bank. The value of our assets last year was PLN 135bn, compared to PLN 106bn a year before. We are particularly proud of the fact that despite record-low interest rates in the last quarter of 2014 we managed to maintain the net interest margin at a level slightly higher than in 2013. Our interest income went up to PLN 4.0bn, an increase of nearly 22% relative to the previous year, while the fee income was 4% higher than last year and amounted to PLN 1.8bn.

2014 witnessed a very dynamic growth of our credit portfolio, which was 27% up on the previous year, retail loans went up 40% while business loans saw a growth by 15% year on year. We are also proud of our growing consumer loans portfolio which, including the loans sanctioned by Santander Consumer Bank, nearly doubled. We also recorded a very satisfactory result when it comes to business loans, as evidenced by a 37% increase in the credit portfolio of the Global Banking and Markets, i.e. the loans sanctioned to the largest domestic and foreign enterprises operating on the Polish market. In 2014, we opened nearly half a million of new, active accounts. We also expanded our card offering to include the Fast Cash service and the Priority Pass programme for VIP customers. At the end of the year, we had 968,000 prepaid cards, 694,000 credit cards and 3.4m debit cards.

The dynamic increase in our loan portfolio and business was accompanied by a very strong growth of the deposit base which went up 21% year on year. This way we continued the policy of a sustainable business development which assumes a dynamic growth of our business while maintaining a very secure liquidity position and an active cost management discipline. At the end of 2014, our Tier 1 ratio stood at 12.5% and was much above the 9% minimum required by the Polish Financial Supervision Authority (+0.9 p.p. y/y). The capital adequacy ratio amounted to 12.9% which is still above the minimum level set by KNF. Last year, Bank Zachodni WBK was among the most efficient banks in Poland, as evidenced by one of the highest return on equity in the domestic financial sector.

A socially responsible Bank

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

A multi-channel, modern bank

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

Mateusz Morawiecki

President of the Management Board

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In thousands of PLN

Consolidated income statement

		for reporting period:	
		01.01.2014	01.01.2013
		31.12.2014	31.12.2013
Interest income		5 723 043	5 215 203
Interest expense		(1 726 221)	(1 938 643)
Net interest income	Note 6	3 996 822	3 276 560
Fee and commission income		2 211 332	2 089 422
Fee and commission expense		(363 571)	(310 866)
Net fee and commission income	Note 7	1 847 761	1 778 556
Dividend income	Note 8	80 229	58 738
Net gains/(losses) on subordinated entities	Notes 49-51	10 602	418 692
Net trading income and revaluation	Note 9	101 043	186 114
Gains (losses) from other financial securities	Note 10	225 552	297 594
Other operating income	Note 11	317 034	73 545
Impairment losses on loans and advances	Note 12	(836 555)	(729 301)
Operating expenses incl.:		(3 103 832)	(2 862 078)
<i>Bank's staff, operating expenses and management costs</i>	Notes 13, 14	(2 719 479)	(2 607 613)
<i>Depreciation/amortisation</i>		(308 022)	(219 321)
<i>Other operating expenses</i>	Note 15	(76 331)	(35 144)
Operating profit		2 638 656	2 498 420
Share in net profits (loss) of entities accounted for by the equity method		1 385	16 297
Profit before tax		2 640 041	2 514 717
Corporate income tax	Note 16	(592 749)	(500 106)
Consolidated profit for the period		2 047 292	2 014 611
of which:			
<i>attributable to owners of BZ WBK S.A.</i>		1 914 711	1 982 328
<i>attributable to non-controlling interests</i>		132 581	32 283
Net earnings per share (PLN/share)	Note 17		
Basic earnings per share		19,91	21,24
Diluted earnings per share		19,86	21,17

Consolidated statement of comprehensive income

		for reporting period:	
		01.01.2014	01.01.2013
		31.12.2014	31.12.2013
Consolidated profit for the period		2 047 292	2 014 611
Other comprehensive income which can be transferred to the profit and loss account:		256 216	(169 702)
Available-for sale financial assets valuation		488 423	(165 896)
<i>including deferred tax</i>		(92 800)	31 520
Cash flow hedges valuation		(172 108)	(43 611)
<i>including deferred tax</i>		32 701	8 285
Other comprehensive income which can't be transferred to the profit and loss account:		(11 670)	6 215
Provision for retirement allowances – actuarial gains/losses		(14 408)	7 673
<i>including deferred tax</i>		2 738	(1 458)
Other comprehensive income for the period, net of income tax		244 546	(163 487)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		2 291 838	1 851 124
Attributable to:			
<i>owners of BZ WBK S.A.</i>		2 157 350	1 818 835
<i>non-controlling interests</i>		134 488	32 289

Notes presented on pages 12 – 111 constitute an integral part of these Financial Statements.

In thousands of PLN

Consolidated statement of financial position

	as at:	31.12.2014	31.12.2013
Assets			
Cash and balances with central banks	Note 18	6 806 521	5 149 686
Loans and advances to banks	Note 19	2 523 063	2 212 704
Financial assets held for trading	Note 20	5 238 741	2 344 901
Hedging derivatives	Note 21	238 889	321 956
Loans and advances to customers	Note 22	85 820 571	68 132 143
Investment securities	Notes 23, 24	27 057 093	22 090 764
Investments in associates and joint ventures	Note 25	42 792	63 444
Intangible assets	Note 26	505 385	506 792
Goodwill	Notes 50,51	2 542 325	2 542 325
Property, plant and equipment	Note 27	756 950	632 642
Net deferred tax assets	Note 28	1 181 610	476 430
Assets classified as held for sale	Note 29	1 378	3 503
Investment property		-	14 166
Other assets	Note 30	1 786 556	1 568 511
Total assets		134 501 874	106 059 967
Liabilities			
Deposits from banks	Note 31	8 359 856	6 278 797
Hedging derivatives	Note 21	1 258 224	367 524
Financial liabilities held for trading	Note 20	2 781 680	1 277 162
Deposits from customers	Note 32	94 981 809	78 542 982
Subordinated liabilities	Note 33	1 539 967	1 384 719
Debt securities in issue	Note 34	3 373 374	500 645
Current income tax liabilities		624 189	100 983
Other liabilities	Note 35	3 531 081	3 124 212
Total liabilities		116 450 180	91 577 024
Equity			
Equity attributable to owners of BZ WBK S.A.		16 530 895	13 872 088
Share capital	Note 36	992 345	935 451
Other reserve funds	Note 37	12 309 424	10 115 745
Revaluation reserve	Note 38	951 546	708 907
Retained earnings		362 869	129 657
Profit of the current period		1 914 711	1 982 328
Non-controlling interests in equity		1 520 799	610 855
Total equity		18 051 694	14 482 943
Total equity and liabilities		134 501 874	106 059 967

Notes presented on pages 12 – 111 constitute an integral part of these Financial Statements.

In thousands of PLN

Movements on consolidated equity

Consolidated statement of changes in equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Non-controlling interests in equity	Total
Note	36	37	38			
Opening balance at 31.12.2013	935 451	10 115 745	708 907	2 111 985	610 855	14 482 943
Other comprehensive income which can be transferred to the profit and loss account	-	-	254 309	1 914 711	134 488	2 303 508
Other comprehensive income which can't be transferred to the profit and loss account:	-	-	(11 670)	-	-	(11 670)
Issue of shares	56 894	2 102 575	-	-	-	2 159 469
Adjustment to equity from acquisition of controlling interest in Santander Consumer Bank	-	(663 825)	-	-	995 059	331 234
Transfer to other capital	-	750 915	-	(750 915)	-	-
Share scheme charge	-	6 846	-	-	-	6 846
Adjustment to equity from the incorporation of Dom Maklerski BZ WBK (Brokerage House) into the structure of Bank Zachodni WBK	-	(2 832)	-	2 832	-	-
Other	-	-	-	(101)	-	(101)
Dividends	-	-	-	(1 000 932)	(219 603)	(1 220 535)
As at 31.12.2014	992 345	12 309 424	951 546	2 277 580	1 520 799	18 051 694

As at the end of the period revaluation reserve in the amount of PLN 951 546 k comprises of debt securities and equity shares classified as available for sale of PLN 493 867 k and PLN 571 335 k respectively and additionally cash flow hedge activities of PLN (108 201) k and accumulated actuarial losses -provision for retirement allowances of PLN (5 455) k.

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

Consolidated statement of changes in equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Non-controlling interests in equity	Total
Note	36	37	38			
Opening balance as at 31.12.2012	746 376	5 704 680	872 400	1 560 911	93 347	8 977 714
Other comprehensive income which can be transferred to the profit and loss account	-	-	(169 708)	1 982 328	32 289	1 844 909
Other comprehensive income which can't be transferred to the profit and loss account:	-	-	6 215	-	-	6 215
Issue of shares	189 075	4 354 766	-	-	-	4 543 841
Transfer to other capital	-	720 311	-	(720 311)	-	-
Dividend relating to 2012	-	-	-	(710 943)	(40 421)	(751 364)
Share purchase mandate adjustment	-	(684 289)	-	-	-	(684 289)
Share scheme charge	-	20 287	-	-	-	20 287
Minority interest recognized on acquisition	-	-	-	-	525 640	525 640
Other	-	(10)	-	-	-	(10)
As at 31.12.2013	935 451	10 115 745	708 907	2 111 985	610 855	14 482 943

As at the end of the period revaluation reserve in the amount of PLN 708 907 k comprises of debt securities and equity shares classified as available for sale of PLN 102 744 k and PLN 567 982 k respectively and additionally cash flow hedge activities of PLN 31 966 k and provision for retirement allowances – actuarial gains of PLN 6 215 k.

Notes presented on pages 12 – 111 constitute an integral part of these Financial Statements.

In thousands of PLN

Consolidated statement of cash flows

	for the period	31.12.2014	31.12.2013
Profit before tax		2 640 041	2 514 717
Total adjustments:			
Share in net profits (losses) of entities accounted for by the equity method		(1 385)	(16 297)
Depreciation/amortisation		308 022	219 321
Impairment losses		14 028	2 468
Gains (losses) on exchange differences		(493)	(6 135)
(Profit) loss from investing activities		(244 697)	(298 573)
		2 715 516	2 415 501
Changes:			
Provisions		(30 308)	(19 053)
Trading portfolio financial instruments		(415 159)	(734 266)
Loans and advances to banks		(404 211)	(615 142)
Loans and advances to customers		(5 809 053)	(278 348)
Deposits from banks		(124 276)	(376 094)
Deposits from customers		9 322 696	465 283
Liabilities arising from debt securities in issue		(171 366)	-
Other assets and liabilities		(272 828)	(362 754)
		2 095 495	(1 920 374)
Interests and similar charges		353 104	232 090
Dividend received		(80 278)	(58 738)
Paid income tax		(567 112)	(401 835)
Net cash flow from operating activities		4 516 725	266 644
Inflows		252 427 064	216 612 615
Sale of shares or interests in associates and joint ventures		2 592	-
Sale/maturity of investment securities		252 318 165	216 548 514
Sale of intangible assets and property, plant and equipment		26 029	5 363
Dividend received		80 278	58 738
Outflows		(257 000 117)	(213 201 832)
Purchase of investment securities		(256 692 323)	(213 028 023)
Purchase of intangible assets and property, plant and equipment		(307 794)	(173 809)
Net cash flow from investing activities		(4 573 053)	3 410 783
Inflows		2 729 755	543 535
Debt securities in issue		1 955 600	500 645
Drawing of long-term loans		771 100	42 890
Proceeds from issuing shares		3 055	-
Outflows		(2 612 931)	(1 498 668)
Debt securities buy out		(902 863)	-
Repayment of long-term loans		(194 952)	(580 416)
Dividends and other payments to shareholders		(1 220 537)	(751 364)
Other financing outflows		(294 579)	(166 888)
Net cash flow from financing activities		116 824	(955 133)
Total net cash flow		60 496	2 722 294
Cash at the beginning of the accounting period		12 300 487	7 704 551
Cash acquired in a business combination		1 169 992	1 873 641
Cash at the end of the accounting period *		13 530 975	12 300 486

* Cash components are presented in Note 45.

Notes presented on pages 12 – 111 constitute an integral part of these Financial Statements.

In thousands of PLN

Additional notes to consolidated financial statements

1. General information about issuer

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

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

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

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

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

Bank Zachodni WBK Group consists of the following entities:

In thousands of PLN

Subsidiaries:

Subsidiaries	Registered office	% of votes on AGM 31.12.2014	% of votes on AGM 31.12.2013
1. BZ WBK Finanse Sp. z o.o.	Poznań	100	100
2. BZ WBK Faktor Sp. z o.o.	Warszawa	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.
3. BZ WBK Leasing S.A.	Poznań	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.
4. BZ WBK Lease S.A. ¹⁾	Warszawa	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.
5. Lizar Sp. z o.o. ²⁾	Warszawa	100% of AGM votes are held by BZ WBK Lease S.A.	100% of AGM votes are held by Kredyt Lease S.A.
6. BFI Serwis Sp. z o.o. in liquidation ³⁾	Warszawa	-	100
7. BZ WBK Inwestycje Sp. z o.o.	Poznań	100	100
8. Dom Maklerski BZ WBK S.A. ⁴⁾	Poznań	-	99.99
9. Gieldokracja Sp. z o.o. ⁴⁾	Poznań	100	-
10. BZ WBK Nieruchomości S.A.	Poznań	99.99	99.99
11. BZ WBK Asset Management S.A. ⁵⁾	Poznań	50	50
12. BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.	Poznań	100% of AGM votes are held by BZ WBK Asset Management S.A.	100% of AGM votes are held by BZ WBK Asset Management S.A.
13. BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. ⁶⁾	Poznań	66	66
14. BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A. ⁶⁾	Poznań	66	66
15. Santander Consumer Bank S.A. ⁷⁾	Wrocław	66.67	-
16. Santander Consumer Finanse S.A.	Wrocław	100% of AGM votes are held by Santander Consumer Bank S.A.	-
17. Santander Consumer Multirent Sp. z o.o.	Wrocław	100% of AGM votes are held by Santander Consumer Bank S.A.	-
18. AKB Marketing Services Sp. z o.o.	Poznań	100% of AGM votes are held by Santander Consumer Bank S.A.	-
19. S.C. Poland Auto 2014-1 Limited ⁸⁾	Dublin	0% of AGM votes are held by Santander Consumer Bank S.A.	-

¹⁾ As at 31 January 2014, Kredyt Lease S.A., a subsidiary of Bank Zachodni WBK, was renamed as BZ WBK Lease S.A.. All the other identification details of the company, including its registered office address, NIP, REGON and KRS numbers remained unchanged.

²⁾ Lizar Sp. z o.o. – subsidiary unconsolidated due to irrelevance of their business operations and financial data

³⁾ In November 2014, BFI Serwis Sp. z o.o. (subsidiary of Bank Zachodni WBK) was removed from the National Court Register.

⁴⁾ Incorporation of Dom Maklerski BZ WBK into Bank Zachodni WBK has been described in detail in Note 48.

⁵⁾ As at 31 December 2014, Bank Zachodni WBK was a co-owner of BZ WBK Asset Management S.A., together with Banco Santander S.A. Both owners are members of Santander Group and each holds an equal stake of 50% in the company's share capital. In practice, Bank Zachodni WBK exercises control

In thousands of PLN

over the company and its subsidiary, BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A., because through it Banco Santander pursues its policy in Poland. Consequently, the company is treated as a subsidiary.

- 6) Detailed information on the controlling stake at the companies BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. (General Insurance Company) and BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. (Life Insurance Company) are described in Note 50.
- 7) On 1 July 2014, Bank Zachodni WBK completed the acquisition of the controlling stake in Santander Consumer Bank S.A. ("Group SCB").
- 8) S.C. Poland Auto 2014-1 Limited set up for the purpose of securitisation of a part of the loan portfolio; its shareholders are foreign individuals who have no ties with the Group; the company is controlled by Santander Consumer Bank, in accordance with the control criteria set out in IFRS 10.7.

On 1 July 2014, Bank Zachodni WBK S.A. took control over Santander Consumer Bank S.A.

The scope of activities Santander Consumer Bank includes amongst other:

- opening and keeping bank accounts,
- accepting saving and term deposits,
- performance of cash settlements,
- granting and contracting loans and advances,
- accepting and making money deposits in banks and other local and foreign financial institutions,
- granting and accepting bank sureties and guarantees,
- providing financial and investment advisory services as well as providing agency and representation services within the scope of operations of the Bank,
- purchasing, selling and intermediating in trade of receivables,
- purchasing and holding shares, bonds as well as other securities issued by companies and other legal entities, coordination and management of operations of such companies and other legal entities,
- founding or assistance with founding companies or other legal entities whose establishing will be considered as favorable for the Bank, as well as acquisition of shares or securities issued by these companies or legal entities in another form,
- performance of spot and forward transactions as well as other transactions on derivatives.

Additional SCB subsidiaries activities are:

- AKB Marketing Services Sp. z o.o. - operations ancillary to banking activities,
- Santander Consumer Multirent Sp. z o.o. - Leasing activities (finance & operating),
- Santander Consumer Finanse S.A. - the Company's core business is investing cash surpluses and co-operation with Bank Zachodni WBK and Warta as a financial agent,
- SC Poland Auto 2014-1 Limited - Special purpose vehicle set up for the purpose of issuing asset backed securities.

Associates:

Associates	Registered office	% of votes on AGM 31.12.2014	% of votes on AGM 31.12.2013
1. POLFUND - Fundusz Poręczeń Kredytowych S.A.	Szczecin	50	50
2. Metrohouse S.A. ¹⁾ *	Warszawa	-	21.23
3. Metrohouse Franchise S.A. ¹⁾ *	Warszawa	20.13	-
4. Krynicki Recykling S.A. ²⁾	Warszawa	19.96	22.32

¹⁾ Detailed information on the registration of Metrohouse Franchise S.A. is provided in Note 52.

²⁾ On 9 December 2014, 320,000 ordinary bearer shares in Krynicki Recykling S.A. were sold on the regulated market. As a result, BZ WBK Inwestycje currently holds 3,332,648 shares in the company, representing 19.96% of its share capital. Consequently, as at 31 December 2014, Krynicki Recykling S.A. was no longer an associated undertaking of BZ WBK Inwestycje.

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

In thousands of PLN

2. Basis of preparation of consolidated financial statements

Statement of compliance

The annual consolidated financial statements of the BZ WBK Group for the year ended 31 December 2014 have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the BZ WBK Group.

Changes in accounting policies

The accounting policies applied by the Group in these condensed interim consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2013.

Comparability with results of previous periods

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

On 1 July 2014, Bank Zachodni WBK took control over Santander Consumer Bank Group ("SCB Group"). The effect of the transaction is for the first time reflected in the consolidated financial statements of Bank Zachodni WBK Group. The comparable data presented in the report were derived from the consolidated financial statements published before acquisition of the control. This to a large extent explains the significant YoY changes in the individual financial items.

The financial statements of Bank Zachodni WBK Group for 2014 is the first financial statements prepared after incorporation of Dom Maklerski BZWBK into the structure of Bank Zachodni WBK. The incorporation has no effect on comparability of the Group's consolidated data, but certain items of the financial statements of Bank Zachodni WBK presented in the current reporting period are not comparable with previous years. See Note 48 for details of the incorporation.

Changes in judgments and estimates

Compared with the consolidated financial statements for 2013, in 2014 there were no material changes in Bank Zachodni WBK Group's accounting estimates or judgments.

In thousands of PLN

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

IFRS	Description of changes	Effective in the European Union from	Impact on the Group
IFRIC 21 Interpretation : Levies	The interpretation determines how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements.	The amended IFRIC 21 is to apply to the annual periods starting after 17 June 2014	The change does not have any material impact on the financial statements.
IFRS 9 Financial Instruments, Amendments to IFRS 9	A change in classification and measurements – replacing the existing categories of financial instruments with two measurement categories: amortised cost and fair value. Changes in hedge accounting.	1 January 2018 (the date is preliminarily considered by the IASB)	The Group has not yet analysed the amendments to IFRS 9.
Improvement to IAS 19 Staff Benefits	The improvement applies to the contributions paid under the defined benefit plans paid by employees or third parties. The purpose of the improvement is to simplify the accounting for rules applicable to the contributions paid irrespective of the employment period.	1 January 2015	The change does not have any material impact on the financial statements.
IAS 27 Equity Method in Separate Financial Statements	The amendments will allow entities to use the equity method as one of the optional methods for accounting for investments in subsidiaries, associates and joint ventures in the separate financial statements.	1 January 2016	The change will not have any material impact on the financial statements.
Annual improvements to IFRS, the 2010-2012 cycle	The issues included: - IFRS 2 Definition of 'vesting condition'; - IFRS 3 Accounting for contingent consideration in a business combination; - IFRS 8 Aggregation of operating segments and Reconciliation of the total of the reportable segments' assets to the entity's assets; - IFRS 13 Short-term receivables and payables; - IAS 7 Interest paid that is capitalised; - IAS 16 / IAS 38 Revaluation method - proportionate restatement of accumulated depreciation; - IAS 24 Key management personnel.	1 January 2015	The change does not have any material impact on the financial statements.
Annual improvements to IFRS, the 2011-2013 cycle	The issues included: - IFRS 3: scope exceptions for joint ventures; - MSSF 13: scope of paragraph 52 (portfolio exception); - IAS 40 Clarifying the interrelationship of IFRS 3 Business Combinations and IAS 40 Investment Property when classifying property as investment property or owner-occupied property.	1 January 2015	The change does not have any material impact on the financial statements.
Amendments to IFRS 11 Joint Arrangements	The amendment introduces additional guidelines regarding the method of accounting for acquisitions of interests in joint operations.	1 January 2016	The Group has not yet analysed the amendments.
Amendments to IAS 16 and IAS 38	Amendments to IAS 16 and IAS 38 lay down the rule of consumption of economic benefits with regard to accounting for amortisation and depreciation. The IASB explained that the method based on revenues generated from operating the business should not be used to calculate amortisation/depreciation.	1 January 2016	The Group has not yet analysed the amendments.
Amendments to IFRS 14	Regulatory deferral accounts.	1 January 2016	The Group has not yet analysed the amendments.
Amendments to IFRS 15	Revenue from contracts.	1 January 2017	The Group has not yet analysed the amendments.

In thousands of PLN

Standards and interpretations or changes to existing standards or interpretations which were applied for the first time in the accounting year 2014

IFRS	Description of changes	Effective in the European Union from	Impact on the Group
IAS 32 Financial Instruments: Presentation	Defines the rules of netting financial instruments.	1 January 2014	The Group has analysed the amendments to IAS 32. The amendments do not have any material impact on the financial statements.
IFRS 10 Consolidated Financial Statements – Amendments	The amendments lay down the guidance for transition to IFRS 10 and provides additional guidance on exemption from IFRS 10, 11 and 12.	1 January 2014	The Group has analysed the amendments to IFRS 10. The amendments do not have any material impact on the financial statements.
Amendments to IFRS 10, IFRS 12 and IAS 27	The amendments relate to deconsolidation of "investment entities", such as some mutual funds.	1 January 2014	The Group has analysed the amendments. The amendments do not have any material impact on the financial statements.
Amendments to IAS 36 „Impairment of assets“	The amendments to IAS 36 relates to modification of the requirements for disclosure of information relating to the recoverable amount of impaired non-financial assets, and is a consequence of amendments to IFRS 13.	1 January 2014	The Group has analysed the amendments to IAS 36. The amendments do not have any material impact on the financial statements.
Amendments to IAS 39 Financial Instruments: Recognition and Measurement	The amendments relate to the possibility of continuation of hedge accounting in the event of novation of derivatives.	1 January 2014	The amendments do not have any material impact on the financial statements.

Basis of preparation

The financial statements are presented in PLN, rounded to the nearest thousand.

The financial statements are prepared on a fair value basis for derivative financial instruments, financial instruments measured at fair value through profit and loss account, and available-for-sale financial assets, except those for which a reliable measure of fair value is not available. Other financial assets and financial liabilities (including loans and advances) are recognized at amortised cost using the effective interest rate less impairment or purchase price less impairment.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

The accounting policies have been applied consistently by Group entities.

Accounting principles

Use of judgments and estimates

The preparation of financial statements in conformity with IFRS requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In thousands of PLN

Main estimates and judgments made by the Group

Loan impairment

The estimation of potential loan losses is inherently uncertain and depends upon many factors, including loan loss trends, portfolio grade profiles, economic climates, conditions in various industries to which BZ WBK Group is exposed and other external factors such as legal and regulatory requirements. A provision is made against problem loans when, in the judgement of management, the estimated repayment realizable from the obligor, including the value of any security available, is likely to fall short of the amount of exposure outstanding on the obligor's loan or overdraft account. The amount of provision made in BZ WBK Group's consolidated financial statements is intended to cover the difference between the assets' carrying value and the present value of estimated future cash flows discounted at the assets' original effective interest rates.

The management process for the identification of loans requiring provision is underpinned by independent tiers of review. Credit quality and loan loss provisioning are independently monitored by head office personnel on a regular basis. A groupwide system for grading advances according to agreed credit criteria exists with an important objective being the timely identification of vulnerable loans so that remedial action can be taken at the earliest opportunity. Credit rating is fundamental to the determination of provisioning in BZ WBK Group; it triggers the process which results in the creation of provision on individual loans where there is doubt on recoverability.

The analysis of impairment is carried out:

- with reference to individual credit exposures representing significant reporting items, for which indications of impairment have been identified; for the customers of Global Banking & Markets, customers with a commercial grading, property customers and local authorities, and for significant retail exposures (individual analysis);
- with reference to the portfolio of individually insignificant credit exposures (collective analysis) or individually significant exposures, but with no identified indications of impairment.

Impairment loss on non-financial assets

The value of the fixed-assets of the Group is reviewed as at the end of the reporting period to specify whether there are reasons for write-down due to impairment. If there are such reasons, the recoverable value of assets should be determined.

Impairment is recognized if the book value of an asset exceeds its recoverable value and is presented in the profit and loss account.

For other receivables impairment amount has been recognised considering the expected recoverable amounts, and for long term other receivables discounting has been applied.

Asset held for sale are recorded at the lower of its carrying amount or estimated fair value less estimated costs to sell.

Fair value of financial instruments

Some of the Group's financial instruments are carried at fair value, including all derivatives, other financial assets at fair value through profit or loss and financial investments available for sale. Financial instruments are either priced with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using financial-markets pricing models, the methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates. Most market parameters are either directly observable or are implied from instrument prices.

In justified cases, for financial instruments whose carrying amount is based on current prices or valuation models, the Group takes into account the need to identify additional adjustments to the fair value of the counterparty credit risk.

Other accounting estimates and judgements

Provisions for employee benefits paid on termination of employment, i.e. post-employment benefits, are estimated on the basis of an actuarial valuation. The actuarial valuation of those accruals is updated at least on an annual basis.

Provisions for legal claims have been estimated considering the expected loss arising on individual cases.

In thousands of PLN

Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises which are controlled by BZ WBK. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

It is assumed that Bank as the investor exercises control over the entity in which the investment was made if and only if:

- has the power over the investee;
- exposure, or rights, to variable returns from involvement with the investee; and
- has the ability to use power over the investee to affect the amount of the investor's returns.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Purchase (acquisition) method

BZ WBK Group applies the acquisition method to account for acquisition of subsidiaries. Under this method, the acquirer has to:

- recognize and measure all identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree as at the acquisition date (i.e. the date on which the acquirer obtains control of the acquiree);
- recognize and measure goodwill or gain from a bargain purchase.

The acquirer measures:

- identifiable assets acquired and liabilities assumed - at fair value as at the acquisition date;
- any non-controlling interest – at fair value or pro-rata to their share in the identifiable net assets of the acquiree.

Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's share of the total recognised gains and losses of joint ventures on an equity accounted basis.

Associates

Associates are those entities in which the Group has significant influence, but are not subsidiaries, neither joint ventures.

They are accounted for in accordance with the equity method in consolidated financial statements.

The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in the preparation of consolidated financial statements.

Foreign currency

Foreign currency transactions

PLN is the accounting currency in the Group.

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, are translated at the foreign exchange rate ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the reporting currency at the foreign exchange rates ruling at the dates that the fair values were determined. Foreign exchange differences arising on translation are recognised in profit or loss except for differences arising on retranslation of available for sale equity instruments, which are recognised in other comprehensive income.

In thousands of PLN

Financial assets and financial liabilities

Classification

The Group classifies its financial instruments into the following categories:

- financial assets or financial liabilities at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables;
- available-for-sale financial assets;
- other financial liabilities.

Financial asset or financial liability at fair value through profit or loss

This is a financial asset or liability that meets either of the following conditions:

- a) Classified as held for trading.
A financial asset or financial liability is classified as held for trading if:
 - i. it is acquired or incurred principally for the purpose of selling or repurchasing in the near term;
 - ii. it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking;
 - iii. derivatives are held for trading unless the derivative is a designated and effective hedging instrument.
- b) Upon initial recognition it is designated by the Group as at fair value through profit or loss. As at the balance sheet date the Group doesn't hold this category of financial instrument.

Held-to-maturity investments

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity, the entire category would be tainted and reclassified as available for sale and for a two year period the Group would not utilise the held to maturity classification. As at the balance sheet date the Group doesn't hold this category of financial instrument.

Loans and receivables

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

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

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

Available-for-sale financial assets

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

- a) loans and receivables,
- b) held-to-maturity investments or
- c) financial assets at fair value through profit or loss.

Other financial liabilities

Financial liabilities include financial liabilities not classified as those valued at fair value through profit and loss account. Those liabilities are valued at amortised cost and comprise: deposits from banks, deposits from customers, liabilities due to reverse repo transactions, borrowings, debt securities in issue and subordinated liabilities.

Recognition

The Group recognises a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument.

In thousands of PLN

Lease receivables of leasing companies are accounted for as of the date from which the lessee is entitled to exercise its rights to use the leased asset. Other agreements where the leased assets have not yet been made available to the lessee are recognised as contingent liabilities.

A regular way purchase or sale of a financial asset is recognised using settlement date accounting. The method is applied consistently for all purchases and sales of financial assets.

Loans are recognised in the statement of financial position when cash is advanced to the borrowers. At the time of signing the loan agreement, the loans are recognised as off-balance sheet commitments.

Derecognition

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or when the Group transfers the contractual rights to receive the cash flows from a transaction in which substantially all risk and rewards of ownership of the financial asset are transferred.

A regular way purchase or sale of a financial asset is derecognised using settlement date accounting. The method is applied consistently for all purchases and sales of financial assets.

The Group removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled or expires.

Measurement

When a financial asset or financial liability is recognised initially, it is measured at fair value plus (in the case of a financial asset or financial liability not classified at fair value through profit or loss) transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification) or based on a valuation technique whose variables include only data from observable markets.

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

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

The fair values of quoted financial instruments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities) the Group establishes fair value by using valuation techniques which include recent arms length market transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Where a fair value cannot be reliably estimated, unquoted instruments that do not have a quoted market price in an active market are measured at cost and periodically reviewed for impairment.

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method, except for:

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

Lease payment receivables of Leasing Companies are accounted for the statement of financial position at an amount equal to the net investment in the lease. Receivables are measured at amortised cost using the effective interest rate.

A calculation based on the effective interest rate is made monthly on the basis of inflows and expenses arising from the lease agreement.

Financial assets and financial liabilities that are designated as hedged items are subject to measurement under hedge accounting requirements.

Reclassification

A financial asset classified as available for sale may be reclassified out of this category if it meets the definition of loans and receivables and if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. The fair value of the financial asset on the date of the reclassification becomes its new cost or new amortised cost.

In thousands of PLN

For a financial asset which has a fixed maturity, gain or loss recognised in equity until the date of the reclassification is amortised and recognised in the statement of comprehensive income over the period remaining until maturity. Any difference between the new amortised cost and the amount of impairment is amortised over the period remaining until maturity of the financial instrument. Amortisation is based on the effective interest rate.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or financial liability that is not part of a hedging relationship is recognised, as follows:

- a gain or loss on a financial asset or financial liability classified at fair value through profit or loss is recognised in profit or loss;
- a gain or loss on an available-for-sale financial asset, except for impairment losses, is recognised directly in other comprehensive income, until the financial asset is derecognised, at which time the comprehensive income previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the entity's right to receive payment is established.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when there is:

- a) a legally enforceable right to set off the recognised amounts;
- b) and when there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Repurchase and reverse repurchase transactions

The Group also generates/invests funds by selling/purchasing financial instruments under repurchase/reverse repurchase agreements whereby the instruments must be repurchased/resold at the previously agreed price.

Securities sold subject to repurchase agreements ("repo and sell-buy-back transaction") are not derecognised at the end of the reporting period. The difference between sale and repurchase price is treated as interest cost and accrued over the life of the agreement.

Securities purchased subject to resale agreements ("reverse repo and buy-sell-back transaction") are not recognised at the statement of financial position at the end of the reporting period. The difference between purchase and resale price is treated as interest income and accrued over the life of the agreement.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value. After their initial recognition, derivatives are subsequently measured at their fair values without any deduction for transactions costs to be incurred on sale or disposal.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received).

Certain derivatives embedded in other financial instruments shall be separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and the host contract is not carried at fair value through profit or loss. Embedded derivatives are measured at fair value with changes recognised through the profit and loss account.

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments and recognised at fair value.

Hedge accounting

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item.

In thousands of PLN

At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged. The Group also documents, at inception and on ongoing basis, an assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value.

The Group uses derivative financial instruments among others to hedge its exposure to interest rate risks arising from operational, financing and investment activities.

The Group discontinues hedge accounting when:

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

Fair value hedge

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

A fair value hedge is accounted for as follows: the gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) shall be recognised in profit or loss; and the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognised in profit or loss. This applies also to the hedged item, which otherwise would be measured at amortised cost and presented as available-for-sale financial asset.

Cash flow hedge

This is a hedge of the exposure to variability in cash flows that:

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

A cash flow hedge is accounted for as follows: the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognised directly in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument shall be recognised in profit or loss.

Interest income and expenses from cash flow hedge instruments are recognised as net interest income.

Impairment of financial assets

Assets carried at amortised cost - loans and receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets, or off-balance sheet commitments are impaired. A financial asset or a group of financial assets, or contingent commitments are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that a financial asset or group of assets is impaired includes observable data about the following loss events:

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

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at

In thousands of PLN

the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). If a loan or receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The carrying amount of the asset shall be reduced through establishing a provision. The amount of the loss shall be recognised in profit or loss.

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

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

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

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

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

- Recovery from the operating cash flows / refinancing / capital support;
- Recovery through the voluntary liquidation of collateral;
- Recovery through debt enforcement;
- Recovery through an arrangement / turnaround / bankruptcy;
- Recovery by take-over of the debt / assets / sale of receivables.

Under the collective approach, credit exposures are grouped into portfolios reflecting specific features of the client or product (property, commercial customers, SMEs, mortgages, overdrafts, cash loans, etc.). Each portfolio contains systematic pools based on similar characteristics of the credit risk, i.e.:

- Internal grade;
- Timeliness;
- Time that has elapsed from the moment of default, i.e. from identification of an indication of impairment;
- Time from the commencement of debt enforcement;
- Implementation of restructuring measures;
- Parameters specific to certain products (e.g. currency, distribution channel).

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised by the Group are not included in a collective assessment of impairment.

For the purpose of the collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (for example, on the basis of the Group's credit risk evaluation or the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The rating systems have been internally developed and are continually being enhanced, e.g. externally benchmarked to help underpin the aforementioned factors which determine the estimates of expected loss.

Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

In thousands of PLN

Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The Group reviews regularly the methodology and assumptions used for estimating future cash flows in order to reduce any differences between loss estimates and actual loss experience.

IBNR (Incurred But Not Reported) provisions are also maintained to cover loans, which are impaired at the end of the reporting period and, while not separately identified, are known from experience to be present in any portfolio of loans.

IBNR provisions are maintained at levels that are deemed appropriate by management having considered: credit grading profiles and grading movements, historic loan loss rates, changes in credit management, procedures, processes and policies, economic climates, portfolio sector profiles/industry conditions and current estimates of loss in the portfolio.

Estimates of Incurred but not reported losses (IBNR) are driven by the following key factors:

- EP-Emergence period i.e. estimated time between the occurrence of event of default and its identification by the Group,
- PD - Probability of default, based on historical observations together with EP is considered to be best indicator of incurred but not reported losses,
- LGD - Loss given default i.e. the fraction of the exposure amount that will be lost in the event of default,
- EAD - exposure at default,
- CCF - Credit Conversion Factor for the Group's contingent commitments (conversion of off-balance sheet items into on-balance sheet exposure).

These parameters are estimated based on historical experience of losses on loans with a similar credit profile on account of the adopted granularity of the estimated risk parameters.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed either directly or by adjusting the provision. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

The amount of the reversal is recognised in profit or loss.

When a loan has been subject to a specific provision and the prospects of recovery do not improve, eventually it may be concluded that there is no real prospect of recovery. When this point is reached, the amount of the loan which is considered to be non-recoverable is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of costs associated with provisions for loan impairment.

Impairment calculation methods are standardised across the Group.

Available-for-sale financial assets

For financial assets classified as available-for-sale for which there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in the other comprehensive income shall be removed from that line and recognised in profit or loss. The amount of the cumulative loss that is removed from the other comprehensive income and recognised in profit or loss shall be the difference between the acquisition cost (net of any principal repayments and amortisation) and current fair value. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Held-to-maturity investments

If there is objective evidence of impairment of the held-to-maturity investments carried at amortised cost, the impairment loss is the difference between the balance sheet value of the asset and the present value of estimated future cash flows discounted using the original effective interest rate (i.e. the effective interest rate at the date of initial recognition). If the investment is a variable rate instrument, the discount rate used for estimation of impairment is the present effective interest rate set under the particular contract. The balance sheet value of the asset is reduced by recognising the applicable provisions as a loss.

In thousands of PLN

Contingent liabilities

The Group creates provisions for impairment risk-bearing irrevocable conditional liabilities (irrevocable credit lines, financial guarantees, letter of credits, etc). The value of the provision is determined as the difference between the estimated amount of available conditional exposure and the current value of expected future cash flows under this exposure.

Property, plant and equipment

Owned assets

Property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses.

Leased assets

Leases for which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired through finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Subsequent expenditure

The Group recognises in the carrying amount of property, plant and equipment the cost of replacing part of such an asset when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives are as follows:

• buildings	40 years
• structures	22 years
• plant and equipment	3 – 14 years
• vehicles	4 years

Depreciation rates are verified annually. On the basis of this verification, depreciation periods might be changed.

Fixed assets held for sale

On initial date of classification of non-current assets as assets held-for-sale, the Group measures them at the lower of carrying amount and fair value less cost to sell.

Any initial or subsequent write-down of assets held-for-sale to fair value less cost to sell is recognised in the profit and loss account.

Goodwill and Intangible assets

Goodwill

Goodwill as of the acquisition date measured as the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities, less impairment. Goodwill value is tested for impairment annually.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and total impairment losses.

In thousands of PLN

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of particular intangible assets. The estimated useful life is 3 years.

Depreciation rates are verified annually. On the basis of this verification, depreciation periods might be changed.

Other items of the statement of financial position

Other trade and other receivables

Trade and other receivables are stated at their cost less impairment losses.

Other liabilities

Liabilities, other than financial liabilities, are stated at cost.

Equity

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

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

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

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

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

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

Revaluation reserve is not distributable.

Non-controlling interests are also recognised in Group capital.

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

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

Custody services

Income from custody services is an element of the fee and commission income. The corresponding customer assets do not form part of the Group's assets and as such are not disclosed in the consolidated statement of financial position.

Dividends

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

In thousands of PLN

Employee benefits

Short-term service benefits

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

Long-term service benefits

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

Share based payments

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

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

The expense related to share based payments is credited to shareholder's equity. Where the share based payment arrangements give rise to the issue of new shares, the proceeds of issue of the shares are credited to share capital (nominal amount) and share premium (if any) when awards are exercised.

Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Provisions for contingent items such as guarantees, letters of credit, and unutilised irrevocable credit facilities are recognised in accordance with this policy.

Technical –insurance provisions for unpaid claims, benefits and premiums concern insurance activity.

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

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

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

At each reporting period, the Group tests for adequacy of technical-insurance provisions to ensure whether the provisions deducted by deferred acquisition costs are sufficient. The adequacy test is carried out using up-to-date estimates of future cash flows arising from insurance contracts, including costs of claims handling and policy-related costs.

If the assessment reveals that the technical-insurance provisions are insufficient in relation to estimated future cash flows, then the whole disparity is promptly recognised in the consolidated income statement through impairment of deferred acquisition costs or/and supplementary provisions.

In thousands of PLN

Net interest income

Interest income on financial assets is recognised provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Interest income and expenses for all financial instruments is recognised in the income statement at amortised cost using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net value of the financial asset or financial liability.

When calculating the effective interest rate, the Group shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses.

The calculation includes all fees (e.g. arrangement, drawdown, renewal, restructure fees and fees for annexes which modify payments) and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Costs that can be directly related to the sales of loan products are partly amortised according to the effective interest method, if there is a possibility of direct allocation to the specific loan agreement, and partly recognised in the fee income, at the moment of realisation, if there is no possibility of direct allocation to the specific loan agreement.

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

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

Net commission income

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

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

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

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

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

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

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

In thousands of PLN

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

Net trading income and revaluation

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

Dividend income

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

Profit on disposal of subsidiaries, associates and joint ventures

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

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

Other operating income and costs

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

Operating lease payments

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

Finance lease payments

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

Corporate income tax

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

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

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

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

In thousands of PLN

Insurance

Insurance income

Insurance income is disclosed at the value of premium accrued as of the due date. The written premium is recognised in full amount, inclusive of any add-ons and supplementary payments for the previous periods and exclusive of reversed or returned payments, discounts or price reductions as well as taxes or tax-type charges.

Written premium is understood as premium due under insurance agreement in a reporting period, regardless of whether it was paid or not. Insurance agreements provide for the amount of premiums and dates of payment.

The written premiums are disclosed on net basis, after reinsurance costs provided for in reinsurance agreements.

In BZ WBK-AVIVA TUO, written premiums are adjusted for change in the balance of the premium reserve (premium reserve as at the end of the reporting period less premium reserve as at the beginning of the reporting period) and recognised as earned premiums (before and after reinsurance costs, respectively).

Claims

This item includes claims paid under insurance agreements during a reporting period for loss or accident which occurred in the current or previous reporting period(s) increased by movements in the balance of the reserve for claims reported to the insurer but not paid as well as claims that have not been reported (IBNR) before the balance sheet date. Such amounts are added to direct or indirect loss adjustment costs, which include also the cost of a potential dispute.

The value of claims is assigned directly to the group and type of insurance they refer to. The same approach is applied to direct adjustment costs, while indirect costs are settled pro rata to claims paid.

BZ WBK AVIVA Insurance Companies do not recognise separately internal adjustment costs. Loss adjustment costs are recognised as external costs associated to the insurance activity of the insurer.

Claims are recognised after and before reinsurance costs (i.e. in gross and net terms), as per terms and conditions of reinsurance agreements. Gross cost of claims is reduced by reinsurer's share in claims.

3. Segment reporting

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

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

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

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

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

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

There was a change in the methodology of capital and income from capital allocation between business segments in 2014. Additionally, due to organizational changes, there is presentation change of internal transactions with lease companies, between Business & Corporate Banking and Retail Banking. In both cases comparable data are adjusted accordingly.

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

In thousands of PLN

Retail Banking

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

Business & Corporate Banking

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

Global Banking & Markets

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

- transactional banking with such products as cash management, deposits, leasing, factoring, letters of credit, guarantees, bilateral lending and trade finance;
- lending, including project finance, syndicated facilities and bond issues;
- FX and interest rate risk management products provided to all the Bank's customers (segment allocates revenues and costs from this activity to other segments, the allocation level may be subject to changes in consecutive years);
- underwriting and financing of securities issues, financial advice and brokerage services related to the activities of the Brokerage House and after the incorporation of Brokerage House into the structure of the Bank as at 31.10.2014, services related to the activities of Brokerage Services Office within Bank Zachodni WBK S.A.

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

ALM and Centre

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

Santander Consumer

Santander Consumer business segment includes activities of the Santander Consumer Group, which was consolidated to the BZ WBK Group from 1 July 2014.

Activities of this segment focus on selling products and services addressed to both individual and business customers. This segment focuses mainly on loans products, i.e. car loans, credit cards, cash loans, installment loans and lease products. In addition, Santander Consumer segment includes term deposits and insurance products (mainly related to loans products).

In thousands of PLN

Consolidated income statement (by business segments)

01.01.2014-31.12.2014	Retail Banking	Business & Corporate Banking	Global Banking & Markets	ALM and Centre	Santander Consumer	Total
Net interest income	2 169 793	594 379	165 746	559 096	507 808	3 996 822
incl. internal transactions	(74 430)	(42 324)	22 736	105 179	(11 161)	-
Other income	1 502 277	278 216	357 199	267 616	96 684	2 501 992
incl. internal transactions	77 741	64 282	(146 535)	121	4 391	-
Dividend income	-	-	1 009	79 216	4	80 229
Operating costs	(1 822 524)	(263 741)	(209 229)	(263 556)	(236 760)	(2 795 810)
incl. internal transactions	(6 803)	(1 097)	(3 604)	11 511	(7)	-
Depreciation/amortisation	(113 666)	(16 004)	(14 940)	(142 730)	(20 682)	(308 022)
Impairment losses on loans and advances	(435 678)	(288 375)	(45 828)	11 443	(78 117)	(836 555)
Share in net profits (loss) of entities accounted for by the equity method	-	-	1 195	190	-	1 385
Profit before tax	1 300 202	304 475	255 152	511 275	268 937	2 640 041
Corporate income tax						(592 749)
Non-controlling interests						(132 581)
Profit for the period						1 914 711

Consolidated statement of financial position (by business segment)

31.12.2014	Retail Banking	Business & Corporate Banking	Global Banking & Markets	ALM and Centre	Santander Consumer	Total
Loans and advances to customers	44 163 668	22 574 558	6 690 975	45 711	12 345 659	85 820 571
Investments in associates and joint ventures	14 129	-	-	28 663	-	42 792
Other assets	6 263 979	792 062	7 183 601	31 186 437	3 212 432	48 638 511
Total assets	50 441 776	23 366 620	13 874 576	31 260 811	15 558 091	134 501 874
Deposits from customers	63 099 887	15 146 548	7 359 263	2 508 494	6 867 617	94 981 809
Other liabilities and equity	3 949 528	1 885 700	4 752 568	20 241 795	8 690 474	39 520 065
Total equity and liabilities	67 049 415	17 032 248	12 111 831	22 750 289	15 558 091	134 501 874

In thousands of PLN

Consolidated income statement (by business segments)

01.01.2013-31.12.2013	Retail Banking	Business & Corporate Banking	Global Banking & Markets	ALM and Centre	Total
Net interest income	1 988 339	640 695	120 956	526 570	3 276 560
incl. internal transactions	(89 930)	(32 397)	24 787	97 540	-
Other income	1 359 293	242 191	359 382	793 635	2 754 501
incl. internal transactions	49 695	41 675	(91 428)	58	-
Dividend income	-	-	2 158	56 580	58 738
Operating costs	(1 881 203)	(298 378)	(191 299)	(271 877)	(2 642 757)
incl. internal transactions	(8 462)	(397)	(4 493)	13 352	-
Depreciation/amortisation	(141 679)	(23 079)	(11 893)	(42 670)	(219 321)
Impairment losses on loans and advances	(422 974)	(303 642)	(14 936)	12 251	(729 301)
Share in net profits (loss) of entities accounted for by the equity method	14 500	-	928	869	16 297
Profit before tax	916 276	257 787	265 296	1 075 358	2 514 717
Corporate income tax					(500 106)
Non-controlling interests					(32 283)
Profit for the period					1 982 328

Consolidated statement of financial position (by business segment)

31.12.2013	Retail Banking	Business & Corporate Banking	Global Banking & Markets	ALM and Centre	Total
Loans and advances to customers	41 891 101	21 319 440	4 870 247	51 355	68 132 143
Investments in associates and joint ventures	14 129	-	20 842	28 473	63 444
Other assets	5 435 087	714 409	4 177 308	27 537 576	37 864 380
Total assets	47 340 317	22 033 849	9 068 397	27 617 404	106 059 967
Deposits from customers	57 976 197	12 978 044	5 317 988	2 270 753	78 542 982
Other liabilities and equity	6 430 096	2 689 623	2 611 046	15 786 220	27 516 985
Total equity and liabilities	64 406 293	15 667 667	7 929 034	18 056 973	106 059 967

In thousands of PLN

4. Risk management

Bank Zachodni WBK Capital Group is exposed to a variety of risks in its ordinary business activities. The role of risk management is to ensure that BZ WBK Group continues to take risk in a controlled way in order to enhance shareholder value. Risk is a possibility that some events would materialise, which would impact the achievement of the BZ WBK Group's strategic goals.

Risk management policies are designed to identify and measure those risks, define the most profitable return within the accepted risk level (risk-reward), and to continually set appropriate risk limits, which restrict the risk exposure. BZ WBK Group continues to modify and enhance its risk management practices to reflect changes in Group's risk profile, economic environment, regulatory requirements and evolving best practice.

Management Board and Supervisory Board set the business direction and actively support the risk management strategies. This is achieved by approving the key risk management policies, participation of the Management Board Members in the risk management committees, reviewing and signing off on the key risks and risk reports.

Supervisory Board continuously oversees the risk management system. The Supervisory Board approves the strategy, key risk management policies, the acceptable risk level and monitors the utilisation of the internal limits in relation to the current business strategy and macroeconomic environment. It conducts the reviews of the key risk areas, the identification of threats and the process of defining and monitoring of remedial actions. The Supervisory Board assesses if the Management Board control activities are effective and aligned with the Supervisory Board policy, including the assessment of the risk management system.

Audit and Compliance Committee supports the Supervisory Board in its supervisory activities. The Committee annually reviews the internal controls in financial reporting, accepts the reports on independent internal audit unit and compliance units. The Committee receives the regular quarterly reports on the status of the implementation of audit recommendations as the basis of the assessment of the quality of management actions. The Audit Committee assesses the efficiency of the internal control system and the risk management system.

Risk Oversight Committee supports the Supervisory Board in assessment of the effectiveness of the internal control system and risk management system and the resources, which were accepted and planned in order to provide the efficient management of the material risks of the Group.

Management Board is responsible for the effectiveness of the risk management. In particular, the Management Board introduces the organisational structure aligned with the level and profile of the risk being undertaken, split of the responsibilities providing the separation of the risk measurement and control function from the operational activity, is responsible for implementation and updating of the written risk management strategies, and transparency of the activities. The Management Board reviews the financial results of the Group. The Management Board established a number of committees directly responsible for the development of the risk management methodology and monitoring of risks in particular areas.

Risk Management Committee sets the direction of the risk management strategy in BZ WBK Group. The Risk Management Committee has a supervisory role for all the committees responsible for managing the risks identified in the Group's operations. The comprehensive reporting process ensures that the Committee has a full and consistent picture of the bank's current risk profile.

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

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

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

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

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

In thousands of PLN

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

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

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

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

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

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

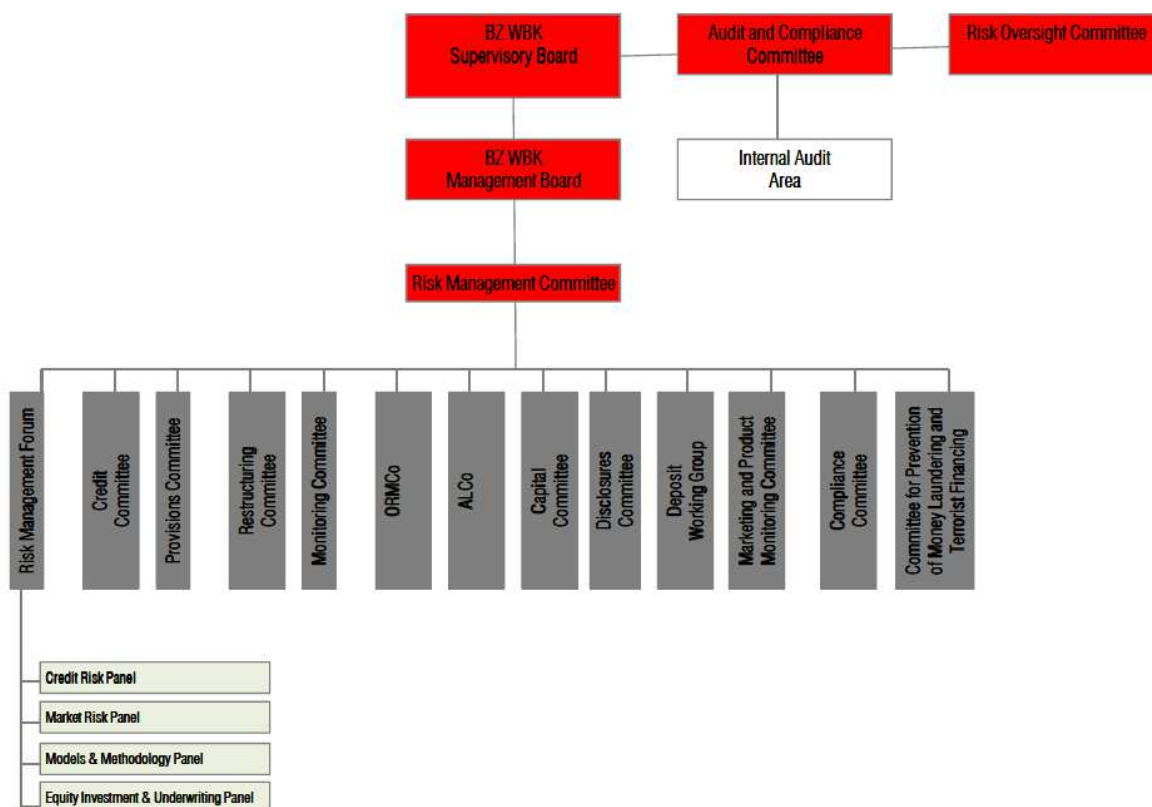
Product Marketing and Monitoring Committee approves new products and services to be implemented in the market, taking into account the reputation risk analysis.

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

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

Restructuring Committee takes decisions as to the relationship management strategy for borrowers in distress as well as the cancellation and sale of loan receivables under the lending discretions.

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



In thousands of PLN

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

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

BZ WBK Group is exposed to a variety of risks impacting the strategic goals. The Group continuously analyses the risks, identifies their sources, creates the relevant risk management mechanisms including among others the measurement, control, mitigation and reporting. Within the risks of the most importance to the BZ WBK Group are the following:

- credit risk,
- concentration risk,
- market risk in the banking and trading book,
- insurance risk,
- liquidity risk,
- operational risk,
- compliance risk.

Detailed principles, roles and responsibilities of the BZ WBK Group have been described in relevant internal policies on the management of the particular risks.

BZ WBK Group pays special attention to the consistency of risk management processes across the Group, which allows for adequate control of the risk exposure. The subsidiaries implement risk management policies and procedures reflecting the principles adopted by the BZ WBK Group.

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

Credit risk

BZ WBK Group's credit activities focus on growing a high quality loan book with a good yield and customer satisfaction.

Credit risk is defined as the possibility of suffering a loss as a result that a borrower will fail to meet its credit obligation, including interest and fees. Credit risk arises from the impairment of credit assets and contingent liabilities, resulting from worsening of the borrower's credit quality. Credit risk measurement is based on the estimation of credit risk weighted assets, with the relevant risk weights representing both the probability of default and the potential loss given default of the borrower.

Credit risk in BZ WBK Group arises mainly from lending activities on the retail, corporate and interbank markets. This risk is managed as part of the policy approved by the Management Board on the basis of the adopted credit procedures as well as on the basis of discretionary limits allocated to individual credit officers based on their knowledge and experience. The Group's internal system of credit grading and monitoring allows for an early identification of likely defaults that might impair the loan book. Additionally the Group uses large set of credit risk mitigation tools, both collaterals (financial and non-financial) and specific credit provisions and clauses (covenants).

The Group continues to develop and implement risk based methods of grading loans, allocating capital and measuring returns. Risk valuation models are used for all significant credit portfolios.

Pro-active credit risk management is recognised as key to BZ WBK Group's performance in the volatile markets and deteriorating economic growth conditions. In 2014, the Group continued its conservative credit risk management policy with the focus on ensuring a balanced growth of the high quality credit portfolio. The observed dynamic growth of loan portfolio volumes was driven by favourable macroeconomic developments, optimisation of credit policies and processes, development of loan portfolio management tools (in particular, for the SME and corporate portfolios) as well as finalised standardisation of policies and tools after the merger with Kredyt Bank. Credit policies were optimised in response to macroeconomic developments, such as interest rate cuts.

In thousands of PLN

The Group continues to develop and implement processes and procedures of managing and monitoring of credit portfolio risk adjusting them to the revised regulatory requirements, especially to Recommendations of KNF.

The Group is closely looking at the macroeconomic environment and analysing its credit exposure to particular customer segments and economic sectors to respond with an adequate and prompt action and adjust its credit policy parameters accordingly. The Bank also introduced changes to its pricing policy in response to falling reference rates.

Forbearance Policy

In 2014, the Bank established a Restructuring Committee to further improve the quality of the loan portfolio through the early implementation of debt restructuring actions and arrangements to streamline the debt service for corporate borrowers. The Committee takes decisions concerning:

- the relationship management strategy for corporate borrowers in distress whose exposure does not exceed PLN 25m, or
- debt cancellation,
- sale of receivables.

Decisions concerning the exposures of corporate clients in excess of 25m PLN with financial difficulties are taken by the Credit Committee.

Debt restructuring solutions for corporate borrowers are provided only after an analysis of the borrower's financial standing, identification of the underlying causes for problems with debt service, assessment of repayment capacity under the new conditions and assessment of the collateral in place. The restructuring arrangements depend on the result of the assessment and may include in particular: a grace period, change of the repayment schedule (reduction of loan instalments), capitalisation of interest, extension of the maturity date etc. This applies both to retail and business customers.

From 2014 onwards, each debt restructuring arrangement is accompanied by respective entries to the Bank's IT systems, so that the restructured debt portfolio can be identified. The receivables/customer is treated as a restructured borrower throughout the restructuring period, ie. until it is recognized that the customer's situation has stabilized and the conditions of the restructuring were completed and the customer is creditworthy. The portfolio of restructured debt is monitored on a regular basis. The restructuring process is often a long-term one, therefore the bank assumes that the applied solutions will increase the restructured portfolio in consecutive periods. Classification of customers to the restructuring category is independent from the classification of the performing/non-performing portfolio.

Under the adjustment process to new reporting requirements, solutions were developed to ensure the identification of debt restructuring cases including the project of changes in the ITS standard proposed by EBA. The identification is based on debt restructuring made both in the performing portfolio and the non-performing one, in line with the definition provided in Recommendation R. The basic information considered during the identification of forbearance cases includes: the borrower's current financial standing, observed and expected repayment capacity, willingness to make repayments as well as the nature and frequency of amendments to loan repayment terms for facilities held by a given borrower. Those rules apply both to retail and non-retail.

Forbearance		Gross amount	Allowance for impairment	Net amount
Private persons exposures				
	performing	406 084	(13 379)	392 705
	non-performing	109 219	(45 365)	63 854
		515 303	(58 744)	456 559
Corporate exposures				
	performing	389 538	(24 659)	364 879
	non-performing	2 624 157	(1 010 027)	1 614 130
		3 013 695	(1 034 686)	1 979 009
TOTAL		3 528 998	(1 093 430)	2 435 568

In thousands of PLN

Risk Management Forum

The credit risk oversight in BZ WBK Group is performed by Credit Policy Panel (CPP) operating within the Risk Management Forum. Its key responsibilities include development and approval of the best sectoral practice, industry analyses, credit policies as well as implementation of grading and assessment systems aimed at ensuring sustainable growth of the credit portfolio. To align the Group's management processes with the current strategic goals, three sub-committees were established within the CPP with a responsibility for the key customer segments: retail segment, SME segment and the business/corporate segment.

The oversight over the credit risk models is the responsibility of the Models and Methodology Panel.

Risk Management Division

The Risk Management Division is responsible for a consolidated credit risk management process, including management and supervision of credit delivery, defining credit policies, providing decision-making tools and credit risk measurement tools, quality assurance of the credit portfolio and provision of reliable management information on the credit portfolio.

Credit Policies

Credit policies refer to particular business segments, loan portfolios and banking products. They contain guidelines for the identification of the areas where specific types of risks manifest themselves, specifying the methods of their measurement and mitigation to the level acceptable to the bank (e.g. "Loan-to-Value" ratios, FX risk in the case of foreign currency loans).

The Group reviews and updates its credit policies on a regular basis, aiming to bring them in line with the Group's strategy, current macroeconomic situation, legal developments and changes in regulatory requirements.

Credit Decision Making Process

The credit decision-making process as a part of the risk management policy is based upon Individual Credit Discretions vested in credit officers, commensurate with their knowledge and experience within the business segments. Credit exposures in excess of PLN 25m are referred to the Credit Committee composed of senior management and top executives.

The BZ WBK Group continually strives to ensure best quality credit service while satisfying the borrowers' expectations and ensuring security of the credit portfolio. To this end, the credit risk approval function has been segregated from the sales function.

Credit Grading

Intensive work has been undertaken to further develop credit risk assessment tools to conform to the recommendations of the Polish Financial Supervision Authority, the International Accounting Standards/International Financial Reporting Standards and the best practice in the market.

The BZ WBK Group uses credit risk grading models for its key credit portfolios, including corporate customers, SMEs, home loans, property loan, cash loans, credit cards and personal overdrafts.

The Group regularly monitors its credit grading using the rules specified in its Lending Manuals. Additionally, for selected models, automated process of credit grade verification is carried out based on the number of overdue days or an analysis of the customer's behavioural data. Credit grade is also verified at subsequent credit assessments.

Credit Reviews

The Group performs regular reviews to determine the actual quality of the credit portfolio, confirm that adequate credit grading and provisioning processes are in place, verify compliance with the procedures and credit decisions and to objectively assess professionalism in credit management. The reviews are performed by the two specialised units: Credit Review Department and the Control & Quality Assessment Department, which are independent of the risk-taking units.

Collateral

In the Group's security model, the Securities and Credit Documentation Centre is the central unit responsible for creation and maintenance of securities.

The role of the Centre is to ensure that security covers are duly established and held effective in line with the lending policy for all business segments. The unit is also responsible for developing standardised internal procedures with respect to perfecting and maintaining validity of collateral as well as ensuring that establishment, monitoring and release of security covers is duly effected.

In thousands of PLN

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

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

Retail customers

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

Business customers

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

Collateral management process

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

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

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

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

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

Credit risk stress testing

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

In thousands of PLN

Calculation of Impairment

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

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

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

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

31.12.2014	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
Impaired portfolio					
Individually impaired					
	up to 50%	2 341 427	-	-	-
	50% - 70%	521 469	-	-	-
	70% - 85%	281 069	-	-	-
	over 85%	817 380	-	-	-
Gross amount		3 961 345	-	-	-
Allowance for impairment		(1 771 267)	-	-	-
Net amount		2 190 078	-	-	-
Collectively impaired					
	up to 50%	780 779	-	-	-
	50% - 70%	576 815	-	-	-
	70% - 85%	844 420	-	-	-
	over 85%	1 446 642	-	-	-
Gross amount		3 648 656	-	-	-
Allowance for impairment		(2 675 336)	-	-	-
Net amount		973 320	-	-	-
IBNR portfolio (past due&non past due)					
	up to 0,10%	34 253 201	2 523 063	27 057 093	5 238 741
	0,10% - 0,30%	21 091 178	-	-	-
	0,30% - 0,65%	9 950 391	-	-	-
	over 0,65%	17 939 218	-	-	-
Gross amount		83 233 988	2 523 063	27 057 093	5 238 741
Allowance for impairment		(679 906)	-	-	-
Net amount		82 554 082	2 523 063	27 057 093	5 238 741
Other receivables					
		103 091	-	-	-
Off-balance sheet exposures					
Financing granted		20 009 637	-	-	-
Guarantees		4 420 907	-	-	-
Nominal value of derivatives - purchased		-	-	-	139 414 357
Allowance for impairment		(87 517)	-	-	-
Off-balance sheet exposures - total		24 343 027	-	-	139 414 357

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

In thousands of PLN

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

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

IBNR portfolio

	Loans and advances to customers	
	31.12.2014	31.12.2013
Non-past due	78 385 407	62 015 572
Past-due	4 848 581	3 754 899
1-30 days	3 829 735	3 007 185
31-60 days	647 857	488 475
61-90 days	359 232	242 852
> 90 days	11 757	16 387
Gross amount	83 233 988	65 770 471

In thousands of PLN

Allowances for impairment by classes

Provision cover	Loans and advances to customers		Loans and advances to banks	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Individual allowance for impairment				
up to 50%	(477 016)	(403 020)	-	-
50% - 70%	(309 882)	(329 906)	-	-
70% - 85%	(212 985)	(427 568)	-	-
over 85%	(771 384)	(365 029)	-	-
Total individual allowance for impairment	(1 771 267)	(1 525 523)	-	-
Collective allowance for impairment				
up to 50%	(249 820)	(176 947)	-	-
50% - 70%	(352 230)	(558 338)	-	-
70% - 85%	(653 518)	(402 763)	-	-
over 85%	(1 419 768)	(372 976)	-	-
Total collective allowance for impairment	(2 675 336)	(1 511 024)	-	-
IBNR				
up to 0,10%	(11 249)	(12 688)	-	-
0,10%-0,30%	(33 686)	(25 835)	-	-
0,30%-0,65%	(46 791)	(54 152)	-	-
over 0,65%	(588 180)	(360 503)	-	-
Total IBNR	(679 906)	(453 178)	-	-
Total allowance for impairment	(5 126 509)	(3 489 725)	-	-

Credit risk concentration

Bank Zachodni WBK Group adheres to the standards provided for in the Banking Law with regard to the concentration of risk bearing exposures to a single entity or a group of entities connected in terms of capital or organisation. As at 31.12.2014, pursuant to art. 71 of the Banking Law Act, the maximum limits for the Group amounted to:

PLN 3 261 237 k (25% of Group's own funds).

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

The analysis of the Group's exposures in terms of sector concentrations, carried out at the end of December 2014, proved that the Group does not have any exposures in excess of the limits imposed by the regulator.

In thousands of PLN

A list of the 20 largest borrowers (or capital-related group of borrowers) of Bank Zachodni WBK Group (performing loans) as at 31.12.2014 (including exposures of individual customers towards subsidiaries of BZ WBK).

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure incl. towards subsidiaries	Committed credit lines, guarantees, treasury limits and capital investments
07	MINING	1 297 011	234 317	1 062 694
61	TELECOMMUNICATION	1 294 195	1 090 902	203 293
19	RAFINERY	1 201 133	875 135	325 998
35	POWER INDUSTRY	1 197 708	29 579	1 168 129
35	POWER INDUSTRY	751 000	-	751 000
68	REAL ESTATE SERVICES	743 207	742 949	258
47	RETAIL	688 268	668 776	19 492
35	POWER INDUSTRY	652 386	2 386	650 000
64	OTHER FINANCIAL SERVICES	545 430	338 520	206 910
33	MACHINE INDUSTRY	515 030	133 603	381 427
68	REAL ESTATE SERVICES	509 268	505 479	3 789
35	POWER INDUSTRY	459 786	131 486	328 300
19	RAFINERY	426 014	382 174	43 840
20	CHEMICAL INDUSTRY	417 248	417 248	-
41	CONSTRUCTION	414 013	357 828	56 185
33	MACHINE INDUSTRY	400 000	-	400 000
68	REAL ESTATE SERVICES	392 310	392 310	-
41	CONSTRUCTION	386 000	-	386 000
16	WOOD INDUSTRY	345 425	336 705	8 720
47	RETAIL	338 247	285 445	52 802
Total gross exposure		12 973 679	6 924 842	6 048 837

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

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

In thousands of PLN

Industry concentration

The credit policy of Bank Zachodni WBK Group assumes diversification of credit exposures. Risk of particular industry affects value of the exposure limit. In order to ensure adequate portfolio diversification and control the risk of overexposure to a single industry, the Group provides funding to sectors and groups or capital units representing a variety of industries. As at 31.12.2014, the highest concentration level was recorded in the "distribution" sector (12% of the BZ WBK Group exposure), "manufacturing" (10%) and "property" (10%).

Groups of PKD by industries:

Industry	Gross exposure		
	31.12.2014	31.12.2013	
Distribution	11 092 677	9 239 681	
Manufacturing	9 382 481	8 303 052	
Property	8 998 650	9 653 180	
Agriculture	1 854 129	1 530 505	
Transportation	1 777 227	1 586 970	
Energy	1 717 414	1 696 123	
Construction	1 357 360	1 260 312	
Financial sector	921 974	1 028 732	
Other industries	5 721 356	3 020 920	
A	Total Business Loans	42 823 268	37 319 475
B	Retail (including mortgage loans)	48 020 721	34 091 605
A+B	BZ WBK Group portfolio	90 843 989	71 411 080
C	Other receivables (commercial bonds, reverse repo)	103 091	210 788
A+B+C	Total BZ WBK Group	90 947 080	71 621 868

Market risk

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

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

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

General principles of market risk management

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

BZ WBK Group's market risk policies establish a number of measurement and risk limitation parameters in the form of limits, mandatory and monitoring ratios. Risk limits are periodically reviewed to align them with the Group's strategy and the current objectives of the Group.

Interest rate and FX risks linked to the banking business is managed centrally by the Financial Management Division. The Division is also responsible for acquiring funding, managing liquidity and making transactions on behalf of ALCO. This activity is controlled by the measures and limits approved from time to time by the Risk Management Forum, the bank's Management Board and the Supervisory Board.

The debt securities and the interest rate derivatives portfolio is managed by ALCO, which takes all decisions on the portfolio's value and structure.

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

In thousands of PLN

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

The market risk of equity instruments held by Brokerage Office (shares, index-linked securities) is managed by the brokerage house itself and supervised by BZ WBK Risk Management Forum.

Assessment methods

BZ WBK Group uses several methods to assess its market risk exposure. The methods employed for the banking portfolio are the MVE and NII sensitivity measures, while the methods used for the trading portfolio include: Value at Risk (VaR), stop loss, sensitivity measures (PV01) and stress tests. The risk assessment methodology is subject to an independent initial and periodic validation, the results of which are presented for approval to the Models and Methodology Panel (part of the Risk Management Forum).

VaR is determined by means of a statistical modelling process as a difference between the mark-to-market value of positions and the market values based on the most severe movements in market rates from a determined observation window. VaR is calculated separately for interest rate risk, FX risk and the repricing risk of the equity instruments portfolio of Brokerage Office.

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

Interest rate risk in the banking book

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

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

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

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

The sensitivity measures for 2014 and 2013 are presented in the table below.

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

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

In thousands of PLN

Interest rate risk in the trading book

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

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

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

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

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

The table below shows risk measures at the end of 2014 and 2013 for 1-day position holding period.

Interest rate risk	VAR	
	31.12.2014	31.12.2013
1 day holding period		
Average	1 402	1 958
Maximum	4 656	4 369
Minimum	285	547
as at the end of the period	921	3 741
Limit	5 261	7 530

FX risk

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

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

Open positions of subsidiaries are negligible and are not included in the daily risk assessment.

The table below illustrates the risk measures at the end of December 2014 and 2013.

FX risk	VAR		VAR Brokerage House	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
1 day holding period				
Average	646	534	10	6
Maximum	2 676	1 647	83	18
Minimum	88	65	1	1
as at the end of the period	369	428	4	9
LIMIT	1 754	1 506	104	104

In 2014, the VAR limit has been exceeded. Positions for individual currencies were within established nominal limits, however, have exceeded the VaR limit. The next day, open position (EUR) has been limited and VAR was in the prescribed limit. In 2014, this was the only case of exceeding the VaR limit, which was reported to the appropriate committees appointed by the Management Board and the Supervisory Board.

In thousands of PLN

FX Balance Sheet

In 2014, the share of assets in foreign currencies in the bank's balance sheet remained at the level observed in 2013, alike the mismatch of assets and liabilities in particular currencies. Observed structural fx gap was funded mainly from FX swaps, FX interest rate swaps.

The tables below present the Group's key FX positions as at 31 December 2014 and in the comparable period.

31.12.2014	PLN	EUR	CHF	Other	Total
ASSETS					
Cash and balances with central banks	6 232 514	380 981	26 100	166 926	6 806 521
Loans and advances to banks	758 875	1 505 728	9 073	249 387	2 523 063
Loans and advances to customers	56 049 687	14 712 436	13 507 740	1 550 708	85 820 571
Investment securities	25 960 811	679 013	-	417 269	27 057 093
Selected assets	89 001 887	17 278 158	13 542 913	2 384 290	122 207 248
LIABILITIES					
Deposits from banks	4 565 405	154 067	3 533 839	106 545	8 359 856
Deposits from customers	83 414 931	8 207 140	1 023 564	2 336 174	94 981 809
Subordinated liabilities	175 059	426 290	938 618	-	1 539 967
Selected liabilities	88 155 395	8 787 497	5 496 021	2 442 719	104 881 632

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

Equity investment risk

The unit responsible for equity price risk management is Brokerage Office which now operates within the Financial Markets Area. The source of this risk are transactions conducted on Brokerage Office own account via stock exchanges and MS CTO (shares, futures).

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

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

The table below presents the risk measures in 2014 and 2013:

Equity risk	VAR Brokerage House	
	31.12.2014	31.12.2013
1 day holding period		
Average	281	664
Maximum	1 294	2 135
Minimum	81	53
as at end of the period	810	312
LIMIT	3 647	4 111

In thousands of PLN

Liquidity risk

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

Liquidity Risk Management

The BZ WBK Group Liquidity Management Policy is designed to:

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

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

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

Management Process

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

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

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

Risk Measurement and Reporting

The responsibility for assessment and reporting of the liquidity risk rests on the Risk Management Division, specifically the Financial Risk Department. The role of the Department is to draft liquidity management policies, carry out stress tests and to measure and report on risk.

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

In 2014, as in 2013, BZ WBK Group focused on keeping its loan-to-deposit ratio at a comfortable level (which totalled 89% as at 31 December 2014) and controlling key short- and long-term liquidity measures.

The Bank continued to enhance its long-term funding structure by issuing in Q3 2014 PLN 475m worth of 3-year bonds.

In 2014 and in the comparable period, all key supervisory measures applicable to the Group were maintained at the required levels.

In thousands of PLN

Contractual gap analysis based on remaining time maturity as at 31.12.2014 and 31.12.2013:

31.12.2014	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	over 5 years	rate insensitive	Total
Cash and balances with central banks	6 806 521	-	-	-	-	-	-	6 806 521
Loans and advances to banks	2 504 808	16 820	1 435	-	-	-	-	2 523 063
Financial assets held for trading	110 929	153 549	403 443	1 617 904	1 982 856	881 522	88 538	5 238 741
Loans and advances to customers	7 715 234	6 643 007	17 333 914	20 250 513	11 875 607	27 128 806	(5 126 510)	85 820 571
Investment securities	4 223 213	-	1 832 043	4 149 671	5 461 532	10 485 722	904 912	27 057 093
Other items	-	-	-	-	-	-	7 055 885	7 055 885
Long position	21 360 705	6 813 376	19 570 835	26 018 088	19 319 995	38 496 050	2 922 825	134 501 874
Deposits from banks	4 968 383	284 571	253 783	2 502 536	350 583	-	-	8 359 856
Financial liabilities held for trading	578 087	132 000	650 841	763 538	326 575	307 120	23 519	2 781 680
Deposits from customers	59 810 806	13 936 245	15 910 096	3 413 091	1 046 459	865 112	-	94 981 809
Subordinated liabilities	4 323	-	-	100 133	1 013 543	421 968	-	1 539 967
Other items	-	-	-	-	-	-	26 838 562	26 838 562
Short position	65 361 599	14 352 816	16 814 720	6 779 298	2 737 160	1 594 200	26 862 081	134 501 874
Gap-balance sheet	(44 000 894)	(7 539 440)	2 756 115	19 238 790	16 582 835	36 901 850	(23 939 256)	
Contingent liabilities- sanctioned								
Financing related	159 794	1 741 069	10 100 995	4 199 356	1 540 826	2 267 596	(49 693)	19 959 943
Guarantees	5 043	401 480	1 104 482	1 923 618	391 228	595 500	(38 267)	4 383 084
Derivatives settled in gross terms								
Inflows	9 390 648	7 471 142	11 853 267	15 252 833	3 608 289	10 579 290	-	58 155 469
Outflows	9 382 319	7 422 211	12 354 430	16 350 875	3 745 131	10 488 077	-	59 743 043
Gap – off-balance sheet	(156 508)	(2 093 618)	(11 706 640)	(7 221 016)	(2 068 896)	(2 771 883)	87 960	

In thousands of PLN

31.12.2013	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	over 5 years	rate insensitive	Total
Cash and balances with central banks	5 149 686	-	-	-	-	-	-	5 149 686
Loans and advances to banks	1 292 772	231 224	9 788	678 920	-	-	-	2 212 704
Financial assets held for trading	335 872	171 459	290 267	807 538	321 801	375 759	42 205	2 344 901
Loans and advances to customers	4 688 415	4 936 123	14 234 989	15 239 967	9 428 255	23 094 119	(3 489 725)	68 132 143
Investment securities	5 599 328	32 884	2 744 448	2 836 390	3 045 375	6 958 951	873 388	22 090 764
Other items	-	-	-	-	-	-	6 129 769	6 129 769
Long position	17 066 073	5 371 690	17 279 492	19 562 815	12 795 431	30 428 829	3 555 637	106 059 967
Deposits from banks	3 865 482	31 502	10 509	2 371 304	-	-	-	6 278 797
Financial liabilities held for trading	327 913	111 406	266 981	405 122	118 690	47 050	-	1 277 162
Deposits from customers	53 721 394	9 678 251	12 105 823	988 812	1 389 572	659 130	-	78 542 982
Subordinated liabilities	11	4 341	-	-	337 722	1 042 645	-	1 384 719
Other items	-	-	-	-	-	-	18 576 307	18 576 307
Short position	57 914 800	9 825 500	12 383 313	3 765 238	1 845 984	1 748 825	18 576 307	106 059 967
Gap-balance sheet	(40 848 727)	(4 453 810)	4 896 179	15 797 577	10 949 447	28 680 004	(15 020 670)	
Contingent liabilities- sanctioned								
Financing related	459 347	1 156 908	7 102 033	3 758 346	1 822 408	3 337 163	(43 404)	17 592 801
Guarantees	425 003	446 383	806 752	1 299 337	500 825	396 443	(52 530)	3 822 213
Derivatives settled in gross terms								
Inflows	5 515 514	4 088 062	5 724 707	8 307 758	4 012 287	4 642 178	-	32 290 506
Outflows	5 835 638	4 007 754	5 785 174	8 454 647	4 097 401	4 586 251	-	32 766 865
Gap – off-balance sheet	(1 204 474)	(1 522 983)	(7 969 252)	(5 204 572)	(2 408 347)	(3 677 679)	95 934	

In thousands of PLN

Liquidity Policy Report - Modified Liquidity Gap:

Liquidity risk	<1W	<1M	>1M
31.12.2014			
Qualifying Liquid Assets	23 893 561	30 000	7 373 468
Treasury inflows	2 289 774	151 623	1 191 289
Other inflows	18 133 055	6 105 260	120 594 803
Treasury outflows	(5 075 708)	(139 116)	(1 401 245)
Other outflows	(24 430 595)	(18 929 461)	(131 374 283)
GAP	14 810 087	(12 781 694)	(3 615 968)
Cumulative GAP	14 810 087	2 028 393	(1 587 575)

Liquidity risk	<1W	<1M	>1M
31.12.2013			
Qualifying Liquid Assets	16 914 710	3 015 195	5 129 273
Treasury inflows	5 343 774	2 293 687	36 771 121
Other inflows	1 010 072	432 287	63 567 752
Treasury outflows	(7 916 216)	(2 685 750)	(40 556 292)
Other outflows	(5 601 955)	(2 662 544)	(75 055 114)
GAP	9 750 385	392 875	(10 143 260)
Cumulative GAP	9 750 385	10 143 260	-

As Santander Consumer Bank Group is conducting independently measurement of their liquidity position, their Liquidity Policy Report as at 31 Dec 2014 is presented underneath:

Liquidity risk	<1W	<1M	>1M
31.12.2014			
Qualifying Liquid Assets	960 000	52 014	970 000
Treasury inflows	161 314	263 042	-
Other inflows	357 453	1 072 359	11 910 605
Treasury outflows	(146 370)	(165 408)	(5 450 394)
Other outflows	(261 029)	(783 087)	(8 940 500)
GAP	1 071 368	438 920	(1 510 289)
Cumulative GAP	1 071 368	1 510 288	-

Insurance risk

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

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

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

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

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

Managing insurance risk, BZ WBK AVIVA TUO and BZ WBK AVIVA TUŻ mainly focus on increasing their insurance portfolios while using reinsurance to limit the volatility of their risk share. As at 31.12.2014 participation of reinsurance in the technical provision totaled PLN 5 398k.

In thousands of PLN

In 2014, BZ WBK AVIVA Insurance Companies offered property and personal insurance, both in an individual and group models. Insurance products were offered to the customers via bancassurance and direct sales channels.

BZ WBK AVIVA Insurance Companies offer their customers participation in an investment plan and the purchase of a travel insurance and an accident insurance as part of individual agreements. Other products are offered within group agreements with the bank.

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

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

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

Gross Risk	31.12.2014	share %	participation of reinsurance 31.12.2014	31.12.2013	share %	participation of reinsurance 31.12.2013
Casualty	17 452	57%	570	28 171	61%	165
Financial	5 024	17%	-	7 498	16%	-
Accident	4 074	13%	-	5 247	11%	-
Disease	2 439	8%	364	3 078	7%	469
Damage to property caused by natural disasters	1 192	4%	-	1 381	3%	-
Other material damages	154	1%	-	756	2%	-
Civil liability	48	0%	-	22	0%	-
Assistance	44	0%	-	131	0%	-
Gross provisions for compensations and benefits	30 427	100%	934	46 285	100%	634

Gross risk	31.12.2014	share %	participation of reinsurance 31.12.2014	31.12.2013	share %	participation of reinsurance 31.12.2013
individual	1 418	5%	-	2 695	6%	-
group	29 009	95%	934	43 590	94%	634
Gross provisions for compensations and benefits	30 427	100%	934	46 285	100%	634

Sensitivity analysis of provisions for damages

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

Sensitivity analysis was carried out simultaneously for all insured risks in the portfolio, by changing the value of claims reported and not paid (RBNP) as at 31.12.2014 and 31.12.2013.

In thousands of PLN

The following table reflects the change in the provision for claims when the size RBNP as at 31.12.2014 and 31.12.2013:

Change in RBNP (%)	Change in damage provisions (%)	Value of damage provisions	Change of the value of damage provisions
-20	-14	26 234	(4 193)
-10	-7	28 330	(2 097)
10	7	32 523	2 097
20	14	34 620	4 193

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

Analysis of the adequacy of reserves

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

Capital Management

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

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

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

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

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

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

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

Insurance companies check equity level and its compliance with the law at the end of each month. Throughout the 2014 all the statutory requirements were met.

In thousands of PLN

The following table shows the amount of own resources of insurance companies (BZ WBK AVIVA General Insurance Company and BZ WBK AVIVA Life Insurance Company) and coverage of the solvency margin and guarantee capital as at December 31, 2014 and comparable period.

	31.12.2014	31.12.2013
Own resources	158 228	126 704
Margin of solvency	68 782	51 140
Minimal guarantee capital	30 807	30 097
1/3rd of margin of solvency	22 927	17 047
Own resources surplus for coverage of margin of solvency	89 445	75 564
Guarantee capital	30 807	30 097
Own resources surplus for coverage of guarantee capital	127 421	96 607

Operational Risk

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

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

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

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

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

The key challenge regarding operational risk management in 2014 were the integration processes after the merger between Bank Zachodni WBK and Kredyt Bank. In order to ensure best practice in operational risk management in the transition period, each consolidated activity and integration project were subject to an in-depth analysis in terms of operational risk.

Furthermore, in 2014, operational risk management standards and tools were harmonised to reflect requirements of Recommendation D. Changes in the area of information technology and security of IT environment are implemented in accordance with the best market practice.

BZ WBK Group uses the following tools:

- Identification and assessment of operational risk

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

- Reporting on operational incidents and lessons learned

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

In thousands of PLN

- Analysis of risk indicators

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

- Business continuity management (BCM)

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

- Insurance

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

- Regular reporting to the Risk Management Committee and Supervisory Board

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

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

Legal and Compliance Risk

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

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

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

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

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

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

- compliance with employment law – the Business Partnership Division;
- compliance with taxation law and reporting requirements – Financial Accounting and Control Division;
- compliance with prudential regulations – Risk Management Division.

In thousands of PLN

The Bank's Management Board adopted a policy statement on compliance with legal and regulatory obligations, which was approved by the Supervisory Board. The policy provides the Compliance Area operating within the Legal and Compliance Division, with the relevant mandate to support senior managers in effective management of the compliance risk. The Compliance Area escalates all issues to the Risk Management Committee and Audit and Compliance Committee of the Supervisory Board which ensure the fulfilment of regulatory obligations and approve the internal control principles and compliance policy framework, so that the Compliance Area may operate independently from business units and has relevant resources to perform its tasks.

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

- as part of monitoring of new products;
- as part of compliance monitoring;
- as part of the monitoring of proprietary transactions effected by employees;
- based on the information on regulators' activity;
- as part of the review of upcoming legislative initiatives;
- as part of the review of anti-money laundering initiatives;
- as part of the review of ethical issues;
- as part of the review of customers' complaints.

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

- independent identification, assessment and monitoring of compliance risk that the Group is exposed to (with the focus on new products and services, prevention of money laundering and terrorist financing, protection of confidential information, conflicts of interest or private account shares dealing by employees);
- providing advice and reporting to the Risk Management Committee, bank's Management Board and Audit and Compliance Committee on the effectiveness of the processes established to ensure compliance with laws and regulations within its area of responsibility;
- publication of policies and procedures, providing the management and staff with guidance on compliance risk and adequate risk management policies and procedures;
- centralisation of contacts with market regulators (KNF, UOKiK, GIIF, GIODO),
- centralisation of the approval of new products;
- coordination and support for compliance processes regarding the model of sale of investment products and MIFID Directive;
- strengthening of the principles regarding ethical business conduct as well as health and safety at work, as well as building the corporate governance culture in the organisation.

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

- Compliance Committee;
- Product Marketing and Monitoring Committee;
- Anti-Money Laundering and Terrorism Financing Committee,
- Business Ethics Commission.

In thousands of PLN

Reputation Risk Management

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

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

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

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

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

Key risk mitigation measures:

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

5. Capital management

Introduction

It is the policy of the Bank Zachodni WBK Group to maintain the level of capital adequate to the type and scale of operations and the level of risk. The level of own funds required to ensure safe operations of BZ WBK Group and capital requirements estimated for the unexpected loss is determined in accordance with the CRD IV / CRR package implemented on 1 January 2014 by the European Parliament and EBA, plus KNF recommendations regarding stricter criteria for mortgage-backed exposures.

In thousands of PLN

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

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

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

Capital Policy

The Group's capital management policy envisages the minimum level of solvency ratio at 12% (calculated according to applicable regulations and directives of the European Parliament and European Council).

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

The regulatory solvency ratio is 8%.

Regulatory Capital

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

According to the standardised approach, the total capital requirement for credit risk is calculated as the sum of risk weighted exposures multiplied by 8%. The value of assets is equal to the balance sheet total, while the value of off-balance sheet liabilities corresponds to their balance sheet equivalent. In order to calculate the risk weighted assets, the bank used risk weights defined in the Regulation mentioned above.

The tables below show capital requirement for the Group as of 31 December 2014 and 2013:

		31.12.2014**	31.12.2013**
I	Total Capital requirement (Ia + Ib + Ic + Id + Ie), of which:	8 082 444	6 693 734
Ia	- due to credit risk & counterparty credit risk	6 956 272	5 829 962
Ib	- due to market risk	84 493	50 991
Ic	- due to credit valuation adjustment risk	101 862	-
Id	- due to operational risk	939 817	761 641
Ie	- due to other risks	-	51 140
II	Total own funds*	16 482 586	14 739 530
III	Reductions	3 437 661	3 092 495
IV	Own funds after reductions (II-III)	13 044 925	11 647 035
V	CAD [IV/(I*12.5)]	12,91%	13,92%

* Total own funds as at 31.12.2014 includes part of the current year profit in the amount of PLN 370 947 k as permitted by Financial Supervision Authority on 30.10.2014.

**As at 31 December 2014, the calculation of a capital adequacy ratio takes account of the equity and total capital requirements for respective risks, using a standardised approach in line with CRD IV/CRR package (CRD IV directive and CRR regulation), which came into force on 1 January 2014 by virtue of the decision of the European Parliament and European Banking Authority. The calculation of a capital adequacy ratio of Bank Zachodni WBK Group as at 31 December 2013 took account of the equity and total capital requirements for credit, market and operational risk using a standardised approach in line with Appendix 4 to KNF Resolution no. 76/2010 of 10 March 2010 (as amended).

In thousands of PLN

Internal Capital

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

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

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

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

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

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

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

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

Subordinated liabilities

Until 31 December 2013, subordinated liabilities arising from the 10-year registered bonds bearing a floating interest rate issued on 5 August 2010 (fully taken up and paid for by the EBRD) were recognised in supplementary own funds under the Banking Law Act and KNF approval dated 13 October 2010.

Since 1 January 2014, these items have been recognised in the calculations of the bank's solvency ratio as they meet CRR requirements regarding eligible elements of Tier II capital.

Following the legal merger with Kredyt Bank, BZ WBK has acquired the subordinated loans granted by KBC NV Dublin to Kredyt Bank for 10 years. Subordinated liabilities to KBC NV amounted to CHF 265m and PLN 75m.

The Bank did not use an early-repayment contract option. As at 31 December 2014, under art. 490(5) of CRR the bank removed the foregoing liabilities from own funds and calculations of the solvency ratio.

Detailed information on subordinated liabilities is presented in Note 33.

In thousands of PLN

6. Net interest income

	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Interest income		
Loans and advances to enterprises	1 725 168	1 727 968
Loans and advances to individuals, of which:	2 621 114	2 079 419
<i>Home mortgage loans</i>	891 251	841 385
Debt securities incl.:	770 291	787 373
<i>Investment portfolio available for sale</i>	719 755	743 718
<i>Trading portfolio</i>	50 536	43 655
Leasing agreements	164 026	163 382
Loans and advances to banks	101 600	106 395
Public sector	14 325	20 736
Reverse repo transactions	25 966	15 200
Interest recorded on hedging IRS	300 553	314 730
Total	5 723 043	5 215 203
Interest expenses		
Deposits from individuals	(952 507)	(1 142 253)
Deposits from enterprises	(433 325)	(504 426)
Repo transactions	(79 553)	(105 703)
Deposits from public sector	(85 047)	(105 436)
Deposits from banks	(34 404)	(25 929)
Subordinated liabilities and issue of securities	(141 385)	(54 896)
Total	(1 726 221)	(1 938 643)
Net interest income	3 996 822	3 276 560

As at 31.12.2014 net interest income includes interest on impaired loans of PLN 484 014 k (as at 31.12.2013 - PLN 267 134k).

In thousands of PLN

7. Net fee and commission income

	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Fee and commission income		
eBusiness & payments	593 815	613 869
Current accounts and money transfer	315 801	310 721
Asset management fees	262 620	258 363
Foreign exchange commissions	332 584	296 676
Credit commissions	292 485	230 066
Insurance commissions	125 094	105 994
Brokerage commissions	84 230	105 422
Credit cards	123 492	88 138
Off-balance sheet guarantee commissions	40 897	36 025
Finance lease commissions	7 091	5 879
Issue arrangement fees	4 607	11 834
Distribution fees	10 653	15 099
Other commissions	17 963	11 336
Total	2 211 332	2 089 422
Fee and commission expenses		
eBusiness & payments	(157 211)	(158 549)
Distribution fees	(27 744)	(32 424)
Brokerage commissions	(13 648)	(16 088)
Credit cards	(22 289)	(14 706)
Credit commissions paid	(53 935)	(12 734)
Finance lease commissions	(17 580)	(11 863)
Asset management fees and other costs	(8 115)	(7 578)
Other	(63 049)	(56 924)
Total	(363 571)	(310 866)
Net fee and commission income	1 847 761	1 778 556

Included above is fee and commission income on credits, credits cards, off-balance sheet guarantees and finance leases of PLN 463 965 k (31.12.2013: PLN 360 108 k) and fee and commission expenses on credit cards, finance leases and paid to credit agents of PLN (93 804) k (31.12.2013: PLN (39 303) k) other than fees included in determining the effective interest rate, relating to financial assets and liabilities not carried at fair value through profit and loss.

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

8. Dividend income

	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Dividend income		
Dividends from investment portfolio entities	79 436	56 597
Dividends from trading portfolio entities	793	2 141
Total	80 229	58 738

In thousands of PLN

9. Net trading income and revaluation

Net trading income and revaluation	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Derivative instruments and interbank fx transactions	31 781	180 696
Other FX related income	62 162	(3 221)
Profit on market maker activity	1 278	1 845
Profit on equity instruments	(6 909)	5 706
Profit on debt instruments	12 731	1 088
Total	101 043	186 114

Net trading income and revaluation includes the write-back of adjustments of derivatives resulting from counterparty risk in the amount of PLN 8,752 k for 2014 and the write-back of adjustments of derivatives resulting from counterparty risk in the amount of PLN 817 k for 2013.

Net trading income and revaluation includes depreciation of adjustment to the valuation of day 1 profit or loss for start forward CIRS transactions in the amount of PLN (918) k disclosed in statement of financial position in line of Hedging derivatives and depreciation of adjustment to the valuation of day 1 profit or loss for capital option related to subsidiary entities in the amount of PLN (22,992) k. disclosed in statement of financial position in line of Financial assets and liabilities held for trading.

The initial valuation will be subject to linear depreciation for maturity.

10. Gains (losses) from other financial securities

Gains (losses) from other financial securities	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Profit on sale of equity shares	16 720	(1 171)
Profit on sale of debt securities	217 897	299 335
Charge due to impairment losses	(6 850)	-
Total profit (losses) on financial instruments	227 767	298 164
Change in fair value of hedging instruments	(244 820)	(69 279)
Change in fair value of underlying hedged positions	242 605	68 709
Total profit (losses) on hedging and hedged instruments	(2 215)	(570)
Total	225 552	297 594

11. Other operating income

Other operating income	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Income on sale of services	18 630	14 823
Insurance indemnity received	1 495	846
Reimbursements of BGF charges	16 949	15 732
Release of provision for legal cases and other assets	40 501	13 854
Settlements of leasing agreements	1 529	2 427
Recovery of other receivables	9 113	857
Income on sales or liquidation of fixed assets, intangible assets and assets for disposal	13 562	5 994
Income from net insurance activities	178 083	-
Received compensations, penalties and fines	1 495	760
Other	35 677	18 252
Total	317 034	73 545

As a result of the controlling stake at over the companies BZ WBK-AVIVA TUO S.A. and BZ WBK-AVIVA TUŹ S.A. the Group recognized net income from insurance activities.

In thousands of PLN

	01.01.2014- 31.12.2014
Income from net insurance activities	
Written premiums	413 864
Reinsurers' share in written premium	(3 217)
Total premiums written and reinsurers' share in written premium	410 647
Indemnity payments and insurance benefits paid	(256 506)
Reinsurers' share in indemnity payments and insurance benefits paid	1 853
Change in the balance of premium provisions and unexpired risks provisions	31 431
Change in the balance of provisions for life insurance in respect of deductible	104 259
Change in the balance of provisions for life insurance in respect of deductible – reinsurers' share	4 464
Change in the balance of provisions for life insurance in respect of policyholder's risk	(120 108)
Net insurance benefits and indemnity payments	(234 607)
Other net insurance income	2 043
Net income from insurance operations	178 083

12. Impairment losses on loans and advances

	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Impairment losses on loans and advances		
Collective and individual impairment charge	(975 342)	(890 806)
Incurred but not reported losses charge	98 774	174 566
Recoveries of loans previously written off	11 971	3 294
Off-balance sheet credit related facilities	28 042	(16 355)
Total	(836 555)	(729 301)

13. Employee costs

	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Employee costs		
Salaries and bonuses	(1 138 579)	(1 069 052)
Salary related costs	(187 989)	(177 315)
Staff benefits costs	(35 500)	(33 011)
Professional trainings	(16 119)	(14 951)
Retirement fund, holiday provisions and other employee costs	(2 365)	(10 010)
Integration costs*	(69 030)	(71 166)
Total	(1 449 582)	(1 375 505)

*In addition to the integration costs included in Notes 13 and 14, the amortization /depreciation related to the cost of integration for 2014 was PLN 15,078 k and PLN 2,576 k for 2013.

In thousands of PLN

14. General and administrative expenses

General and administrative expenses	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Maintenance and rentals of premises	(352 724)	(357 045)
Marketing and representation	(164 729)	(100 698)
IT systems costs	(157 700)	(132 235)
Bank Guarantee Fund, Polish Financial Supervision Authority and National Depository for Securities	(109 235)	(86 482)
Postal and telecommunication costs	(52 648)	(51 590)
Consulting fees	(30 137)	(36 779)
Cars, transport expenses, carriage of cash	(71 139)	(68 422)
Other external services	(86 279)	(63 107)
Stationery, cards, cheques etc.	(32 691)	(30 040)
Sundry taxes	(26 886)	(26 032)
Data transmission	(20 542)	(21 666)
KIR, SWIFT settlements	(20 937)	(20 828)
Security costs	(20 037)	(18 508)
Costs of repairs	(9 564)	(6 929)
Integration costs*	(93 153)	(190 611)
Other	(21 496)	(21 136)
Total	(1 269 897)	(1 232 108)

*In addition to the integration costs included in Notes 13 and 14, the amortization /depreciation related to the cost of integration for 2014 was PLN 15,078 k and PLN 2,576 k for 2013.

15. Other operating expenses

Other operating expenses	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Charge of provisions for legal cases and other assets	(41 115)	(12 631)
Costs of purchased services	(3 454)	(2 126)
Other membership fees	(984)	(1 072)
Paid compensations, penalties and fines	(5 292)	(1 890)
Donation paid	(5 498)	(3 711)
Other	(19 988)	(13 714)
Total	(76 331)	(35 144)

In thousands of PLN

16. Corporate income tax

Corporate income tax	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Current tax charge	(1 078 849)	(337 880)
Deferred tax	486 100	(162 226)
Total	(592 749)	(500 106)

Corporate total tax charge information	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Profit before tax	2 640 041	2 514 717
Tax rate	19%	19%
Tax calculated at the tax rate	(501 608)	(477 796)
Non-deductible expenses	(24 609)	(13 018)
Sale of receivables	(61 684)	(34 842)
Non-tax income	15 051	10 569
Non-tax deductible bad debt provisions	(8 527)	(8 359)
Adjustment of prior year tax	(13 274)	4 242
Consolidation adjustments	3 449	15 120
Other	(1 547)	3 978
Total income tax expense	(592 749)	(500 106)

Deferred tax recognised directly in equity	31.12.2014	31.12.2013
Relating to equity securities available-for-sale	(133 969)	(133 282)
Relating to debt securities available-for-sale	(116 251)	(24 114)
Relating to cash flow hedging activity	25 381	(8 956)
Relating to valuation of defined benefit plans	1 279	-
Total	(223 560)	(166 352)

17. Earnings per share

Net earnings per share (PLN/share)	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Profit attributable to ordinary shares	1 914 711	1 982 328
Weighted average number of ordinary shares	96 154 065	93 337 884
Net earnings per share (PLN)	19,91	21,24
Profit attributable to ordinary shares	1 914 711	1 982 328
Weighted average number of ordinary shares	96 154 065	93 337 884
Weighted average number of potential ordinary shares *	235 066	303 156
Diluted earnings per share (PLN)	19,86	21,17

* The weighted average number of potential ordinary shares takes into account the number of share options granted under the incentive scheme described in Note 55.

In thousands of PLN

18. Cash and balances with central banks

Cash and balances with central banks	31.12.2014	31.12.2013
Cash	2 455 976	1 766 257
Current accounts in central banks	4 350 545	3 383 429
Total	6 806 521	5 149 686

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

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

19. Loans and advances to banks

Loans and advances to banks	31.12.2014	31.12.2013
Loans and advances	317 986	1 237 751
Current accounts	1 808 114	798 153
Buy-sell-back transactions	397 017	176 987
Gross receivables	2 523 117	2 212 891
Impairment write down	(54)	(187)
Total	2 523 063	2 212 704

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

In thousands of PLN

20. Financial assets and liabilities held for trading

The fair value of derivative financial instruments is determined using market quotations, discounted cash flow models and options valuation models, as appropriate.

Option contracts are stated at fair value using the market quotations or the option valuation models, as appropriate.

Financial assets and liabilities held for trading	31.12.2014		31.12.2013	
	Assets	Liabilities	Assets	Liabilities
Trading derivatives	1 919 323	2 304 675	1 021 659	1 022 029
Interest rate operations	1 280 091	1 635 916	632 187	632 007
Forward	-	139	-	-
Options	1 798	1 798	4 323	4 328
IRS	1 270 908	1 626 173	614 204	617 986
FRA	7 385	7 806	13 660	9 693
Transactions on equity instruments	9 956	33 400	2 819	717
Options	9 956	33 400	2 819	717
FX operations	629 276	635 359	386 653	389 305
CIRS	129 987	169 956	95 304	147 521
Forward	38 428	34 840	28 994	49 144
FX Swap	310 711	287 270	202 087	130 025
Spot	4 731	2 419	792	1 037
Options	140 796	140 798	59 476	61 578
Other	4 623	76	-	-
Debt and equity securities	3 319 418	-	1 323 242	-
Debt securities	3 235 504	-	1 281 038	-
Government securities:	3 230 890	-	1 076 229	-
- bonds	3 230 890	-	1 076 229	-
Central Bank securities:	-	-	199 972	-
- bills	-	-	199 972	-
Commercial securities:	4 614	-	4 837	-
- bonds	4 614	-	4 837	-
Equity securities:	83 914	-	42 204	-
- listed	83 914	-	42 204	-
Short sale	-	477 005	-	255 133
Total financial assets/liabilities	5 238 741	2 781 680	2 344 901	1 277 162

Financial assets and liabilities held for trading - trading derivatives include the value of adjustments resulting from counterparty risk in the amount of PLN 6,116 k as at 31.12.2014 and PLN (1,668) k as at 31.12.2013.

As at 31.12.2014 financial assets and liabilities held for trading include value adjustments day first profit or loss for transactions between Bank Zachodni WBK and Aviva Group in the amount of (23,443) k.

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

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

All financial assets measured at fair value through profit and loss are assigned to this category due to the trading character of the transactions. At 31.12.2014 and in comparable period there were no cases of instruments designated to financial assets measured at fair value through profit and loss at initial recognition.

In thousands of PLN

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

Derivatives' nominal values		31.12.2014	31.12.2013
1. Term derivatives (hedging)		35 207 413	29 792 094
a)	Single-currency interest rate swap	2 988 000	2 665 000
b)	Macro cash flow hedge -purchased (IRS)	2 740 423	3 229 513
c)	Macro cash flow hedge -purchased (CIRS)	14 369 815	11 847 013
d)	Macro cash flow hedge -sold (CIRS)	15 109 175	12 050 568
2. Term derivatives (trading)		178 576 882	128 271 971
a)	Interest rate operations	94 948 232	81 693 883
	Single-currency interest rate swap	86 269 606	57 441 526
	FRA - purchased amounts	6 450 000	23 350 000
	Options	1 792 126	902 357
	Forward- sold amounts	436 500	-
b)	FX operations	83 628 650	46 578 088
	FX swap – purchased amounts	20 757 332	10 710 489
	FX swap – sold amounts	20 728 416	10 623 485
	Forward- purchased amounts	3 372 360	2 546 613
	Forward- sold amounts	3 394 071	2 585 261
	Cross-currency interest rate swap – purchased amounts	6 331 120	5 412 520
	Cross-currency interest rate swap – sold amounts	6 372 837	5 482 036
	FX options -purchased CALL	5 519 076	2 272 212
	FX options -purchased PUT	5 817 181	2 336 630
	FX options -sold CALL	5 519 076	2 272 212
	FX options -sold PUT	5 817 181	2 336 630
3. Currency transactions- spot		4 653 161	2 076 924
	Spot-purchased	2 327 749	1 038 347
	Spot-sold	2 325 412	1 038 577
4. Transactions on equity financial instruments		678 415	53 526
	Derivatives contract - purchased	341 307	11 275
	Derivatives contract - sold	337 108	42 251
5 Capital options related to subsidiary entities		255 738	248 832
Total		219 371 609	160 443 347

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

21. Hedging derivatives

Hedging derivatives	31.12.2014		31.12.2013	
	Assets	Liabilities	Assets	Liabilities
Derivatives hedging fair value	-	251 397	21 566	25 079
Derivatives hedging cash flow	238 889	1 006 827	300 390	342 445
Total hedging derivatives	238 889	1 258 224	321 956	367 524

As at 31.12.2014 Hedging derivatives - derivatives hedging cash flow include value adjustments day first profit or loss for start forward CIRS transactions in the amount of PLN (12 770) k.

As at 31.12.2014, Net trading income and revaluation includes amortisation of adjustment to the valuation of day 1 profit or lost for start forward CIRS transactions in the amount of PLN (918) k.

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

In thousands of PLN

22. Loans and advances to customers

Loans and advances to customers	31.12.2014	31.12.2013
Loans and advances to enterprises	39 149 855	34 252 562
Loans and advances to individuals, of which:	47 784 052	34 041 366
<i>Home mortgage loans</i>	30 860 840	25 294 769
Finance lease receivables	3 815 843	3 052 093
Loans and advances to public sector	190 811	225 766
Buy-sell-back transactions	100	40 718
Other	6 420	9 363
Gross receivables	90 947 081	71 621 868
Impairment write down	(5 126 510)	(3 489 725)
Total	85 820 571	68 132 143

As at 31.12.2014 the fair value adjustment due to hedged risk on individual loans was PLN 19 539 k (as at 31.12.2013 - PLN 2 279 k).

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

Movements on impairment losses on loans and advances to customers	31.12.2014	31.12.2013
Individual and collective impairment		
As at the beginning of the period	(3 036 549)	(1 207 321)
Individual and collective impairment acquired in a business combination	(1 287 435)	(1 667 026)
Charge/write back of current period	(975 342)	(890 806)
Write off/Sale of receivables	815 289	708 113
Transfer	50 920	14 194
F/X differences	(13 490)	6 297
Balance at the end of the period	(4 446 607)	(3 036 549)
IBNR		
As at the beginning of the period	(453 176)	(336 886)
combination	(302 550)	(198 306)
Charge/write back of current period	98 636	174 754
Transfer	(19 104)	(89 862)
F/X differences	(3 709)	(2 876)
Balance at the end of the period	(679 903)	(453 176)
Allowance for impairment	(5 126 510)	(3 489 725)

In June 2014, Santander Consumer Bank completed the securitisation of a car and hire purchase loan portfolio of PLN 1,751,436,438 as at the transaction date. The transaction was executed as a traditional securitisation scheme involving transfer of securitised receivables to SC Poland Auto 2014-1 Limited (SCV), a special purpose vehicle registered in Ireland. Based on the securitised assets, SPV issued two classes of bonds of PLN 1,367m in total secured by a registered pledge on SPV assets:

- Class A bonds of PLN 1,158 m rated: AA (Fitch) Aa3 (Moody's),
- Class B bonds of PLN 209 m rated: A (Fitch) Aa3 (Moody's).

Initially, the bonds were taken up by SCB in full. Subsequently, Class A and Class B bonds were sold to third parties in unconditional and repo transactions. Interest on bonds consists of 1M WIBOR plus margin. As a result of securitisation, SCB raised funding in exchange for transfer of future cash flows from the securitised credit portfolio. The bonds are planned to be redeemed in full by 20 June 2025, however, SCB expects that it will take place no later than 3 years after the date of transaction.

The transaction was financed from a loan of PLN 411,776,438 granted by SCB to SPV, which is subordinated to senior secured bonds. Interest on the loan is fixed and paid from SPV funds, while the principal will be repaid upon the full redemption of bonds. The value of securitisation bonds held by SCB as at 31.12.2014 was PLN 393,746,775.

The contractual terms of securitisation do not satisfy the criteria for derecognition of securitised assets from SCB financial statements pursuant to IAS 39. Consequently, as at 31.12.2014, SCB recognised the securitised assets of PLN 1,094,737 k net under Loans and advances to customers, and liability of PLN 1,236,631 k under Deposits from customers in respect of cash flows to SPV on account of securitisation.

In thousands of PLN

23. Investment securities available for sale

Investment securities available for sale	31.12.2014	31.12.2013
Available for sale investments - measured at fair value		
Debt securities	26 152 181	21 217 376
Government securities:	19 971 450	13 245 914
- bonds	19 971 450	13 245 914
Central Bank securities:	3 959 781	5 599 222
- bills	3 959 781	5 599 222
Commercial securities:	2 220 950	2 372 240
- bonds	2 220 950	2 372 240
Equity securities	886 937	851 603
- listed	66 406	36 852
- unlisted	820 531	814 751
Investment certificates	17 975	21 785
Total	27 057 093	22 090 764

As at 31.12.2014 fixed interest rate debt securities measured at fair value amount to PLN 19,581,097 k, variable interest rate securities amount to PLN 6,571,084 k.

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

As at 31.12.2014 fair value adjustment resulting from fair value hedge on available for sale bonds totaled PLN 216,207 k (as at 31.12.2013 PLN (9,151) k).

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

Fair value of the investments into the companies from the Aviva Polska Group is reviewed for all three investments. Valuation was conducted using the peer comparison method as well as discounted cash flow analysis. As at 31.12.2013, current review of fair valuation of the portfolio resulted in a combined positive upward movement in total amount of PLN 200 950 k. The review included the impact of the final approval of amendments to the Act on Open pension funds and its influence on of PTE Aviva BZ WBK S.A. As at 31.12.2014, no changes were introduced to the fair value measurement of investments in Aviva Group companies.

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

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2014	21 217 376	873 388	22 090 764
Investment securities available for sale acquired in a business combination	1 793 202	1 111	1 794 313
Additions	256 677 919	44 474	256 722 393
Disposals (sale and maturity)	(254 259 306)	(10 962)	(254 270 268)
Fair value adjustment	710 815	3 752	714 567
Movements on interest accrued	(58 524)	-	(58 524)
Allowances for impairment	-	(6 850)	(6 850)
F/X differences	70 698	-	70 698
As at 31 December 2014	26 152 180	904 913	27 057 093

In thousands of PLN

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

24. Financial assets held to maturity

Movements on financial assets held to maturity	31.12.2014	31.12.2013
Balance as at 1 January	-	-
Financial asset held to maturity acquired in a business combination	-	2 518 251
Maturity	-	(2 467 838)
Fair value amortisation	-	379
Movements on interest accrued	-	(51 318)
F/X differences	-	526
Balance at the end of the period	-	-

25. Investments in associates and joint ventures

Investments in associates and joint ventures	31.12.2014	31.12.2013
Associates	42 792	63 444
Joint ventures	-	-
Total	42 792	63 444

Movements on investments in associates and joint ventures	31.12.2014	31.12.2013
Balance as at 1 January	63 444	115 685
Share of profits/(losses)	1 385	16 297
Dividends	-	(5 050)
Impairment	(4 095)	-
Reclassification*	(17 942)	(63 488)
Balance at the end of the period	42 792	63 444

* Details have been described in Note 52.

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

In thousands of PLN

Investments in associates and joint ventures as at 31.12.2014

Name of entity	POLFUND - Fundusz Poręczeń Kredytowych S.A. *	Metrohouse Franchise S.A. **	Total
Registered office	Szczecin	Warszawa	
Type of connection	Associate	Associate	
% of holding***	50.00	20.13	
Balance sheet value	42 792	-	42 792
Total assets	93 705	21 617	115 322
Own funds of entity, of which:	85 583	20 341	105 924
Share capital	16 000	20 226	36 226
Other own funds, of which:	69 583	115	69 698
<i>from previous years</i>	-	-	-
<i>net profit (loss)</i>	2 602	115	2 717
Liabilities of entity	8 122	1 276	9 398
Revenue	9 069	716	9 785
Costs	5 982	571	6 553

*selected financial information as at end of November 2014

**selected financial information as at end of September 2014

***states percentage share of associates

Name of entity	Business
POLFUND - Fundusz Poręczeń Kredytowych S.A.	providing lending guarantees, investing and managing funds invested in companies, management
Metrohouse Franchise S.A.	a franchise chain of real estate agencies providing services with respect to sale, purchase and lease of property

In thousands of PLN

Investments in associates and joint ventures as at 31.12.2013

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

*selected financial information as at end of November 2013

**selected financial information as at end of September 2013

***states percentage share of associates

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

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

In thousands of PLN

26. Intangible assets

Intangible assets Year 2014	Licences, patents etc.	Other	Expenditure on intangible assets	Total
Gross value - beginning of the period	1 123 931	367 043	100 986	1 591 960
Intangible assets acquired in a business combination	3 477	192 911	22 666	219 054
Additions from:				
- purchases	-	-	160 767	160 767
- donation	64	-	-	64
- intangible assets taken for use	98 393	2 333	-	100 726
- transfers	17 118	125	3 449	20 692
Disposals from:				
- liquidation	(19 429)	(1)	(73)	(19 503)
- intangible assets taken for use	-	-	(100 726)	(100 726)
- transfers	(17 512)	(5)	(1 169)	(18 686)
-	-	-	-	-
Gross value - end of the period	1 206 042	562 406	185 900	1 954 348
-	-	-	-	-
Accumulated depreciation - beginning of the period	(1 032 704)	(52 464)	-	(1 085 168)
Accumulated depreciation acquired in a business combinations	(3 280)	(172 853)	-	(176 133)
Additions/disposals from:				
- current year	(82 152)	(123 034)	-	(205 186)
- liquidation	19 264	1	-	19 265
- transfers	9 298	(10 095)	-	(797)
-	-	-	-	-
Write down/Reversal of impairment write down	-	(944)	-	(944)
-	-	-	-	-
Accumulated depreciation- end of the period	(1 089 574)	(359 389)	-	(1 448 963)
-	-	-	-	-
Balance sheet value				
Purchase value	1 206 042	562 406	185 900	1 954 348
Accumulated depreciation	(1 089 574)	(359 389)	-	(1 448 963)
As at 31 December 2014	116 468	203 017	185 900	505 385

In thousands of PLN

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

In thousands of PLN

27. Property, plant and equipment

Property, plant & equipment Year 2014	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value - beginning of the period	1 002 415	729 898	56 714	297 438	58 245	2 144 710
Property, plant and equipment acquired in a business combination	76 584	12 250	17 391	63 269	424	169 918
Additions from:						
- purchases	-	-	-	-	147 039	147 039
- leasing	-	-	13 893	-	-	13 893
- fixed assets taken for use	2 718	85 460	9 469	14 171	-	111 818
- transfers	20 519	11 448	6 478	4 125	759	43 329
Disposals from:						
- sale, liquidation, donation	(45 124)	(98 924)	(3 545)	(14 501)	-	(162 094)
- fixed assets taken for use	-	-	-	-	(111 818)	(111 818)
- transfers	(1 086)	(12 004)	(9 810)	(3 387)	(1 210)	(27 497)
Gross value - end of the period	1 056 026	728 128	90 590	361 115	93 439	2 329 298
Accumulated depreciation - beginning of the period	(621 009)	(615 500)	(18 951)	(256 608)	-	(1 512 068)
Accumulated depreciation acquired in a business combinations	(38 832)	(7 065)	(8 939)	(49 658)	-	(104 494)
Additions/disposals from:						
- current year	(31 092)	(46 358)	(11 071)	(14 198)	-	(102 719)
- sale, liquidation, donation	32 954	98 705	1 920	13 978	-	147 557
- transfers	(2 809)	44	3 632	(1 512)	-	(645)
Write down/Reversal of impairment write down	19	-	(14)	16	-	21
Accumulated depreciation- end of the period	(660 769)	(570 174)	(33 423)	(307 982)	-	(1 572 348)
Balance sheet value						
Purchase value	1 056 026	728 128	90 590	361 115	93 439	2 329 298
Accumulated depreciation	(660 769)	(570 174)	(33 423)	(307 982)	-	(1 572 348)
As at 31 December 2014	395 257	157 954	57 167	53 133	93 439	756 950

In thousands of PLN

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

In thousands of PLN

28. Net deferred tax assets

Deferred tax assets	31.12.2014	31.12.2013
Provisions for loans	632 421	492 703
Unrealized liabilities due to derivatives	681 206	271 334
Other provisions which are not taxable costs	104 450	101 921
Deferred income	357 322	154 024
Difference between balance sheet and taxable value of leasing portfolio	148 660	90 818
Unrealised interest expense on loans, deposits and securities	187 002	46 043
Other	18 131	9 506
Total	2 129 192	1 166 349
Deferred tax liabilities	31.12.2014	31.12.2013
Revaluation of financial instruments available for sale*	(223 373)	(166 318)
Unrealised receivables on derivatives	(411 875)	(242 969)
Unrealised interest income on loans, securities and interbank deposits	(201 987)	(148 992)
Provision due to application of investment relief	(3 227)	(3 402)
Unrealised FX translation differences from b/s valuation of receivables and liabilities	(6 228)	(3 163)
Difference between balance sheet and taxable value of unfinancial value assets	(358)	(4 742)
Valuation of shares/interests in subsidiaries	(84 680)	(106 961)
Other	(15 854)	(13 372)
Total	(947 582)	(689 919)
Net deferred tax assets	1 181 610	476 430

*Changes in deferred tax liabilities arising of cash flow revaluation were recognised in the consolidated statement of comprehensive income.

As at 31 December 2014 the calculation of deferred tax assets did not include purchased receivables of PLN 11 874 k and loans that will not be realised of PLN 95 001 k.

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

Movements on net deferred tax	31.12.2014	31.12.2013
As at the beginning of the period	476 430	258 037
Changes on net deferred tax in a business combination	276 441	342 272
Changes recognised in income statement	486 100	(162 226)
Changes recognised in other net comprehensive income	(57 361)	38 347
Balance at the end of the period	1 181 610	476 430

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

29. Assets classified as held for sale

Assets classified as held for sale	31.12.2014	31.12.2013
Land and buildings	1 378	3 503
Total	1 378	3 503

In thousands of PLN

30. Other assets

Other assets	31.12.2014	31.12.2013
Receivables arising from insurance contracts*	749 309	770 048
Interbank and interbranch settlements	456 910	260 445
Sundry debtors	382 925	372 226
Prepayments	125 754	71 446
Repossessed assets	41 425	60 965
Settlements of stock exchange transactions	22 615	30 989
Other	7 618	2 392
Total	1 786 556	1 568 511

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

31. Deposits from banks

Deposits from banks	31.12.2014	31.12.2013
Repo/sell-buy-back transactions	7 045 487	4 438 563
Term deposits	399 402	1 379 631
Loans from other banks	548 545	-
Current accounts	366 422	460 603
Total	8 359 856	6 278 797

As at 31.12.2014 fair value adjustment for hedged deposit totaled PLN nil (as at 31.12.2013 – PLN nil).

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

32. Deposits from customers

Deposits from customers	31.12.2014	31.12.2013
Deposits from individuals	58 257 053	47 999 116
Term deposits	30 938 819	22 345 562
Current accounts	27 204 883	25 590 954
Other	113 351	62 600
Deposits from enterprises	33 150 169	27 045 417
Term deposits	16 164 448	13 344 322
Current accounts	13 640 292	10 813 018
Sell-buy-back transactions	157 134	166 973
Loans	2 668 541	2 256 907
Other	519 754	464 197
Deposits from public sector	3 574 587	3 498 449
Term deposits	1 371 671	1 152 427
Current accounts	2 202 706	2 333 530
Other	210	12 492
Total	94 981 809	78 542 982

As at 31.12.2014 deposits held as collateral totaled PLN 395 164 k (as at 31.12.2013 - PLN 343 645 k).

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

In thousands of PLN

33. Subordinated liabilities

Subordinated liabilities	Redemption date	Currency	Nominal value
Tranche 1	05.08.2020	EUR	100 000
Tranche 2	16.06.2018	CHF	100 000
Tranche 3	29.06.2019	CHF	165 000
Tranche 4	31.01.2019	PLN	75 000
Tranche 5 *	14.12.2016	PLN	100 000

Movements in subordinated liabilities	31.12.2014	31.12.2013
As at the beginning of the period	1 384 719	409 110
Subordinated liabilities acquired in a business combination	100 144	978 237
Increase (due to):	118 364	54 896
- interest on subordinated loan	63 659	54 896
- FX differences	54 705	-
Decrease (due to):	(63 260)	(57 524)
- interest repayment	(63 260)	(54 481)
- FX differences	-	(3 043)
Subordinated liabilities - as at the end of the period	1 539 967	1 384 719
Short-term	4 903	4 352
Long-term (over 1 year)	1 535 064	1 380 367

Tranches 2-4 are excluded from the calculation of Tier 2 capital ratio.

Other details on these liabilities are disclosed in Note 5

* Concerns Santander Consumer Bank

In thousands of PLN

34. Debt securities in issue

Debt securities in issue	ISIN	Nominal value	Currency	Redemption date	31.12.2014
SCBP00320280	not quoted	28 000	PLN	29.01.2015	
SCBB00110150	not quoted	15 000	PLN	04.02.2015	
SCBB00120050	not quoted	5 000	PLN	04.02.2015	
SCBP00350592	not quoted	59 200	PLN	12.02.2015	
SCBX00021500	not quoted	150 000	PLN	13.04.2015	
SCB00020	PLSNTND00075	240 000	PLN	05.06.2015	
SCBP00300111	not quoted	106 000	PLN	15.12.2015	
SCB00021	not quoted	40 000	PLN	24.12.2015	
SCB00013	not quoted	25 000	PLN	27.01.2016	
SCBP00310038	not quoted	38 000	PLN	29.01.2016	
SCBP00330500	not quoted	50 000	PLN	29.01.2016	
SCB00014	not quoted	10 000	PLN	03.02.2016	
SCBP00340050	not quoted	50 000	PLN	12.02.2016	
SCBP00360217	not quoted	21 700	PLN	12.02.2016	
SCB00016	not quoted	50 000	PLN	24.02.2016	
SCB00001	not quoted	60 000	PLN	29.04.2016	
SCB00002	not quoted	10 000	PLN	29.04.2016	
SCB00005	PLSNTND00026	100 000	PLN	08.08.2016	
Series A	PLBZ00000150	500 000	PLN	19.12.2016	
SCB00006	PLSNTND00034	100 000	PLN	07.08.2017	
SCB00008	not quoted	110 000	PLN	30.08.2017	
SCB00010	not quoted	20 000	PLN	30.08.2017	
SCB00012	PLSNTND00042	204 000	PLN	04.10.2017	
SCB00012	PLSNTND00042	11 000	PLN	04.10.2017	
Series B	PLBZ00000168	475 000	PLN	17.07.2017	
SCB00019	not quoted	220 000	PLN	30.10.2017	
SCB00017	PLSNTND00059	50 000	PLN	18.06.2018	
SCB00018	PLSNTND00067	170 000	PLN	12.08.2019	
Securitization Bonds Float - Class A	XS1070423931	430 337	PLN	20.06.2025	
Debt securities in issue - as at the end of the period					3 373 374

In thousands of PLN

35. Other liabilities

Other liabilities	31.12.2014	31.12.2013
Settlements of stock exchange transactions	48 377	32 381
Interbank and interbranch settlements	239 148	250 941
Provisions:	1 591 570	1 555 371
<i>Employee provisions</i>	365 083	293 962
<i>Provisions for legal claims</i>	49 504	45 104
<i>Provisions for off-balance sheet credit facilities</i>	87 517	95 934
<i>Technical insurance provisions *</i>	1 074 445	1 117 071
<i>Provisions for restructuring **</i>	11 721	-
<i>Other</i>	3 300	3 300
Sundry creditors	332 202	248 564
Other deferred and suspended income	165 124	109 395
Public and law settlements	58 952	43 081
Accrued liabilities	366 187	161 646
Finance lease related settlements	29 595	37 158
Liabilities from insurance contracts and other*	854	1 387
Share purchase mandate adjustment *	699 072	684 288
Total	3 531 081	3 124 212

* As a result of the controlling stake at the companies BZ WBK-AVIVA TUO S.A. and BZ WBK-AVIVA TUŹ S.A. the Group recognized share purchase mandate adjustment, technical insurance provisions and liabilities from insurance contracts.

** Provision acquired as a result of the acquisition of control on July 1, 2014 in the amount of PLN 15 547 k (as at 31.12.2014 in the amount of PLN 11 721 k) referred to:

- restructuring of employment in the SCB Group PLN 3 323 k (as at 31.12.2014 in the amount of PLN 2 692 k)
- liquidation of branches PLN 12 224 k. (as at 31.12.2014 in the amount of PLN 9 029 k)

The restructuring is related to the business reorganisation plan for Santander Consumer Finance (SCF) in Poland which was adopted by the Group in 2010. The plan was adopted after SCF Group had taken control over AIG Bank Polska S.A. and in the wake of subsequent restructuring actions carried out in the years 2013-2014 (amongst others, restructuring of the business transferred from Santander Consumer Finance S.A.).

It is expected that most of cash flows related to the raised restructuring provision will materialise in the years 2015-2018.

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

Employee related provisions and accruals consists of items outlined in Note 54.

In thousands of PLN

Change in provisions	31.12.2014	31.12.2013
As at the beginning of the period	1 555 371	226 696
Employee provisions	293 962	190 865
Provisions for legal claims	45 104	15 912
Provisions for off-balance sheet credit facilities	95 934	16 619
Technical insurance provisions	1 117 071	-
Other	3 300	3 300
Provision acquired in a business combination	78 730	1 304 489
Employee provisions	36 243	95 282
Provisions for legal claims	8 809	28 961
Provisions for off-balance sheet credit facilities	18 131	63 175
Technical insurance provisions	-	1 117 071
Provisions for restructuring	15 547	-
Other	-	-
Provision charge	494 159	545 803
Employee provisions	312 857	280 953
Provisions for legal claims	12 403	2 449
Provisions for off-balance sheet credit facilities	167 454	262 401
Technical insurance provisions	-	-
Provisions for restructuring	1 445	-
Other	-	-
Utilization	(256 263)	(255 718)
Employee provisions	(257 891)	(255 042)
Provisions for legal claims	(254)	(460)
Provisions for off-balance sheet credit facilities	1 882	(216)
Technical insurance provisions	-	-
Provisions for restructuring	-	-
Other	-	-
Write back	(280 427)	(258 745)
Employee provisions	(20 088)	(10 942)
Provisions for legal claims	(16 558)	(1 758)
Provisions for off-balance sheet credit facilities	(195 884)	(246 045)
Technical insurance provisions	(42 626)	-
Provisions for restructuring	(5 271)	-
Other	-	-
Other changes	-	(7 154)
Employee provisions	-	(7 154)
Provisions for legal claims	-	-
Provisions for off-balance sheet credit facilities	-	-
Provisions for restructuring	-	-
Other	-	-
Balance at the end of the period	1 591 570	1 555 371
Employee provisions	365 083	293 962
Provisions for legal claims	49 504	45 104
Provisions for off-balance sheet credit facilities	87 517	95 934
Technical insurance provisions	1 074 445	1 117 071
Provisions for restructuring	11 721	-
Other	3 300	3 300

In thousands of PLN

36. Share capital

31.12.2014

Series/issue	Type of share	Type of preferences	Limitation of rights to shares	Number of shares	Nominal value of series/issue in PLN k
A	bearer	none	none	5 120 000	51 200
B	bearer	none	none	724 073	7 241
C	bearer	none	none	22 155 927	221 559
D	bearer	none	none	1 470 589	14 706
E	bearer	none	none	980 393	9 804
F	bearer	none	none	2 500 000	25 000
G	bearer	none	none	40 009 302	400 093
H	bearer	none	none	115 729	1 157
I	bearer	none	none	1 561 618	15 616
J	bearer	none	none	18 907 458	189 075
K	bearer	none	none	305 543	3 055
L	bearer	none	none	5 383 902	53 839
				99 234 534	992 345

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

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

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

In Q3 2014, the Bank issued 305,543 series K ordinary bearer shares (registered on 11 July 2014) with a nominal value of PLN 3.1 m under the 4th Incentive Scheme for employees of Bank Zachodni WBK Group and 5,383,902 series L ordinary shares totalling PLN 2,156.4 m (registered on 18 July 2014), which were placed with SCF in exchange for in-kind contribution of Santander Consumer Bank shares. The nominal value of series L shares of PLN 53 839 k increased the share capital, while the share premium of PLN 2,102,575 k was recognised in the supplementary capital.

31.12.2013

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

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

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

In thousands of PLN

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

- Until 4 January 2013 i.e. the date of the merger Banco Santander held 70,334,512 shares of Bank Zachodni WBK which represented 94.23% of the share capital and the total number of votes at the general meeting of shareholders of Bank Zachodni WBK and from 4th January 2013 – due to the merger - the shares of Bank Zachodni WBK represented 75.19% of the share capital and the total number of voting rights at the annual general meeting of the shareholders of Bank Zachodni WBK.

Banco Santander's subsidiaries do not hold shares of Bank Zachodni WBK.

- The Management Board of Bank Zachodni WBK announced that on 8 January 2013 it became aware that the management board of the KDPW adopted resolution No. 24/13 on the registration of 18,907,458 series J shares in the Bank, i.e. the shares in the Bank issued in connection with its merger with Kredyt Bank. Pursuant to the KDPW resolution, the registration of the series J shares under code PLBZ00000044 was conditional on the decision of the company operating the regulated market to introduce these shares to trading on the regulated market.

Furthermore, based on the resolution of the National Depository for Securities (KDPW), the Management Board set the reference date at 9 January 2013. Pursuant to the information memorandum prepared by the bank in connection with the merger, the reference date was defined as the date at which the number of shares in Kredyt Bank held by shareholders of Kredyt Bank was determined in exchange for which series J shares in the bank were allotted to such shareholders in accordance with an agreed exchange ratio.

- On 24 January 2013 the Management Board of Bank Zachodni WBK announced that it had received a message from the Operations Department of the National Depository for Securities (Dział Operacyjny Krajowego Depozytu Papierów Wartościowych S.A.) ("KDPW") stating that on 25 January 2013 the KDPW would register 18,907,458 series J shares in the Bank with a nominal value of PLN 10 each, i.e. the merger shares in the Bank issued in connection with its merger with Kredyt Bank which were assigned the code: PLBZ00000044 in compliance with resolution No. 24/13 of the Management Board of the KDPW dated 8 January 2013.
- On 22 March 2013, KBC Bank NV and Banco Santander announced a secondary offering for the shares of Bank Zachodni WBK. The offering was for 19,978,913 shares representing 21.4% of the Bank's share capital, with 15,125,964 shares owned by KBC Bank NV, and 4,852,949 owned by Banco Santander. The final price per share was set in a book-building process at PLN 245. The total value of the offering was PLN 4.9bn.
- On 28 March 2013, Bank Zachodni WBK was advised that all of its 15,125,964 shares held by KBC Bank NV, representing 16.17% of the bank's registered capital, had been sold directly. As a result of the transaction, neither KBC Bank NV nor KBC Group NV hold directly or indirectly any shares of Bank Zachodni WBK and effectively have no voting power at the Bank's General Meeting.
- On 28 March 2013, the Bank received a notice about disposal of 4,852,949 shares of Bank Zachodni WBK held by Banco Santander and reduction of the latter's share in the bank's registered capital and votes at its General Meeting by 5.19 p.p. to 70%.
- On 2 April 2013, Bank Zachodni WBK was notified by the open-ended pension fund ING OFE that it had purchased the Bank's shares and consequently exceeded 5% of the total number of votes at the bank's General Meeting. Before the transaction on 27 March 2013, ING OFE held 903,006 of the Bank's shares carrying 0.97% votes at the General Meeting. ING OFE held 4,966,506 of the bank's shares, representing 5.31% of the share capital and voting power at the General Meeting of Bank Zachodni WBK.
- Bank Zachodni WBK informed that on 31 July 2013 ING Otworthy Fundusz Emerytalny the notification on Company's shares sale and on the percentage share in the total number of votes, i.e. notification that Fund's stake in the share capital of the Company and in the total number of votes at the general meeting decreased below the threshold of 5%.

In thousands of PLN

37. Other reserve funds

Other reserve funds	31.12.2014	31.12.2013
General banking risk fund	649 810	649 810
Share premium	7 035 424	4 932 848
Other reserves of which:	4 624 190	4 533 087
<i>Reserve capital</i>	5 618 518	4 882 773
<i>Supplementary capital</i>	353 785	334 602
<i>Adjustment to equity from acquisition of controlling interest in Santander Consumer Bank</i>	(663 825)	-
<i>Share purchase mandate adjustment *</i>	(684 288)	(684 288)
Total	12 309 424	10 115 745

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

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

Reserve capital as at 31.12.2014 includes share scheme charge of PLN 85 782 k and reserve capital as at 31.12.2013 includes share scheme charge of PLN 78 936 k.

Other movements of other reserve funds are presented in "movements on consolidated equity" for 2014 and 2013.

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

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

38. Revaluation reserve

Revaluation reserve	31.12.2014	31.12.2013
As at 31 December	708 907	872 400
Change in available for sale investments	706 961	133 487
Gross valuation related to cash flow hedge	(172 108)	(43 612)
Actuarial gains/losses on retirement allowances	(14 408)	7 673
Decrease in revaluation reserve related to sale of investments	(220 445)	(299 390)
Deferred tax adjustment	(57 361)	38 349
Total	951 546	708 907

In thousands of PLN

39. Hedge accounting

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

Fair value hedge

Bank Zachodni WBK uses fair value hedge accounting with respect to the following classes of financial instruments:

- Debt securities with a fixed interest rate, denominated in PLN;
- Loans with a fixed interest rate denominated in PLN.

Fair value hedges include Interest Rate Swaps, where the bank pays a fixed rate and receives a variable rate. The transactions hedge the risk of changes in the fair value of an instrument or a portfolio as a result of movements in market interest rates. The transactions do not hedge fair value changes on account of credit risk.

Hedging items are measured at fair value. Hedged items are measured at amortised cost taking into account fair value adjustments on account of the risk being hedged.

The tables below contain details about individual groups of hedge transactions for 2014 and 2013:

31.12. 2014	Bonds	Deposits
Nominal value of hedging position in PLN k	1 838 000	1 150 000
Fair value adjustment of hedging instrument in PLN k	(215 921)	(20 870)
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	216 207	19 540
Hedged risk	Interest rate risk	
Period over which the instruments have an impact on the bank's results	up to 2023	up to 2018

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

In addition, BZ WBK subsidiary - BZ WBK Leasing S.A. - concluded in 2013 IRS transactions with the bank with a view to hedging the fair value of their selected items of the statement of financial position. Details about these transactions are presented in the table below. As at 31.12.2014, the leasing companies did not have any instruments covered by hedge accounting.

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

Cash flow hedging

Bank Zachodni WBK Group uses hedge accounting for its future cash flows with respect to credit portfolios based on a variable interest rate, denominated in PLN or in EUR, USD and CHF. The Group's hedging strategies are designed to protect the Group's exposures against the risk of changes in the value of future cash flows resulting from adverse interest rate movements or – in the case of credit portfolios denominated in foreign currency – from currency fluctuations. Hedging relationships are created using Interest Rate Swaps, FX Swaps and Cross-Currency Interest Rate Swaps. The Bank uses the hypothetical derivative approach whereby the hedged credit portfolio is reflected by a derivative transaction with specific characteristics. Hedged items are measured at amortised cost, while hedging items are measured at fair value. Subject to fulfilment of the criteria for effectiveness of hedging relationships, changes in the fair value of hedging instruments are recognised in equity.

As of 31 December 2014, the nominal value of the hedging item was PLN 17 849 598 k (31 December 2013 – PLN 15 280 081 k). Adjustment to fair value of the hedging instrument was PLN (133 582) k (31 December 2013 – PLN 39 464 k); the same amount,

In thousands of PLN

less deferred tax, is recognised in the Bank's equity under revaluation reserve. Hedging instruments have been concluded for a period of time until 2028.

The non-effective portion of measurement of the cash flow hedge was PLN (12 176) k as of 31.12.2014 and PLN 3 188 k as of 31.12.2013. It was taken to the 'Net trading income and revaluation' line of the profit and loss account.

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

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

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

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

	31.12.2014	31.12.2013
	Balance sheet value	Balance sheet value
Liabilities valued at amortised cost (contains sell-buy-back):	7 202 621	4 605 536
Treasury bonds held on the assets side	7 195 004	4 815 019
Buy-sell-back transactions	397 017	217 605

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

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

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

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

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

As at 31.12.2014, SCB had financial instruments in place serving as collateral for repo transactions of PLN 263,432k whose maturity period is shorter than that of the underlying transaction.

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

In thousands of PLN

41. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

Assets	31.12.2014		31.12.2013	
	Book Value	Fair Value	Book Value	Fair Value
Cash and balances with central banks	6 806 521	6 806 521	5 149 686	5 149 686
Loans and advances to banks	2 523 063	2 523 063	2 212 704	2 212 704
Financial assets held for trading	5 238 741	5 238 741	2 344 901	2 344 901
Hedging derivatives	238 889	238 889	321 956	321 956
Loans and advances to customers	85 820 571	85 835 391	68 132 143	68 703 474
Investment securities	27 057 093	27 057 093	22 090 764	22 090 764
Investments in associates and joint ventures	42 792	42 792	63 444	63 444
Liabilities				
Deposits from banks	8 359 856	8 359 856	6 278 797	6 278 797
Hedging derivatives	1 258 224	1 258 224	367 524	367 524
Financial liabilities held for trading	2 781 680	2 781 680	1 277 162	1 277 162
Subordinated liabilities	1 539 967	1 789 755	1 384 719	1 623 024
Deposits from customers	94 981 809	94 975 685	78 542 982	78 518 847

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

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

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

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

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

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

Financial assets not carried at fair value: The Group does not use fair valuation for equity securities of unlisted companies for which the fair value cannot be reliably established. In the statement of financial position, equity instruments are presented at cost less impairment. Debt instruments are measured at amortised cost.

Investments in associates and joint ventures: The financial assets representing investments in associates and joint ventures are measured using the equity method. The Management Board of the parent company believes that this is the most accurate estimation of fair value of these instruments.

Deposits from banks and deposits from customers: Fair value of the deposits with maturity exceeding 6 months was estimated based on the cash flows discounted by the current market rates for the deposits with similar maturity dates. In the case of demand deposits without a fixed maturity date or with maturity up to 6 months, it is assumed that their fair value is not significantly different than their book value. The process of fair value estimation for these instruments is not affected by the long-term nature of the business with depositors.

Debt securities in issue and subordinated liabilities: The securities and subordinated liabilities are measured at amortised cost.

In thousands of PLN

The fair value of these instruments is not significantly different from their balance sheet value.

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

As at 31.12.2014 and in the comparable periods the Group made the following classification of its financial instruments measured at fair value in the statement of financial position:

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

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

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

As at 31.12.2014 and in the comparable periods the Group classified its financial instruments to the following fair value levels:

31.12.2014	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	1 878 034	3 359 317	1 390	5 238 741
Hedging derivatives	-	238 889	-	238 889
Financial investment assets - debt securities	16 581 263	9 570 918	-	26 152 181
Financial investment assets - equity securities	54 155	-	850 757	904 912
Total	18 513 452	13 169 124	852 147	32 534 723
Financial liabilities				
Financial liabilities held for trading	477 005	2 304 675	-	2 781 680
Hedging derivatives	-	1 258 224	-	1 258 224
Total	477 005	3 562 899	-	4 039 904

31.12.2013	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	900 016	1 444 885	-	2 344 901
Hedging derivatives	-	321 956	-	321 956
Financial investment assets - debt securities	10 995 044	10 222 332	-	21 217 376
Financial investment assets - equity securities	36 852	-	836 536	873 388
Total	11 931 912	11 989 173	836 536	24 757 621
Financial liabilities				
Financial liabilities held for trading	255 133	1 022 029	-	1 277 162
Hedging derivatives	-	367 524	-	367 524
Total	255 133	1 389 553	-	1 644 686

In thousands of PLN

The tables below show reconciliation of changes in the balance of financial instruments whose fair value is established by means of the valuation methods using material non-market parameters.

Level III	Financial assets			Financial liabilities
	Financial assets held for trading	Financial investment assets - debt securities	Financial investment assets - equity securities	Financial liabilities held for trading
31.12.2014				
Beginning of the period	-	-	836 536	-
Profits or losses	-	-	-	-
<i>recognised in income statement</i>	-	-	-	-
<i>recognised in equity</i>	-	-	-	-
Purchase	-	-	5 868	-
Sale	-	-	(100)	-
Matured	-	-	-	-
Impairment	-	-	(3 799)	-
Transfer	1 390	-	12 252	-
At the period end	1 390	-	850 757	-

Level III	Financial assets			Financial liabilities
	Financial assets held for trading	Financial investment assets - debt securities	Financial investment assets - equity securities	Financial liabilities held for trading
31.12.2013				
Beginning of the period	178 107	1 237 344	653 579	(74 182)
Profits or losses	-	-	197 029	-
<i>recognised in income statement</i>	-	-	-	-
<i>recognised in equity</i>	-	-	197 029	-
Purchase	-	-	1 000	-
Sale	-	-	(14 302)	-
Matured	-	-	-	-
Impairment	-	-	(2 081)	-
Transfer	(178 107)	(1 237 344)	1 311	74 182
At the period end	-	-	836 536	-

42. Contingent liabilities

Significant court proceedings

As at 31.12.2014 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 364 074 k, which is ca 2.02% of the Group's equity. This amount includes PLN 176 684 k claimed by the Group, PLN 182 274 k in claims against the Group and PLN 5 116 k of the Group's receivables due to bankruptcy or arrangement cases.

As at 31.12.2014 the amount of significant court proceedings which had been completed amounted to PLN 187 263 k.

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

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

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

In thousands of PLN

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

Off balance sheet liabilities

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

Contingent liabilities - sanctioned	31.12.2014	31.12.2013
Liabilities sanctioned		
- financial	19 959 943	17 592 801
- credit lines	17 047 109	15 229 838
- credit cards debits	2 367 098	1 875 032
- import letters of credit	413 654	441 505
- term deposits with future commencement term	132 082	46 426
- guarantees	4 383 084	3 822 213
Total	24 343 027	21 415 014

43. Assets and liabilities pledged as collateral

A guaranteed protection fund established by the BZ WBK Group is collateralized by the debt securities.

Under the Bank Guarantee Fund Act, the Bank Zachodni WBK and Santander Consumer Bank calculated this fund using 0.55% (in the year 2013 the bank calculated this fund using 0.55% rate) of the annual contribution base which is defined the same as for calculating the obligatory reserve.

Accordingly, as at 31 December 2014 BZ WBK Group pledged as collateral PLN 534 399 k of debt securities (PLN 448 172 k as at 31.12.2013).

In 2014 a deposit for PLN 1 659 022 k was placed with another financial institutions as a collateral for the day-to-day business (in 2013 it was PLN 523 973 k).

In 2014 BZ WBK Group hold a deposit for PLN 155 363 k (in 2013 it was PLN 317 004 k) as a collateral for the day-to-day business.

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

44. Finance and operating leases

Finance leases

Lease agreements where the Group acts as a lessor

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

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

Finance leases gross receivables - maturity	31.12.2014	31.12.2013
less than 1 year	1 530 223	1 151 423
between 1 and 5 years	2 488 324	1 894 179
over 5 years	164 766	233 814
Total	4 183 313	3 279 416

In thousands of PLN

Present value of minimum lease payments - maturity	31.12.2014	31.12.2013
less than 1 year	1 481 187	1 168 391
between 1 and 5 years	2 233 130	1 740 307
over 5 years	101 526	143 395
Total	3 815 843	3 052 093
Reconciliation between the gross investment and the present value of minimum lease payments	31.12.2014	31.12.2013
Finance lease gross receivables	4 183 313	3 279 416
Unearned finance income	(367 470)	(227 323)
Impairment of finance lease receivables	(98 244)	(106 796)
Present value of minimum lease payments, net	3 717 599	2 945 297

Lease agreements where the Group acts as a lessee

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

Operating leases

The BZ WBK leases offices in compliance with operational leasing agreements. As a standard, agreements are concluded for 5-10 years. A small part of the offices is subleased outside the Group. In 2014 and 2013 rentals totalled PLN 261 639 k and PLN 267 943 k, respectively. These payments are presented in the profit and loss account under "operating expenses".

The majority of lease agreements signed by SCB were concluded for a definite period of time ranging from three to five years. As regards the premises for mobile units, the lease agreements were entered for an indefinite period subject to one up to three months' notice.

In 2014, BZWBK Leasing signed operating lease agreements with leasing/financial advisors for lease of vehicles for operational purposes. The agreements were concluded for the period of three years.

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

Payments - maturity	31.12.2014	31.12.2013
less than 1 year	281 798	251 960
between 1 and 5 years	602 414	615 426
over 5 years	345 356	373 909
Total	1 229 568	1 241 295

In thousands of PLN

45. Consolidated statement of cash flow- additional information

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

Cash components	31.12.2014	31.12.2013
Cash and balances with central banks	6 806 521	5 149 686
Deposits in other banks, current account	2 764 675	1 351 606
Debt securities held for trading	-	199 972
Investment securities	3 959 779	5 599 222
Total	13 530 975	12 300 486

Bank Zachodni WBK and Santander Consumer Bank have restricted cash in the form of a mandatory reserve held on account with the Central Bank.

46. Related party disclosures

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

Transactions with associates	31.12.2014	31.12.2013
Liabilities	2 931	7 168
Deposits from customers	2 931	7 168
Income	3	130 894
Interest income	-	42 033
Fee and commission income	3	88 703
Other operating income	-	158
Expenses	201	11 645
Interest expense	201	6 033
Fee and commission expense	-	3 641
Operating expenses incl.:	-	1 971
<i>General and administrative expenses</i>	-	1 971

In thousands of PLN

Transactions with Santander Group	31.12.2014	31.12.2013
Assets	259 377	802 305
Loans and advances to banks, incl:	697	706 166
<i>loans and advances</i>	-	674 579
<i>current accounts</i>	697	31 587
Financial assets held for trading	256 908	93 723
Hedging derivatives	869	1 081
Loans and advances to customers	-	4
Other assets	903	1 331
Liabilities	410 462	216 668
Deposits from banks incl.:	155 537	71 485
<i>current accounts</i>	155 537	71 485
Hedging derivatives	21 505	6 235
Financial liabilities held for trading	158 907	85 784
Deposits from customers	74 459	48 970
Other liabilities	54	4 194
Income	219 596	(46 459)
Interest income	7 585	13 528
Fee and commission income	4 911	5 345
Other operating income	-	814
Net trading income and revaluation	207 100	(66 146)
Expenses	8 309	23 137
Interest expense	1 309	404
Fee and commission expense	204	14 927
Operating expenses incl.:	6 796	7 806
<i>Bank's staff, operating expenses and management costs</i>	6 796	7 806
Contingent liabilities	725	117
Sanctioned:	725	-
- financing-related	-	-
- <i>guarantees</i>	725	-
Received:	-	117
- <i>guarantees</i>	-	117
Derivatives' nominal values	32 826 135	17 687 584
Cross-currency interest rate swap – purchased amounts	3 052 808	2 733 296
Cross-currency interest rate swap – sold amounts	2 970 459	2 764 571
Single-currency interest rate swap	7 265 993	4 360 662
Options	1 669 031	822 678
FX swap – purchased amounts	2 920 096	1 592 208
FX swap – sold amounts	2 896 754	1 599 563
FX options -purchased CALL	3 002 819	1 044 075
FX options -purchased PUT	3 116 998	1 076 295
FX options -sold CALL	2 516 257	682 163
FX options -sold PUT	2 700 183	717 682
Spot-purchased	90 068	44 475
Spot-sold	90 297	44 563
Forward- purchased amounts	96 328	93 727
Forward- sold amounts	100 936	100 936
Capital derivatives contract - purchased	337 108	10 690

In thousands of PLN

Transactions with Members of Management and Supervisory Boards

Remuneration of Bank Zachodni WBK Management and Supervisory Board Members

31.12.2014

Remuneration of Bank Zachodni WBK Supervisory Board Members.

First and last name	Position	Period	PLN k
Gerald Byrne	Chairman of the Supervisory Board	01.01.2014-31.12.2014	-
Jose Antonio Alvarez	Member of the Supervisory Board	01.01.2014-31.12.2014	-
Danuta Dąbrowska	Member of the Supervisory Board	16.04.2014-31.12.2014	111,0
Witold Jurcewicz	Member of the Supervisory Board	01.01.2014-31.12.2014	177,0
Jose Luis De Mora	Member of the Supervisory Board	01.01.2014-31.12.2014	-
David Hexter	Member of the Supervisory Board	01.01.2014-31.12.2014	206,0
John Power	Member of the Supervisory Board	01.01.2014-31.12.2014	240,6
Jerzy Surma	Member of the Supervisory Board	01.01.2014-31.12.2014	173,0
Marynika Woroszyńska-Sapieha	Member of the Supervisory Board	16.04.2014-31.12.2014	96,0
Jose Manuel Varela	Member of the Supervisory Board	01.01.2014-31.12.2014	100,2

Mr John Power received remuneration of PLN 33 k from subsidiaries for his membership in their Supervisory Boards.

In 2014 Mr Gerald Byrne, Mr Jose Antonio Alvarez and Mr Jose Luis De Mora did not receive remuneration for their membership in the Supervisory Board.

Mr John Power received remuneration for the supervision of the merger process of BZ WBK and Kredyt Bank on behalf of the Supervisory Board in the amount of PLN 2 012.4 k.

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

First and last name	Position	Period	Remuneration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2014-31.12.2014	1 761,18	92,90
Andrzej Burliga	Member of the Management Board	01.01.2014-31.12.2014	1 013,02	121,62
Eamonn Crowley	Member of the Management Board	01.01.2014-31.12.2014	954,00	45,63
Michael McCarthy	Member of the Management Board	01.01.2014-31.12.2014	1 110,67	58,10
Piotr Partyga	Member of the Management Board	01.01.2014-31.12.2014	962,19	100,15
Juan de Porras Aguirre	Member of the Management Board	01.01.2014-31.12.2014	1 221,10	110,73
Marcin Prell	Member of the Management Board	01.01.2014-31.12.2014	912,07	93,63
Marco Antonio Silva Rojas	Member of the Management Board	01.01.2014-31.12.2014	1 653,71	184,08
Mirosław Skiba	Member of the Management Board	01.01.2014-31.12.2014	1 032,69	107,40
Feliks Szyszkowiak	Member of the Management Board	01.01.2014-31.12.2014	1 032,06	96,37

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

Furthermore, selected members of the Management Board received additional remuneration of PLN 304.0 k for the completion of the integration process with Kredyt Bank.

In 2014, none of the Members of the Management Board of Bank Zachodni WBK received any remuneration from subsidiaries or associated entities.

In thousands of PLN

31.12.2013

Remuneration of Bank Zachodni WBK Supervisory Board Members.

First and last name	Position	Period	PLN k
Gerald Byrne	Chairman of the Supervisory Board	01.01.2013-31.12.2013	-
Jose Antonio Alvarez	Member of the Supervisory Board	01.01.2013-31.12.2013	-
Witold Jurcewicz	Member of the Supervisory Board	01.01.2013-31.12.2013	176,0
Jose Luis De Mora	Member of the Supervisory Board	01.01.2013-31.12.2013	-
David Hexter	Member of the Supervisory Board	13.02.2013-31.12.2013	145,2
John Power	Member of the Supervisory Board	01.01.2013-31.12.2013	209,8
Jerzy Surma	Member of the Supervisory Board	01.01.2013-31.12.2013	176,0
Jose Manuel Varela	Member of the Supervisory Board	01.01.2013-31.12.2013	-

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

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

Mr John Power received remuneration for the supervision of the merger process of BZ WBK and Kredyt Bank on behalf of the Supervisory Board in the amount of PLN 2 498.8 k.

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

First and last name	Position	Period	Remuneration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2013-31.12.2013	1 713,68	92,78
Andrzej Burliga	Member of the Management Board	01.01.2013-31.12.2013	1 002,78	116,88
Eamonn Crowley	Member of the Management Board	01.01.2013-31.12.2013	942,07	52,92
Michael McCarthy	Member of the Management Board	01.01.2013-31.12.2013	1 099,07	58,90
Piotr Partyga	Member of the Management Board	01.01.2013-31.12.2013	955,48	96,00
Juan de Porras Aguirre	Member of the Management Board	01.01.2013-31.12.2013	1 203,49	255,84
Marcin Prell	Member of the Management Board	01.01.2013-31.12.2013	909,01	91,78
Marco Antonio Silva Rojas	Member of the Management Board	01.01.2013-31.12.2013	1 653,72	397,39
Mirosław Skiba	Member of the Management Board	01.01.2013-31.12.2013	1 017,49	103,60
Feliks Szyzkowskiak	Member of the Management Board	01.01.2013-31.12.2013	1 022,90	94,38

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

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

Members of the Management Board have signed non-competition agreements which remain in force after they step down from their function. If a Member of the Management Board is removed from their function or not appointed for another term, he/she is entitled to a once-off severance pay. The severance pay does not apply if the person accepts another function in the Bank.

31.12.2014

Loans and advances made by the Bank to the Members of the Management Board of BZ WBK and to their relatives as at 31.12.2014 totalled PLN 11 720 k. These facilities have been sanctioned on regular terms and conditions.

As at 31.12.2014, the total finance lease receivable provided to members of the Management Board of BZ WBK by the subsidiaries and associates totalled nil.

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

In thousands of PLN

31.12.2013

Loans and advances made by the Bank to the Members of the Management Board of BZ WBK and to their relatives as at 31.12.2013 totalled PLN 10 859 k. These facilities have been sanctioned on regular terms and conditions.

As at 31.12.2013, the total finance lease receivable provided to members of the Management Board of BZ WBK by the subsidiaries and associates totalled nil.

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

Provisions for employee benefits disclosed in the Note 54 include respectively amounts related to the Management Board of the Bank Zachodni WBK.

31.12.2014

Provisions for retirement benefits in the amount of PLN 15.6 k, provision for unused holidays in the amount of PLN 1 088 k.

31.12.2013

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

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

In 2014 Bank issued 51 025 banking writs of execution with total amount of PLN 1 241 835 k.

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

48. Incorporation of Dom Maklerski BZ WBK into Bank Zachodni WBK

On 10 June 2014, the KNF gave its consent to Bank Zachodni WBK to expand its stockbroking operations, which enabled the bank to work intensively towards division of Dom Maklerski BZ WBK ("Brokerage House"; DM BZ WBK) and incorporation of its organised part into the Bank's structure.

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

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

As Bank Zachodni WBK was the sole shareholder of the Brokerage House, the Division Plan did not provide for increasing the Bank's share capital through an issue and allocation of shares in exchange for the transferred part of the company's assets. The Bank took up all the stake in the newly formed company Gieldokracja Sp. z o.o., i.e. 1,000 shares with a nominal value of PLN 100 per share and a total nominal value of PLN 100 k.

On 31 October 2014, the Court registered the removal of The Brokerage House from the business register (KRS) without a liquidation procedure and on the same day Gieldokracja Sp. z o.o. was registered.

The Brokerage House is now a unit of the Bank, providing stockbroking services and will act as a brokerage office.

In thousands of PLN

49. Acquisition of controlling interest in Santander Consumer Bank S.A.

Transaction details

On 1 July 2014, Bank Zachodni WBK completed the acquisition of the controlling stake in Santander Consumer Bank S.A. ("Group SCB") following the execution of the Investment Agreement ("Purchase Agreement") of 27 November 2013 by Bank Zachodni WBK, Santander Consumer Finance S.A. (SCF) and Banco Santander S.A. (Santander) pursuant to which Bank Zachodni WBK SA agreed to acquire 3 120 000 shares (i.e. 1 040 001 preferred shares and 2 079 999 ordinary shares) with a nominal value of PLN 100 each in Santander Consumer Bank S.A. (SCB) with its registered office in Wrocław, constituting 60% of the share capital of SCB and ca. 67% of the votes at the General Meeting of SCB SA. The shares were acquired by way of a private placement and an in-kind contribution.

Under the Purchase Agreement, the Bank issued 5 383 902 (five million three hundred and eighty-three thousand nine hundred and two) ordinary registered series L shares in the Bank with a nominal value of PLN 10 (ten) each, which were offered to and subscribed for solely by Santander Consumer Finance as consideration for an in-kind contribution of the SCB shares.

The value of SCB shares as indicated in the Purchase Agreement is PLN 2 156 414 268,06, which is the purchase price for the SCB Group shares. The issuance of the new shares by way of private placement is addressed exclusively to SCF for the purpose of acquisition of the SCB shares by the Bank.

In addition, pursuant to the Purchase Agreement, following the completion of the transaction, the parties shall use their best endeavours to waive the current privileges with respect to the shares in SCB to cause that the bank will hold 60% of the share capital of SCB and 60% of the votes at its General Meeting.

Assets and liabilities as at the acquisition date

The acquisition of SCB Group was preliminarily recognised as at the publication date of the consolidated financial statements of Bank Zachodni WBK Group.

Since the transaction represents reorganisation of Santander Group under a joint control of Banco Santander, net assets of SCB will be recognised in the consolidated financial statements of Bank Zachodni WBK Group at their carrying value.

Below is a pre-estimate of the carrying value of the acquired assets and liabilities.

	as at:	01.07.2014
ASSETS		
Cash and balances with central banks		283 627
Loans and advances to banks		629 910
Hedging derivatives		6 423
Loans and advances to customers		11 879 394
Investment securities		1 794 312
Intangible assets		42 921
Property, plant and equipment		65 426
Net deferred tax assets		276 361
Other assets		108 449
Total assets		15 086 823
LIABILITIES		
Deposits from banks		(2 936 751)
Hedging derivatives		(6 027)
Deposits from customers		(7 122 868)
Subordinated liabilities		(100 144)
Debt securities in issue		(1 983 357)
Current income tax liabilities		(11 488)
Other liabilities		(438 540)
Total liabilities		(12 599 175)
Book value of identifiable net assets		2 487 648

In thousands of PLN

Non-controlling interest

As at the acquisition, non-controlling interests represented 40% of the share capital and 33% of the votes at the general meeting of shareholders of SCB S.A. Their value estimated using the book value method was PLN 995 059 k.

Preliminary estimate of the excess of the price paid over the net assets

	as at	01.07.2014
Surplus of total consideration over book value of identifiable net asset		
Total consideration		2 156 414
Non-controlling interests		995 059
Less: book value of identifiable net assets		(2 487 648)
Total		663 825

The excess between the purchase price and carrying value of the acquired net assets represents the control premium and, at the same time, the adjustment to the share capital of the Group, reflecting the settlements between shareholders of SCB as part of the reorganisation of the Group under joint control.

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

Transaction description

On 1 August 2013, Bank Zachodni WBK entered into agreements with Aviva International Insurance Limited (Aviva), BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. (BZ WBK Aviva TUŻ S.A.) and BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. (BZ WBK Aviva TUO S.A.) in order to change and extend the strategic bancassurance co-operation in Poland to 31 December 2033. These agreements also provided for a re-calculation of the parties' contribution to the extended bancassurance co-operation model. In effect, on 20 December 2013 (the control acquisition date), on receipt of the regulatory consents, Bank Zachodni WBK received from Aviva International Insurance Limited 16% stake in BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. As a result of the transaction, as at 31 December 2013, the Bank had 66% shareholding and 66% voting power in the two insurance companies, while the remaining 34% voting power is held by Aviva.

Assets and liabilities recognised at the acquisition date

On 31 December 2014 the Bank made a final settlement of the acquisition of control over BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.

Furthermore, the Bank completed the process of estimation of the fair value of the selected assets and liabilities of the insurance companies, as at the acquisition date, in particular the receivables and liabilities under insurance agreements.

In thousands of PLN

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

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

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

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

includes additional assets that meet the criteria of being recognised as intangible fixed assets. The assets originate from revaluation of the insurance agreements existing in the two companies.

Non-controlling interests

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

Goodwill calculation

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

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

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

Contingent liabilities

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

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

In thousands of PLN

Bank Zachodni WBK granted Aviva a put option for the 34% stake (i.e. all the remaining shares held by Aviva) in the event of the bank's negligence in the course of the transaction. Strike price of the option is PLN 1,036,800k. As Bank Zachodni WBK is going to make all necessary efforts to finalise in accordance with the applicable laws and in a professional manner, the management of Bank Zachodni WBK is of the opinion that the likelihood of the put option being exercised is close to zero. Accordingly, the option does not need to be recognised in the consolidated financial statements.

Bank Zachodni WBK also gave Aviva an additional put option for a 34% shareholding, triggered if no regulatory consent is obtained for the call option referred to above. The potential obligation on this account is PLN 684,288k. Although both parties agree they are determined to make every effort to obtain the regulatory consents, the obligation was recognised in the consolidated statement of financial position as the option triggers are beyond the Bank's control and are contingent upon regulatory actions.

On 18 September 2014, with reference to current report No. 37/2013 dated 2 August 2013, Bank Zachodni WBK S.A. informed that it received a notification from AVIVA regarding the execution of a call option for the acquisition by AVIVA of 17% of the shares in BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A.

The completion of the Bank transfer is conditional upon AVIVA and the Bank obtaining consent from the supervisory authorities for the completion of the share transfer.

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

On 4 January 2013 (date of merger) the Bank registered the business combination of Bank Zachodni WBK and Kredyt Bank. The transaction was settled through the issue of merger shares. As a result, eligible shareholders of Kredyt Bank S.A. were entitled to acquire shares in accordance with the agreed exchange ratio of 6.96 Merger Shares for every 100 shares of the Kredyt Bank. This represents a total of 18 907 458 ordinary shares with a nominal value of PLN 10 each, with a total nominal value of PLN 189 074 580. For the purposes of the settlement, the price of the new shares was determined in the amount of PLN 240.32. This price was calculated on the basis of the average Bank Zachodni WBK share price over the thirty trading days between 21 November 2012 and 8 January 2013, excluding trading days without required turnover.

As at the date of publication of the financial statement of Bank Zachodni WBK for 2014, the acquisition of Kredyt Bank was accounted for.

Merger of Bank Zachodni WBK and Kredyt Bank has been described in detail in Report of Bank Zachodni WBK Group for 2013 in Note 55.

52. Acquisitions and disposals of investments in subsidiaries, associates and joint ventures

Acquisitions and disposals of investments in subsidiaries, associates and joint ventures in 2014 and in 2013

Changes to the shareholding of Krynicki Recycling S.A.

On 9 December 2014, 320,000 ordinary bearer shares in Krynicki Recycling S.A. were sold on the regulated market. As a result, BZ WBK Inwestycje currently holds 3,332,648 shares in the company, representing 19.96% of its share capital. Consequently, as at 31 December 2014, Krynicki Recycling S.A. was no longer an associated undertaking of BZ WBK Inwestycje.

Deregistration of BFI Serwis Sp. z o.o. in liquidation

In November 2014, BFI Serwis Sp. z o.o. (subsidiary of Bank Zachodni WBK) was removed from the National Court Register.

Incorporation of Dom Maklerski BZ WBK into Bank Zachodni WBK

Incorporation of Dom Maklerski BZ WBK into Bank Zachodni WBK and a company Geldokracja Sp. z o.o. has been described in detail in Note 35.

Acquisition of controlling interest in Santander Consumer Bank S.A.

Acquisition of controlling interest in Santander Consumer Bank S.A. has been described in detail in Note 49.

In thousands of PLN

Registration of Metrohouse Franchise S.A.

1 July 2014 the company Metrohouse Franchise S.A. was registered.

In September 2014, the shares of Metrohouse S.A. were contributed to Metrohouse Franchise SA in exchange for the newly issued shares of MHF. As a result, on 30 September 2014, BZ WBK Inwestycje Sp. z o.o. held 20.58% stake in Metrohouse Franchise S.A. Following the registration of an increase in the share capital of MHF, BZ WBK Inwestycje Sp. z o.o. held a 20.13% stake in the share capital and voting power in the company as at 31 December 2014.

Kredyt Trade

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

The Group has finally settled remaining assets and liabilities of the entity.

The liquidation result of PLN (319) k was taken to 'Profit or loss on sale/liquidation of subsidiaries and associates.'

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

Controlling stake at the companies BZ WBK- AVIVA

Controlling stake at the companies BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. has been described in detail in Note 50.

Merger of BZ WBK leasing companies

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

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

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

The closing of the sale by the Bank of a 17% equity stake in BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. to AVIVA International Insurance Limited

On 27 February 2015, Bank Zachodni WBK S.A. lost control over insurance entities BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. („TUnŻ S.A.”) and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. („TUO S.A.”) following the exercise of a call option by Aviva International Insurance Limited (“Aviva Ltd.”). After the fulfilment of the conditions precedent, including the obtaining of the European Commission consent and a decision of the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego) confirming the absence of formal grounds for objecting to the direct acquisition by Aviva Ltd. and indirect acquisition by Aviva plc. of 17% of shares in TUnŻ S.A. and 17% of shares in TUO S.A., the ownership transfer of the abovementioned shares has been completed.

After the transfer, the Bank holds 49% of the total number of shares in the share capital and the total number of the votes at the general meetings of each of the Insurance Companies, with the remaining 51% of the shares and votes being held by Aviva Ltd.

In thousands of PLN

Tables below present an analysis of assets and liabilities which were transferred upon the control loss and total profit before tax on the transaction.

	as at 27.02.2015	BZ WBK-Aviva TUO S.A.	BZ WBK-Aviva TUŻ S.A.
ASSETS			
Loans and advances to banks		17 629	52 187
Financial assets held for trading		5 784	27 493
Investment securities		234 773	104 897
Intangible assets		179	180
Property, plant and equipment		552	786
Net deferred tax assets		(1 613)	(93)
Other assets		58 228	743 166
Total assets		315 532	928 616
LIABILITIES			
Current income tax liabilities		(9 626)	(3 470)
Other liabilities		(196 992)	(861 955)
Total liabilities		(206 618)	(865 425)
Book value of net assets		108 914	63 191

	as at 27.02.2015
Total profit before tax on the transaction	
Fair value of consideration received	244 317
Revaluation of retained non-controlling interest	766 360
Non-controlling interests derecognised	540 854
Other adjustments related to loss of control	35 604
Less: book value of identifiable net assets	(172 105)
Less: derecognition of goodwill	(853 809)
Total	561 221

The impact of the National Swiss Bank decision on the FX mortgage loans

Pursuant to the decision of the Swiss National Bank, following the end of the reporting period, there occurred a material depreciation of the zloty against the Swiss franc. As at 31 December 2014, the average NBP PLN/CHF exchange rate was 3.5447 vs. 3,8919 as at a 28 February 2015. The exchange rate movement affected the value and the risk profile of assets, liabilities and off-balance sheet financial instruments denominated in the currency under review. The table below presents the estimated impact of the change in the CHF/PLN exchange rate on the PLN equivalent of the mortgage loan-book value of Bank Zachodni WBK Group as at 31 December 2014.

Gross mortgage loans by currency as at 31.12.2014	FX rates as at 31.12.2014	FX rates as at 28.02.2015
CHF denominated mortgage loans, of which:	13 405 583	14 718 647
<i>Bank Zachodni WBK</i>	10 444 894	11 467 961
<i>Santander Consumer Bank</i>	2 960 689	3 250 686
Mortgage loans denominated in other currencies	17 455 257	17 391 663
Total	30 860 840	32 110 310

The above-mentioned volatility of the exchange rate would decrease the CAD ratio by 13 bp.

Bank Zachodni WBK Group actively manages the CHF position using derivative instruments (swaps) and direct financing including loans and repo transactions. As at the end of December 2014, the volume of the above instruments added up to CHF 2.4bn and CHF 1.5bn, respectively.

In thousands of PLN

Risk profile of CHF-indexed/denominated loans

CHF gross mortgage loans as at 31.12.2014	Gross amount	Impairment losses	Coverage ratio
Performing loans	13 233 840	85 249	0,64%
Non-performing loans	171 743	67 794	39,47%
Total	13 405 583	153 043	

Average LTV ratio and NPL ratio amounted to 112% and 1.3%, respectively. As at the end of 2014, the loans indexed to CHF rate represented 87% of the total portfolio. As at 31 December 2014, 99% of CHF loans were sanctioned before 2009.

Supervisory Board Member resignation

Bank Zachodni WBK S.A. informed that on 5th February 2015 the Bank Management Board received the notice from Mr. Jose Antonio Alvarez of his resignation as the Bank Supervisory Board member effective immediately.

54. Employee benefits

Staff benefits include the following categories:

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

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

Provisions for unused holidays

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

Provisions for employee bonuses

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

Provisions for retirement allowances

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

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

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

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

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

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

In thousands of PLN

- longevity risk – the increase in life expectancy of the Bank's employees would increase the defined benefit plans obligations.

The principal actuarial assumptions as at 31 December 2014 are as follows:

- the discount rate at the level of 2.6% (4.4% as at 31 December 2013),
- the future salary growth rate at the level of 2.5% (2,5% as at 31 December 2013),
- the probable number of leaving employees calculated on the basis of historical data concerning personnel rotation in the Group,
- the mortality adopted in accordance with Life Expectancy Tables for men and women, published the Central Statistical Office, adequately adjusted on the basis of historical data of the Bank.

Reconciliation of the present value of defined benefit plans obligations

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

	31.12.2014	31.12.2013
As at the beginning of the period	49 533	38 934
Provision acquired in a business combination	3 640	13 758
Current service cost	148	2 694
Prior service cost	-	-
Interest expense	2 049	1 820
Actuarial (gains) and losses	14 408	(7 673)
Balance at the end of the period	69 778	49 533

Sensitivity analysis

The following table presents how the impact on the defined benefits obligations would have increased (decreased) as a result of a change in the respective actuarial assumptions by one percent as at 31 December 2014.

Defined benefit plan obligations	1 percent increase	1 percent decrease
Discount rate	12,89%	-14,26%
Future salary growth rate	-14,19%	12,95%

Other staff-related provisions

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

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

Provisions	31.12.2014	31.12.2013
Provisions for unused holidays	61 038	48 780
Provisions for employee bonuses	220 910	186 009
Provisions for retirement allowances	69 778	49 533
Other staff-related provisions	13 357	9 640
Total	365 083	293 962

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

BZ WBK Group applies the Policy on variable components of remuneration for individuals holding managerial positions in BZ WBK Group. The Policy has been approved by the bank's Management Board and Supervisory Board and is reviewed annually or each time significant organisational changes are made.

Persons holding managerial positions are paid variable remuneration once a year following the end of the settlement period and release of the bank's results. Variable remuneration is awarded in accordance with applicable bonus regulations and paid in cash and phantom stock. The latter shall represent min. 50% of the total amount of variable remuneration. Payment of min. 40% of variable remuneration referred to above is conditional and deferred for the period of three years (13.3% per annum). Variable remuneration is

In thousands of PLN

paid in arrears in equal annual instalments depending on individual performance in the period subject to assessment and the value of the phantom stock.

Awards for 2013 for members of BZ WBK Management Board paid in 2014

The awards for 2013 paid to members of the bank's Management Board in 2014 might have included part of the award for 2012 which was conditional and deferred in time.

First and last name	Position	Period	
Mateusz Morawiecki	President of the Management Board	01.01.2014-31.12.2014	1 768,77
Andrzej Burliga	Member of the Management Board	01.01.2014-31.12.2014	789,97
Eamonn Crowley	Member of the Management Board	01.01.2014-31.12.2014	765,70
Michael McCarthy	Member of the Management Board	01.01.2014-31.12.2014	751,04
Piotr Partyga	Member of the Management Board	01.01.2014-31.12.2014	674,33
Juan de Porras Aguirre	Member of the Management Board	01.01.2014-31.12.2014	747,63
Marcin Prell	Member of the Management Board	01.01.2014-31.12.2014	602,53
Marco Antonio Silva Rojas	Member of the Management Board	01.01.2014-31.12.2014	691,04
Miroslaw Skiba	Member of the Management Board	01.01.2014-31.12.2014	878,37
Feliks Szyszkowiak	Member of the Management Board	01.01.2014-31.12.2014	910,27

Pursuant to the bank's remuneration system, the Management Board members have a conditional right to a bonus for 2014 which could be paid in part in 2015 and in part thereafter, provided that certain criteria are met. As at the date of this report, a relevant decision has not yet been made by the bank's Supervisory Board.

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

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

First and last name	Position	Period	
Mateusz Morawiecki	President of the Management Board	01.01.2013-31.12.2013	2 047,48
Andrzej Burliga	Member of the Management Board	01.01.2013-31.12.2013	757,83
Eamonn Crowley	Member of the Management Board	01.01.2013-31.12.2013	762,23
Michael McCarthy	Member of the Management Board	01.01.2013-31.12.2013	758,96
Piotr Partyga	Member of the Management Board	01.01.2013-31.12.2013	609,39
Juan de Porras Aguirre	Member of the Management Board	01.01.2013-31.12.2013	765,10
Marcin Prell	Member of the Management Board	01.01.2013-31.12.2013	542,41
Marco Antonio Silva Rojas	Member of the Management Board	01.01.2013-31.12.2013	187,85
Miroslaw Skiba	Member of the Management Board	01.01.2013-31.12.2013	928,36
Feliks Szyszkowiak	Member of the Management Board	01.01.2013-31.12.2013	833,57

In 2013, Management Board members received an additional one-off award of PLN 2 469.3 k for delivery of 2012 objectives related to the integration with Kredyt Bank.

55. Share based incentive scheme

The fourth edition of the BZ WBK incentive scheme closed as at 31/12/2013. It vested at the maximum level and its realization through issuance of new shares and their allocation to entitled individuals was processed in first half of 2014.

On the 30th of June 2014, Annual General Meeting of the Shareholders of Bank Zachodni WBK S.A. implemented three-year Incentive Scheme no. V which participants are key employees of the Bank Zachodni WBK Group (including Members of the Management Board), however not more than 500 individuals.

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

In thousands of PLN

In every single year annual award not exceeding one third on total award will be considered. Shares will vest on a linear pattern between 25% and 100% contingent on profit after tax (PAT) growth. The range of the scale requires PAT growth between 7% and 11% in first year and between 17% and 26% in second and third year of duration of scheme.

Additionally, after 3 years cumulative award will be considered. Shares will vest on a linear pattern between 25% and 100% contingent on PAT compound annual growth rate in 3 years' time between 13.6% and 20.8%. If number of shares resulting from cumulative assessment will be higher than sum of annual awards vested to date, additional shares will be allocated to individuals up to the amount resulting from cumulative assessment.

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

Share based payments granted in 2014:

	2014
Number of share based payments	177 336
Share price (PLN)	363,30
Exercise price (PLN)	10
Vesting period	2,8 years
Expected volatility	26,40%
Award life	3 years
Risk free rate	2,29%
Fair value per award	PLN 322.39
Dividend yield	2,75%

The following table summarizes the share based payments activity:

	12 months of 2014	12 months of 2013
	Number of share based payments	Number of share based payments
Outstanding at 1 January	311 989	315 917
Granted	177 336	-
Exercised	(305 543)	-
Forfeited	(6 446)	(3 928)
Expired	-	-
Outstanding at 31 December	177 336	311 989
Exercisable at 31 December	-	-

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

For the share based payments outstanding as at 31 December 2014 and 31 December 2013 the average remaining contractual life is approximately 2,5 years and 0 year respectively.

The total expense is recognized in profit and loss account in correspondence with other reserve capital and settlements with subsidiaries. For 12 months of 2014, 2013 increase of equity amounted to PLN 6 846 k, PLN 20 288 k respectively.

The tables above present detailed information about the number of conditional rights to shares vested in BZ WBK Management Board members under the 5th Incentive Scheme. The rights may be exercised only in part depending on the future performance of the Group. Information about the rights exercised in full or in part will be provided in the future reports.

No. of awards	2014
Outstanding at 1 January	38 570
Granted	24 073
Exercised	(38 570)
Expired	-
Outstanding at 31 December	24 073
Exercisable at 31 December	-

In thousands of PLN

First and last name	Total as at 01.01.2014	Exercised during 2014	Granted during 2014	Total as at 31.12.2014
Mateusz Morawiecki	10 120	(10 120)	3 857	3 857
Andrzej Burliga	4 282	(4 282)	2 204	2 204
Eamonn Crowley	4 003	(4 003)	2 094	2 094
Michael McCarthy	4 875	(4 875)	2 424	2 424
Piotr Partyga	2 855	(2 855)	2 094	2 094
Juan de Porras Aguirre	-	-	2 217	2 217
Marcin Prell	3 704	(3 704)	1 983	1 983
Marco Antonio Silva Rojas	-	-	2 704	2 704
Miroslaw Skiba	4 282	(4 282)	2 248	2 248
Feliks Szyszkowski	4 449	(4 449)	2 248	2 248
Total	38 570	(38 570)	24 073	24 073

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

First and last name	Total as at 01.01.2013	Termination of appointment	Granted during 2013	Total as at 31.12.2013
Mateusz Morawiecki	10 120	-	-	10 120
Andrzej Burliga	4 282	-	-	4 282
Eamonn Crowley	4 003	-	-	4 003
Michael McCarthy	4 875	-	-	4 875
Piotr Partyga	2 855	-	-	2 855
Juan de Porras Aguirre	-	-	-	-
Marcin Prell	3 704	-	-	3 704
Marco Antonio Silva Rojas	-	-	-	-
Miroslaw Skiba	4 282	-	-	4 282
Feliks Szyszkowski	4 449	-	-	4 449
Total	38 570	-	-	38 570

56. Staff level

As at 31 December 2014 the Bank employed 11 838 persons and 11 688 FTE's.

As at this date, in subsidiaries there were 3 290 persons employed (incl. 107 persons in the Bank) and 3 147 FTE's.

In 2014, the average staffing level in Bank Zachodni WBK was 11 583 FTE's whereas the average staffing level in subsidiaries was 3 124 FTE's.

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

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

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

In thousands of PLN

57. Dividend per share

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

On 16 April 2014, The Annual General Meeting of Bank Zachodni WBK adopted a Resolution allocating PLN 1 000 932 k to dividend for shareholders, from the net profit for 2013, which meant that the dividend was PLN 10.70 per share.

**Signatures of Members of the Management Board**

Date	Name	Function	Signature
05.03.2015	Mateusz Morawiecki	President	
05.03.2015	Andrzej Burliga	Member	
05.03.2015	Eamonn Crowley	Member	
05.03.2015	Michael McCarthy	Member	
05.03.2015	Piotr Partyga	Member	
05.03.2015	Juan de Porras Aguirre	Member	
05.03.2015	Marcin Prell	Member	
05.03.2015	Marco Antonio Silva Rojas	Member	
05.03.2015	Mirosław Skiba	Member	
05.03.2015	Feliks Szyszkowiak	Member	

Signature of a person who is responsible for maintaining the book of account

Date	Name	Function	Signature
05.03.2015	Wojciech Skalski	Financial Accounting Area Director	