ANNUAL REPORT 2013
OF BANK ZACHODNI WBK S.A.

2013

Bank Zachodni WBK
Grupa Santander

	FINANCIAL HIGHLIGHTS	PLN k		EUR k	
	for reporting period ended:	31.12.2013	31.12.2012	31.12.2013	31.12.2012
		Stand alone financial statements			
I	Net interest income	3 123 433	2 150 575	741 732	515 281
II	Net fee and commission income	1 559 105	1 195 784	370 246	286 511
III	Operating profit	1 969 380	1 703 995	467 675	408 279
IV	Profit before tax	1 969 380	1 703 995	467 675	408 279
V	Profit for the period	1 611 471	1 367 589	382 681	327 676
VI	Total net cash flow	2 717 695	449 078	645 380	107 600
VII	Total assets	103 367 046	59 196 103	24 924 538	14 479 747
VIII	Deposits from banks	6 278 784	1 291 655	1 513 981	315 947
IX	Deposits from customers	78 735 663	47 162 169	18 985 258	11 536 170
X	Total liabilities	89 782 614	50 912 042	21 648 971	12 453 413
XI	Total equity	13 584 432	8 284 061	3 275 567	2 026 335
XII	Number of shares	93 545 089	74 637 631		
XIII	Net book value per share in PLN/EUR	145.22	110.99	35.02	27.15
XIV	Solvency ratio	15.22%	16.49%		
XV	Profit per share in PLN/EUR	17.26	18.52	4.10	4.44
XVI	Diluted earnings per share in PLN/EUR	17.21	18.45	4.09	4.42
XVII	Declared or paid dividend per share in PLN/EUR	10.70	7.60	2.58	1.86

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

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

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

FINANCIAL STATEMENTS OF BANK ZACHODNI WBK S.A. FOR 2013

2013

Bank Zachodni WBK
Grupa Santander

Dear All,

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

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

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

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

Thanks to the consistent organic growth and the positive effects of the merger, Bank Zachodni WBK recorded financial results for 2013 above the average in the entire sector. Our Bank generated a profit before tax of PLN 2.0bn, i.e. an increase of 15.6% as compared to 2012. In 2013, sales of cash loans in the Bank increased by 25%, which triggered the portfolio growth by 32%. The number of users of the Bank's electronic banking service amounted to nearly 3 million (+35.3% y/y) whilst BZ WBK payment cards base included 3.7 million debit (37.7% y/y) and 0.6 million credit cards (52.5% y/y). At the end of December 2013, the Bank's share in key areas of the sector according to the NBP statistics was as follows: 7.4% in the case of loans (4.3% at 2012- end) and 8.4% in the case of deposits (5.2%). Return on equity (13.8%) and the cost to income ratio (50%) are among the best on the market.

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

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

As a result of the merger, the Bank operates 12 corporate customer service centers and 12 SMEs service centers located in the largest Polish cities. The Global Banking & Markets Division (GBM), which services the customer portfolio consisting of leading national and international companies and groups of companies, successfully expanded its market activity. At the end of 2013, the base of GBM active customers consisted of ca. 100 groups operating, among others, in the energy, financial, FMCG, pharmaceutical and shipbuilding sectors. Effective measures were taken generating growth in sales of leasing (27.3% y/y) and factoring (increase by as much as 159% y/y).

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

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

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

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

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

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

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

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

Mateusz Morawiecki

President of the Management Board

TABLE OF CONTENTS

in thousands of PLN

Income statement of Bank Zachodni WBK

for reporting period:		01.01.2013-31.12.2013	01.01.2012-31.12.2012
Interest income		5 085 818	3 749 465
Interest expense		(1 962 385)	(1 598 890)
Net interest income	Note 5	**3 123 433**	**2 150 575**
Fee and commission income		1 795 743	1 337 809
Fee and commission expense		(236 638)	(142 025)
Net fee and commission income	Note 6	**1 559 105**	**1 195 784**
Dividend income	Note 7	132 052	120 574
Net gains/(losses) on subordinated entities	Notes 47, 49	(804)	-
Net trading income and revaluation	Note 8	183 379	164 005
Gains (losses) from other financial securities	Note 9	297 671	178 486
Other operating income	Note 10	69 414	50 934
Impairment losses on loans and advances	Note 11	(701 542)	(490 473)
Operating expenses incl.:		(2 693 328)	(1 665 890)
Bank's staff, operating expenses and management costs	*Notes 12, 13*	*(2 456 058)*	*(1 526 684)*
Depreciation/amortisation		*(209 471)*	*(125 917)*
Other operating expenses	*Note 14*	*(27 799)*	*(13 289)*
Operating profit		**1 969 380**	**1 703 995**
Profit before tax		**1 969 380**	**1 703 995**
Corporate income tax	Note 15	(357 909)	(336 406)
Profit for the period		**1 611 471**	**1 367 589**
Net earnings per share (PLN/share)	Note 16		
Basic earnings per share		17.26	18.52
Diluted earnings per share		17.21	18.45

Statement of comprehensive income of Bank Zachodni WBK

for reporting period:	31.12.2013	31.12.2012
Profit for the period	**1 611 471**	**1 367 589**
Other comprehensive income which can be transferred to the profit and loss account:	**(134 754)**	**309 198**
Available-for sale financial assets valuation	(166 363)	381 726
including deferred tax	*31 609*	*(72 528)*
Cash flow hedges valuation	(43 611)	18 955
including deferred tax	*8 285*	*(3 601)*
Other comprehensive income which can't be transferred to the profit and loss account:	**5 795**	**-**
Provision for retirement allowances – actuarial gains	7 154	-
including deferred tax	*(1 359)*	-
Other comprehensive income for the period, net of income tax	**(164 285)**	**324 552**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1 447 186**	**1 692 141**

Notes presented on pages 12- 92 constitute an integral part of these Financial Statements.

in thousands of PLN

Statement of financial position of Bank Zachodni WBK

	as at:	31.12.2013	31.12.2012
ASSETS			
Cash and balances with central banks	Note 17	5 149 682	4 157 270
Loans and advances to banks	Note 18	2 165 376	1 454 313
Financial assets held for trading	Note 19	2 188 672	818 581
Hedging derivatives	Note 20	321 956	253 553
Loans and advances to customers	Note 21	67 614 542	39 464 701
Investment securities	Notes 22, 23	21 924 489	11 697 393
Investments in subsidiaries, associates and joint ventures	Note 24	279 191	264 658
Intangible assets	Note 25	342 805	113 678
Goodwill	Notes 49, 54	1 688 516	-
Property, plant and equipment	Note 26	621 228	468 028
Net deferred tax assets	Note 27	469 801	172 445
Assets classified as held for sale	Note 28	3 503	-
Investment property		14 166	-
Other assets	Note 29	583 119	331 483
Total assets		**103 367 046**	**59 196 103**
LIABILITIES			
Deposits from banks	Note 30	6 278 784	1 291 655
Hedging derivatives	Note 20	367 536	322 252
Financial liabilities held for trading	Note 19	1 277 247	728 831
Deposits from customers	Note 31	78 735 663	47 162 169
Subordinated liabilities	Note 32	1 384 719	409 110
Debt securities in issue	Note 33	500 695	-
Current income tax liabilities		92 807	160 417
Other liabilities	Note 34	1 145 163	837 608
Total liabilities		**89 782 614**	**50 912 042**
Equity			
Share capital	Note 35	935 451	746 376
Other reserve funds	Note 36	10 324 574	5 292 875
Revaluation reserve	Note 37	712 936	877 221
Profit of the current period		1 611 471	1 367 589
Total equity		**13 584 432**	**8 284 061**
Total equity and liabilities		**103 367 046**	**59 196 103**

Notes presented on pages 12-92 constitute an integral part of these Financial Statements.

in thousands of PLN

Movements on equity of Bank Zachodni WBK

Movements on equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Total
Note	**35**	**36**	**37**		
Opening balance as at 31.12.2012	**746 376**	**5 292 875**	**877 221**	**1 367 589**	**8 284 061**
Other comprehensive income which can be transferred to the profit and loss account	-	-	(170 080)	1 611 471	1 441 391
Other comprehensive income which can't be transferred to the profit and loss account	-	-	5 795	-	5 795
Issue of shares*	189 075	4 354 766	-	-	4 543 841
Transfer to other capital	-	656 646	-	(656 646)	-
Transfer to dividends for 2012	-	-	-	(710 943)	(710 943)
Share scheme charge	-	20 287	-	-	20 287
As at 31.12.2013	**935 451**	**10 324 574**	**712 936**	**1 611 471**	**13 584 432**

As at the end of the period revaluation reserve in the amount of PLN 712 936 k comprises of debt securities and equity shares classified as available for sale of PLN 102 435 k and PLN 572 740 k respectively and additionally cash flow hedge activities of PLN 31 966 k and provision for retirement allowances – actuarial gains of PLN 5 795 k.

* Detailed information on “Issue of shares” is included in Note 35.

Movements on equity	Share capital	Other reserve funds	Revaluation reserve**	Retained earnings and profit for the period	Total
Note	**35**	**36**	**37**		
Opening balance as at 31.12.2011	**730 760**	**4 382 125**	**552 669**	**1 158 502**	**6 824 056**
Total comprehensive income	-	-	324 552	1 367 589	1 692 141
Issue of shares*	15 616	316 384	-	-	332 000
Transfer to other capital	-	573 894	-	(573 894)	-
Transfer to dividends for 2011	-	-	-	(584 608)	(584 608)
Share scheme charge	-	20 472	-	-	20 472
As at 31.12.2012	**746 376**	**5 292 875**	**877 221**	**1 367 589**	**8 284 061**

As at the end of the period revaluation reserve in the amount of PLN 877 221 k comprises of debt securities of PLN 402 635 k and equity shares classified as available for sale of PLN 407 296 k and additionally cash flow hedge activities PLN 67 290 k.

in thousands of PLN

Statement of cash flows of Bank Zachodni WBK

for reporting period:	01.01.2013-31.12.2013	01.01.2012-31.12.2012
Profit before tax	**1 969 380**	**1 703 995**
Total adjustments:		
Depreciation/amortisation	209 471	125 917
(Profit) loss from investing activities	(298 585)	(177 434)
Impairment losses	2 468	9 167
	1 882 734	**1 661 645**
Changes:		
Trading portfolio financial instruments	(614 918)	(209 827)
Loans and advances to banks	(576 230)	10 080
Loans and advances to customers	(675 816)	(2 042 505)
Deposits from banks	(277 508)	(1 069 778)
Deposits from customers	454 767	31 400
Provisions	15 097	(13 579)
Other assets and liabilities	(306 075)	(118 740)
	(1 980 683)	**(3 412 949)**
Interests and similar charges	223 327	303 549
Dividend received	(132 052)	(120 574)
Paid income tax	(362 220)	(234 333)
Net cash flow from operating activities	**(368 894)**	**(1 802 662)**
Inflows	**216 683 080**	**41 960 747**
Sale/maturity of investment securities	216 546 516	41 837 291
Sale of intangible assets and property, plant and equipment	4 512	2 882
Dividend received	132 052	120 574
Outflows	**(213 196 750)**	**(39 517 821)**
Purchase of investment securities	(213 027 023)	(39 441 729)
Purchase of intangible assets and property, plant and equipment	(169 727)	(76 092)
Net cash flow from investing activities	**3 486 330**	**2 442 926**
Inflows	**500 695**	**470 690**
Drawing of long-term loans	-	138 690
Proceeds from issuing shares, bonds and payments to capital	500 695	332 000
Outflows	**(900 436)**	**(661 876)**
Repayment of long-term loans	(31 368)	-
Dividends and other payments to shareholders	(710 943)	(584 608)
Other financing outflows	(158 125)	(77 268)
Net cash flow from financing activities	**(399 741)**	**(191 186)**
Total net cash flow	**2 717 695**	**449 078**
Cash at the beginning of the accounting period	**7 700 732**	**7 251 654**
Cash acquired in a business combination	**1 834 727**	**-**
Cash at the end of the accounting period*	**12 253 154**	**7 700 732**

*Cash components are presented in Note 44.

Notes presented on pages 12-92 constitute an integral part of these Financial Statements.

Additional notes to financial statements of Bank Zachodni WBK

1. General information about issuer

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

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

Bank Zachodni WBK 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.

2. Basis of preparation of financial statements

Statement of compliance

The annual unconsolidated financial statements of Bank Zachodni WBK for the year ended 31 December 2013 have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and are in compliance with the respective regulations and the provisions of the Bank's Statutes that apply to the Bank's unconsolidated financial statements.

Changes in accounting policies

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

- The relative immateriality of the amount (in the comparable period, the actuarial gains on this account was PLN 3 424k, while the related deferred tax was PLN 651k) and
- As a result of the merger with Kredyt Bank, the presented amount of actuarial losses does not give the true picture of the impact of the change on the comparable period.

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

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

in thousands of PLN

Changes in judgments and estimates

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

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

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

in thousands of PLN

Standards and interpretations or changes to existing standards or interpretations which were applied for the first time in 2013

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

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 the financial statements.

Accounting policies

Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs 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.

Key estimates made by the Bank

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 Bank Zachodni WBK is exposed and other external factors such as legal and regulatory requirements. A provision is made against impaired 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 in the Bank 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. The Bank uses a consistent system for grading advances according to agreed credit criteria 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 the Bank; it triggers the process which results in the creation of provision on individual loans where there is doubt on recoverability.

The analysis of impairment is carried out:

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

Impairment loss on non-financial assets

The measurement of fixed assets is reviewed 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 is recognised considering the expected recoverable amounts, and for long term other receivables discounting is applied.

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

Fair value of financial instruments
Some of the Bank's financial instruments are carried at fair value, including all derivatives, other financial assets measured at fair value through profit or loss and financial instruments available for sale. Financial instruments are either marked-to-market or priced 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 Bank 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.

Foreign currency

Foreign currency transactions
PLN is the accounting currency in the Bank.

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

Financial assets and financial liabilities

Classification
The Bank classifies its financial instruments into the following categories:

- financial assets or financial liabilities measured 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 Bank at fair value through profit or loss. As at the balance sheet date the Bank 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 Bank's management has the positive intention and ability to hold to maturity. If the Bank 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 Bank would not utilise the held to maturity classification. As at the balance sheet date the Bank 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;
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.

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;
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 Bank 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 provision of the instrument. A regular way purchase of a financial asset is recognised in the statement of financial position as at the transaction settlement date. This 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 from the statement of financial position when the contractual rights to the cash flows from the financial assets expire or when the Bank transfers the contractual rights to receive the cash flows in a transaction in which substantially all risk and rewards of ownership of the financial asset are transferred.

A regular way purchase of a financial asset is derecognised from the statement of financial position as at the transaction settlement date. This method is applied consistently for all purchases and sales of financial assets.

The Bank 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 or 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 Bank 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 Bank 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.

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 Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. The fair value of the financial asset on the date of the reclassification becomes its new cost or new amortised cost.

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

Gains and losses on subsequent measurement

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

- a gain or loss on a financial asset or financial liability classified at fair value through profit or loss is recognised in profit or loss,
- a gain or loss on an available-for-sale financial asset, except for impairment losses, is recognised in other comprehensive income, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in other comprehensive income 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.

Subsidiaries, associates and joint ventures

An investment in subsidiaries, associates and joint ventures is recognised at cost less impairment. Impairment is recognised in the income statement. A release of an impairment provision is recognised in a statement of comprehensive income if estimates used to calculate return on investment have changed.

Repurchase and reverse repurchase transactions

The Bank 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 transactions”) are not derecognised from the statement of financial position 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 transactions”) are not recognised in 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 Bank 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 the statement of comprehensive income of changes in the fair values of the hedging instrument and the hedged item.

At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Bank'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 Bank 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 Bank uses derivative financial instruments among others to hedge its exposure to interest rate risks arising from operational, financing and investment activities.

The Bank 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 the statement of comprehensive income.

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 the statement of comprehensive income.

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 Bank 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 Bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Bank 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 Bank, including:
    i. adverse changes in the payment status of borrowers in the Bank, or
    ii. national or local economic conditions that correlate with defaults on the assets in the Bank.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). If a loan or receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The carrying amount of the asset shall be reduced through identification of 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 Bank 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 (collective approach), which is assessed jointly, is verified monthly. The Bank 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 Bank 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 Bank 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 Bank's credit risk evaluation or the Bank'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 Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the Bank and their magnitude). The Bank 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. As experience shows, such claims exist in every credit portfolio.

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) take into account the following key factors:

- EP - Emergence period i.e. estimated time between the occurrence of event of default and its identification by the Bank,
- 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 Bank'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 the provision for loan impairment in the income statement.

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 other comprehensive income shall be removed and recognised in profit or loss. The amount of the cumulative loss that is removed from 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 in the Bank's loss.

Contingent liabilities
The Bank creates provisions for impairment of 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 Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. 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 Bank 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 Bank 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 asset. 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 Bank 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 Bank, 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 Bank are stated at cost less accumulated amortisation and impairment losses.

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

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

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

Other items of statement of financial position

Other trade and other receivables
Trade and other receivables are stated at 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 Statutes. 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).

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 The revaluation reserve is not distributable.

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

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

Dividends

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

Employee benefits

Short-term service benefits
The Bank'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 Bank's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The accrual for retirement bonus granted under the provisions of the

Collective Labour Agreement and terms of individual employee contract as well as the accrual for disability pension bonus is estimated using actuarial valuation methods. The valuation of those accruals is updated at least once a year.

Share based payments
The Bank 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 Bank 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 balance sheet when the Bank 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 off balance sheet items such as guarantees, letters of credit, and unutilised irrevocable credit facilities are recognised in accordance with this policy.

Net interest income

Interest income from a financial asset is recognised when is probable that the economic benefits will flow to the Bank and the amount of income 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 carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank 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 amounts 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, Bank splits realised income into a portion recognised as interest income according to effective interest rate method and a portion recognised as fee income. Bank 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, Bank estimates that potion using difference in interest rates and considering intermediary cost for insured and non-insured loans respectively.

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

In case impairment is recognized for a financial asset, interest income is accrued based on the carrying amount of 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 settled under effective interest rate are listed above.

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 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, Bank splits realised income into a portion recognised as interest income according to effective interest rate method and a portion recognised as fee income. Bank 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, Bank 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, Bank recognises as a fee income when the fee is charged for sales of insurance product.

Bank 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), Bank recognises in the profit and loss account as fee and commission income when the fee is charged.

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

Net trading income and revaluation

Net trading income and revaluation include 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 Bank's profit at the moment of acquiring rights to them, provided that it is probable that the economic benefits will flow to the Bank 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 Bank.

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 taken to the Bank's cost 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 and 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 carrying amounts for financial reporting purposes. 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 the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

3. Risk management

Bank Zachodni WBK is exposed to a variety of risks in its ordinary business activities. The role of risk management is to ensure that the Bank 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 Bank'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 and review appropriate risk limits, which restrict the risk exposure. Bank Zachodni WBK continues to modify and enhance its risk management practices to reflect changes in the Bank's risk profile, economic environment, regulatory requirements and evolving best practice.

In Bank Zachodni WBK, the 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.

The 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 of the Supervisory Board supports the Supervisory Board in its supervisory activities. The Committee annually reviews the internal controls in financial reporting, accepts the reports from the 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 Bank.

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 Bank. 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 Bank Zachodni WBK. The Risk Management Committee has a supervisory role for all the committees responsible for managing the risks identified in the Bank's operations. The comprehensive reporting process ensures that the Committee has a full and consistent picture of the Bank's current risk profile.

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

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

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

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

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

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 the Bank, including business continuity management, information security and fraud prevention.

Assets and Liabilities Committee (ALCO) exercises oversight over the banking portfolio activity and takes decisions on liquidity management and the management of the interest rate risk on 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 Bank's financial information in terms of its compliance with legal and regulatory requirements.

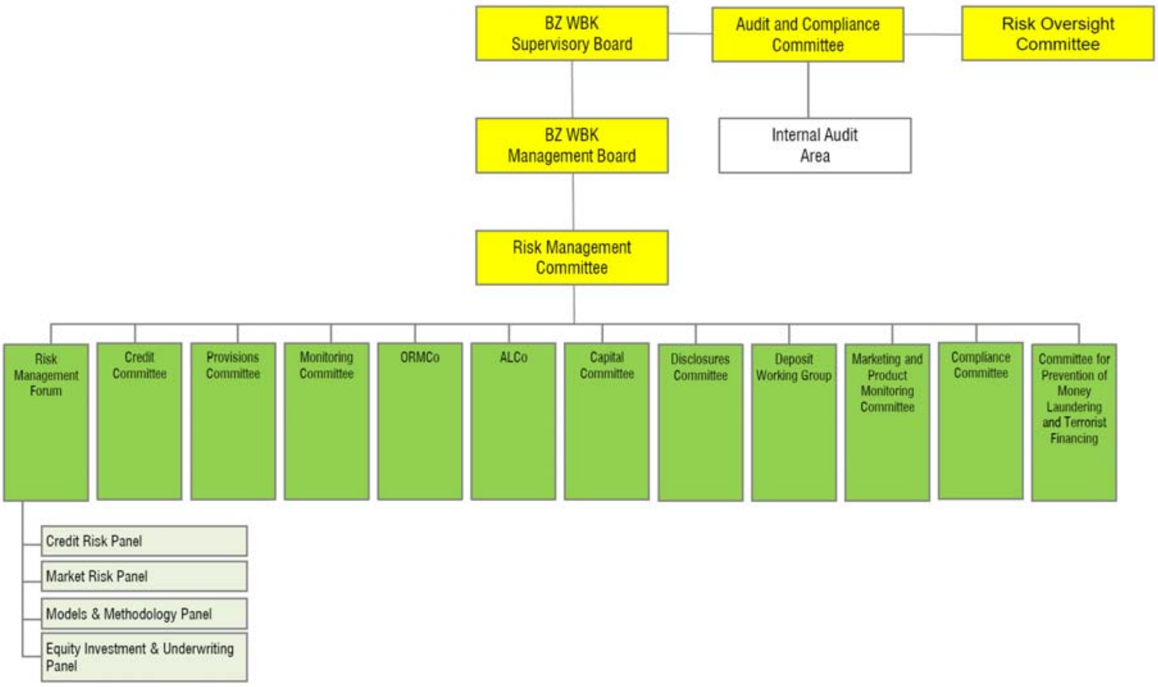
Deposit Working Group has a responsibility for ensuring a balanced growth of the savings and investment products portfolio.

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 Bank.

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

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



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

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

Bank Zachodni WBK is exposed to a variety of risks affecting its strategic goals. The Bank continuously analyses the risks, identifies their sources, creates the relevant risk management mechanisms including among others the measurement, control, mitigation and reporting. The risks the Bank is exposed to include:

- credit risk;
- concentration risk;
- market risk in the banking and trading books;
- liquidity risk;
- insurance risk;
- operational risk;
- compliance risk.

Detailed principles, roles and responsibilities of the Bank's units have been described in the relevant internal policies on the management of the particular risks.

Credit risk

The credit delivery activities of Bank Zachodni WBK focus on growing a high quality and profitable loan-book and ensuring customer satisfaction.

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

The Bank's credit risk arises mainly from lending activities on the retail, corporate and inter-bank markets. This risk is managed as part of the policy approved by the Management Board 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 Bank's internal system of credit grading and monitoring allows for an early identification of likely defaults that might impair the loan-book. Additionally the Bank uses a large set of credit risk mitigation tools, both collaterals (financial and non-financial) and specific credit provisions and clauses (covenants).

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

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

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

Risk Management Forum

The credit risk oversight in Bank Zachodni WBK 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 Bank'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 Bank reviews and updates its credit policies on a regular basis, aiming to bring them in line with the Bank'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 25 m are referred to the Credit Committee composed of senior management and top executives.

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

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

Furthermore, the Securities and Credit Documentation Centre provides assistance to credit units in credit decision making and development of credit policies with respect to collateral. The unit gathers data on collateral and ensures appropriate management information. The tables below show types of collateral that can be used to secure loans and advances to customers from non-banking sector.

Retail customers

Type of loan	Type of collateral
Cash loan	bills, guarantees, credit insurance
Credit on liquid assets	guaranty deposit, amounts frozen on account, investment funds
Student loan	sureties
Housing loan	mortgage, credit insurance, transfer of claim
Leasing	bills, guarantees, transfer of rights to bank'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 valuation reports – assessment of the security value;
- assessment of the legal status of the security;
- assessment of the investment process for the properties;
- seeking legal advice on the securities offered.

The Securities and Credit Documentation Centre actively participates in the individual stages of the credit process, focusing on:

- drafting credit documentation;
- verification and assessment of the signed credit documentation;
- verification of data in the IT systems;
- collateral monitoring and reporting;
- releasing the collateral.

The Bank's process of managing its exposures also includes liquidation of collateral. The choice of the scope and method of collateral liquidation to satisfy the Bank's claims depends on the type of collateral (personal or tangible). As a rule, the Bank aims to liquidate the collateral voluntarily through negotiation. If the collateral provider is uncooperative the Bank follows the debt collection course prescribed by law and the Bank's internal regulations.

Credit risk stress testing

Stress testing is one of the components of the credit risk management process aimed at assessing how the Bank might be affected by specific changes in its environment, changes in financial and macroeconomic indicators or in the risk profile. The analysis also looks at the potential credit quality changes in the wake of adverse developments. The process also provides management information about adequacy of agreed limits and internal capital allocation.

Calculation of impairment

Bank Zachodni WBK posts impairment losses on credit exposures in accordance with the International Accounting Standards / International Financial Reporting Standards (IAS/IFRS). Impairment losses reflect deterioration in the value of credit assets. An impairment loss is recognised if the Bank has objective evidence that the debt cannot be recovered in line with the signed loan agreement. Objective indications of impairment were defined in accordance with recommendations of the Basel Committee, the International Accounting Standards (IAS 39) and Recommendation R.

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

in thousands of PLN

Twice a year, the Bank compares the assumptions and parameters used for impairment calculations with the actual situation, taking into account changes of economic conditions, amendments to the Bank's credit policies and recovery processes. The responsibility for ensuring adequacy of the impairment charges rests with the Provisions Committee.

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

31.12.2013	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
Impaired portfolio					
Individually impaired					
	up to 50%	1 829 119	-	-	-
	50% - 70%	523 808	-	-	-
	70% - 85%	527 638	-	-	-
	over 85%	356 683	-	-	-
Gross amount		**3 237 248**	**-**	**-**	**-**
Allowance for impairment		(1 489 126)	-	-	-
Net amount		**1 748 122**	**-**	**-**	**-**
Collectively impaired					
	up to 50%	479 458	-	-	-
	50% - 70%	848 671	-	-	-
	70% - 85%	514 728	-	-	-
	over 85%	327 356	-	-	-
Gross amount		**2 170 213**	**-**	**-**	**-**
Allowance for impairment		(1 433 539)	-	-	-
Net amount		**736 674**	**-**	**-**	**-**
IBNR portfolio					
	up to 0,10%	25 883 988	2 165 376	21 954 742	2 188 672
	0,10% - 0,30%	15 238 165	-	-	-
	0,30% - 0,65%	11 661 456	-	-	-
	over 0,65%	12 568 454	-	-	-
Gross amount		**65 352 063**	**2 165 376**	**21 954 742**	**2 188 672**
Allowance for impairment		(433 039)			
Net amount		**64 919 024**	**2 165 376**	**21 954 742**	**2 188 672**
Other receivables		**210 722**	**-**	**-**	**-**
Off-balance sheet exposures					
Financing granted		16 619 863	-	-	-
Guarantees		4 136 801	-	-	-
Nominal value of derivatives - purchased		-	-	-	106 153 439
Allowance for off-balance sheet exposures		(96 933)	-	-	-
Off-balance sheet exposures - total		**20 659 731**	**-**	**-**	**106 153 439**

*The value of financial assets held for trading includes adjustment of the fair value as described in Note 19.

in thousands of PLN

31.12.2012	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
Impaired portfolio					
Individually impaired					
	up to 50%	495 458	-	-	-
	50% - 70%	312 870	-	-	-
	70% - 85%	138 019	-	-	-
	over 85%	119 842	-	-	-
Gross amount		**1 066 189**	**-**	**-**	**-**
Charge due to impairment losses		(514 846)	-	-	-
Net amount		**551 343**	**-**	**-**	**-**
Collectively impaired					
	up to 50%	320 094	-	-	-
	50% - 70%	244 226	-	-	-
	70% - 85%	313 851	-	-	-
	over 85%	148 399	-	-	-
Gross amount		**1 026 570**	**-**	**-**	**-**
Charge due to impairment losses		(606 180)	-	-	-
Net amount		**420 390**	**-**	**-**	**-**
IBNR portfolio					
	up to 0,10%	14 410 748	1 454 313	11 697 393	818 581
	0,10% - 0,30%	7 514 937	-	-	-
	0,30% - 0,65%	7 421 098	-	-	-
	over 0,65%	9 365 781	-	-	-
Gross amount		**38 712 564**	**1 454 313**	**11 697 393**	**818 581**
Charge due to impairment losses		(324 351)	-	-	-
Net amount		**38 388 213**	**1 454 313**	**11 697 393**	**818 581**
Other receivables		**104 755**	**-**	**-**	**-**
Off-balance sheet exposures					
Financing granted		11 341 318	-	-	-
Guarantees		2 531 943	-	-	-
Nominal value of derivatives - purchased		-	-	-	53 467 666
Allowance for off-balance sheet exposures		(17 619)	-	-	-
Off-balance sheet exposures - total		**13 855 642**	**-**	**-**	**53 467 666**

*The value of financial assets held for trading includes adjustment of the fair value as described in Note 19.

IBNR portfolio

	Loans and advances to customers	
	31.12.2013	31.12.2012
Non-past due	**62 185 911**	**37 343 922**
Past-due	**3 166 152**	**1 368 642**
1-30 days	2 523 657	955 912
31-60 days	397 580	321 392
61-90 days	228 528	79 991
> 90 days	16 387	11 347
Gross amount	**65 352 063**	**38 712 564**

in thousands of PLN

Allowances for impairment by classes

Provision cover		Loans and advances to customers 31.12.2013	Loans and advances to customers 31.12.2012	Loans and advances to banks 31.12.2013	Loans and advances to banks 31.12.2012
Individual allowance for impairment					
	up to 50%	(385 266)	(101 359)	-	-
	50% - 70%	(327 682)	(196 408)	-	-
	70% - 85%	(423 569)	(100 550)	-	-
	over 85%	(352 609)	(116 529)	-	-
Total individual allowance for impairment		**(1 489 126)**	**(514 846)**	**-**	**-**
Collective allowance for impairment					
	up to 50%	(167 831)	(78 666)	-	-
	50% - 70%	(548 877)	(144 450)	-	-
	70% - 85%	(397 230)	(243 718)	-	-
	over 85%	(319 601)	(139 346)	-	-
Total collective allowance for impairment		**(1 433 539)**	**(606 180)**	**-**	**-**
IBNR					
	up to 0,10%	(11 760)	(5 589)	-	-
	0,10%-0,30%	(23 180)	(13 056)	-	-
	0,30%-0,65%	(50 601)	(34 290)	-	-
	over 0,65%	(347 498)	(271 416)	-	-
Total IBNR		**(433 039)**	**(324 351)**	**-**	**-**
Total allowance for impairment		**(3 355 704)**	**(1 445 377)**	**-**	**-**

Credit risk concentration

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

- PLN 2 899 131 k (25% of Bank's own funds).

The policy pursued by the Bank 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 Bank's exposures in terms of sector concentrations, carried out at the end of December 2013, proved that the Bank 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 group of capital-related borrowers) of Bank Zachodni WBK S.A. (performing loans) as at 31.12.2013.

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure	Committed credit lines, guarantees, treasury limits and capital investments
64	FINANCIAL SERVICES	4 128 473	3 310 360	818 112
64	FINANCIAL SERVICES	2 000 008	1 633 019	366 989
61	TELECOMMUNICATION	1 229 865	1 017 329	212 535
19	RAFINERY	1 106 468	412 023	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	852 640	123	852 517
35	POWER INDUSTRY	750 413	299	750 114
68	REAL ESTATE SERVICES	744 981	742 629	2 352
07	MINING	669 869	29 139	640 730
35	POWER INDUSTRY	658 574	7 253	651 321
68	REAL ESTATE SERVICES	537 194	496 284	40 910
68	REAL ESTATE SERVICES	411 437	339 379	72 058
33	MACHINE INDUSTRY	400 040	-	400 040
68	REAL ESTATE SERVICES	398 877	398 877	-
19	RAFINERY	394 302	337 827	56 475
33	MACHINE INDUSTRY	381 445	2 547	378 898
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		**17 802 330**	**10 179 102**	**7 623 228**

in thousands of PLN

A list of the 20 largest borrowers (or group of capital-related borrowers) of Bank Zachodni WBK S.A. (performing loans) as at 31.12.2012.

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure	Committed credit lines, guarantees, treasury limits and capital investments
64	FINANCIAL SERVICES	2 277 368	1 306 936	970 432
64	FINANCIAL SERVICES	1 614 090	971 080	643 010
64	FINANCIAL SERVICES	1 266 200	925 288	340 912
06	MINING	1 069 820	292 292	777 528
35	POWER INDUSTRY	854 731	1 707	853 024
27	MANUFACTURING	800 818	-	800 818
19	RAFINERY	735 046	321 694	413 352
68	REAL ESTATE SERVICES	732 325	730 035	2 290
35	POWER INDUSTRY	600 485	363	600 122
68	REAL ESTATE SERVICES	569 601	507 613	61 988
68	REAL ESTATE SERVICES	473 900	473 900	-
59	MULTIMEDIA	456 112	333 456	122 656
68	REAL ESTATE SERVICES	395 638	293 325	102 313
56	CATERING	370 689	6 461	364 228
07	MINING	356 708	4 726	351 982
41	CONSTRUCTION	339 034	333 214	5 820
68	REAL ESTATE SERVICES	337 971	292 764	45 207
64	FINANCIAL SERVICES	272 144	241 647	30 497
46	WHOLESALE	253 368	226 348	27 020
10	FOOD INDUSTRY	250 630	-	250 630
Total gross exposure		**14 026 678**	**7 262 849**	**6 763 829**

Industry concentration

The credit policy of Bank Zachodni WBK 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 Bank provides funding to sectors and groups or capital units representing a variety of industries. As at 31.12.2013, the highest concentration level was recorded in the “property” sector (13% of the Bank Zachodni WBK exposure), “distribution” (11%) and “manufacturing” (10%).

Groups of PKD by industries:

	Industry	Gross exposure	
		31.12.2013	31.12.2012
	Property	9 525 525	9 030 948
	Distribution	7 707 869	4 673 067
	Manufacturing	6 750 816	4 411 474
	Financial sector	5 935 763	4 247 993
	Energy	1 385 554	800 972
	Construction	1 030 769	937 304
	Agriculture	891 301	626 958
	Transportation	984 677	479 746
	Other industries	2 512 295	1 900 209
A	**Total Business Loans**	**36 724 569**	**27 108 671**
B	**Retail (including mortgage loans)**	**34 034 887**	**13 696 652**
A+B	**BZWBK portfolio**	**70 759 456**	**40 805 323**
C	**Other receivables (commercial bonds, reverse repo)**	**210 788**	**104 755**
A+B+C	**Total BZ WBK**	**70 970 244**	**40 910 078**

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).

Bank Zachodni WBK is exposed to market risk arising from its activity on money and capital markets and services provided to customers. Additionally, the Bank 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 Bank is to reduce the impact of the volatile market environment on the Bank's profitability and to grow income within strictly defined risk parameters while ensuring the Bank's liquidity and market value.

The Bank's market risk policies establish a number of limits and ratios for the purpose of risk assessment and mitigation. Risk limits are periodically reviewed to align them with the Bank's strategy.

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 and Markets Division, which is also responsible for the ownership supervision over Dom Maklerski BZ WBK S.A. The Bank'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.

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 Bank. 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.

Assessment methods
Bank Zachodni WBK 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).

In Bank Zachodni WBK, 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.

Due to the limitations of the VaR methodology, the Bank 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 Bank'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.

in thousands of PLN

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

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

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

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

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

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

Interest rate risk in the trading book

The trading book contains securities and derivatives held by the Global Banking and Markets Division for trading purposes. The instruments are marked to market each day, and any changes in their value are reflected in the profit and loss. The key methods of measurement of the interest rate risk in the banking books include the VaR methodology, stop loss, PV01 sensitivity measurement and stress tests.

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

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

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

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

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

in thousands of PLN

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 Bank's trading portfolio. Stress tests are used in addition to this measure by providing an estimate of the potential losses in the event of materialisation of the stressed conditions in the market. Stress tests use the currency exposure and the scenarios of extreme movements in currency rates based on historical data. Furthermore, the stop loss mechanism is used for managing the risk of losses on the trading positions.

In accordance with its policy, the Bank 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.

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

FX risk	VAR	
1 day holding period	**31.12.2013**	**31.12.2012**
Average	534	613
Maximum	1 647	1 542
Minimum	65	142
as at the end of the period	428	382
LIMIT	**1 506**	**1 550**

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

FX Balance Sheet

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

The tables below show the Bank's main FX items – as at 31 December 2013 and 2012.

31.12.2013	PLN	EUR	CHF	Other	Total
ASSETS					
Cash and balances with central banks	4 802 065	220 124	14 266	113 227	5 149 682
Loans and advances to banks	515 837	800 665	692 001	156 873	2 165 376
Loans and advances to customers	42 635 291	13 244 018	10 728 923	1 006 310	67 614 542
Investment securities	20 755 854	1 168 635	-	-	21 924 489
Selected assets	**68 709 047**	**15 433 442**	**11 435 190**	**1 276 410**	**96 854 089**
LIABILITIES					
Deposits from banks	3 712 085	164 651	2 360 989	41 059	6 278 784
Deposits from customers	68 345 064	7 058 091	972 322	2 360 186	78 735 663
Subordinated liabilities	74 914	414 525	895 280	-	1 384 719
Selected liabilities	**72 132 063**	**7 637 267**	**4 228 591**	**2 401 245**	**86 399 166**

31.12.2012	PLN	EUR	CHF	Other	Total
ASSETS					
Cash and balances with central banks	3 813 863	261 539	6 911	74 957	4 157 270
Loans and advances to banks	177 003	921 858	20 874	334 578	1 454 313
Loans and advances to customers	27 337 226	9 225 797	2 051 583	850 095	39 464 701
Investment securities	10 992 462	704 931	-	-	11 697 393
Selected assets	**42 320 554**	**11 114 125**	**2 079 368**	**1 259 630**	**56 773 677**
LIABILITIES					
Deposits from banks	683 759	580 328	2 771	24 797	1 291 655
Deposits from customers	40 874 129	4 940 650	60 663	1 286 727	47 162 169
Subordinated liabilities	-	409 110	-	-	409 110
Selected liabilities	**41 557 888**	**5 930 088**	**63 434**	**1 311 524**	**48 862 934**

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 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 in Bank Zachodni WBK;
- 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 Bank 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 Bank's business by maintaining liquidity ratios at pre-defined levels. The Bank 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 Bank 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 Bank has a scenario-based contingency plan approved by the Management Board to cater for unexpected liquidity problems, whether caused by external or internal factors. The plan also contains stress test with system and idiosyncratic scenarios.

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

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

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.

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

in thousands of PLN

Contractual Gap Analysis based on remaining time maturity as at 31.12.2013 and in comparable period:

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	5 149 682	-	-	-	-	-	-	5 149 682
Loans and advances to banks	1 245 444	231 224	9 788	678 920	-	-	-	2 165 376
Financial assets held for trading	261 659	171 346	272 399	797 019	313 363	372 886	-	2 188 672
Loans and advances to customers	6 501 756	3 095 149	14 253 801	15 458 690	8 834 319	22 826 531	(3 355 704)	67 614 542
Investment securities	5 599 328	32 884	2 744 448	2 764 170	3 007 601	6 920 927	855 131	21 924 489
Other items	-	-	-	-	-	-	4 324 285	4 324 285
Long position	**18 757 869**	**3 530 603**	**17 280 436**	**19 698 799**	**12 155 283**	**30 120 344**	**1 823 712**	**103 367 046**
Deposits from banks	3 865 470	31 502	10 509	2 371 303	-	-	-	6 278 784
Financial liabilities held for trading	327 913	111 490	266 981	405 122	118 691	47 050	-	1 277 247
Deposits from customers	53 815 848	9 828 941	12 115 623	938 416	1 377 704	659 131	-	78 735 663
Subordinated liabilities	11	4 341	-	-	337 722	1 042 645	-	1 384 719
Other items	-	-	-	-	-	-	15 690 633	15 690 633
Short position	**58 009 242**	**9 976 274**	**12 393 113**	**3 714 841**	**1 834 117**	**1 748 826**	**15 690 633**	**103 367 046**
Gap-balance sheet	**(39 251 372)**	**(6 445 671)**	**4 887 323**	**15 983 958**	**10 321 166**	**28 371 518**	**(13 866 921)**	
Contingent liabilities- sanctioned								
Financing related	587 084	1 140 171	7 432 652	3 820 527	1 811 428	1 828 001	(44 403)	**16 575 460**
Guarantees	425 003	446 383	1 014 461	1 291 478	500 825	458 651	(52 530)	**4 084 271**
Derivatives settled in gross terms								
Inflows	5 515 514	4 088 062	5 766 507	8 307 758	4 012 287	4 642 178	-	**32 332 306**
Outflows	5 835 638	4 007 754	5 826 646	8 454 647	4 097 401	4 586 251	-	**32 808 337**
Gap – off-balance sheet	**(1 332 211)**	**(1 506 246)**	**(8 507 251)**	**(5 258 895)**	**(2 397 367)**	**(2 230 725)**	**96 934**	

in thousands of PLN

31.12.2012	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	over 5 years	rate insensitive	Total
Cash and balances with central banks	4 157 270	-	-	-	-	-	-	4 157 270
Loans and advances to banks	1 444 208	-	10 101	4	-	-	-	1 454 313
Financial assets held for trading	124 522	66 641	315 101	122 167	97 890	92 260	-	818 581
Loans and advances to customers	3 563 636	2 555 302	7 811 425	12 254 159	5 611 672	9 113 884	(1 445 377)	39 464 701
Investment securities	2 099 256	-	2 743 139	1 752 017	3 881 162	572 450	649 369	11 697 393
Other items	-	-	-	-	-	-	1 603 845	1 603 845
Long position	**11 388 892**	**2 621 943**	**10 879 766**	**14 128 347**	**9 590 724**	**9 778 594**	**807 837**	**59 196 103**
Deposits from banks	983 498	227 450	80 707	-	-	-	-	1 291 655
Financial liabilities held for trading	120 729	77 054	160 611	187 156	114 286	68 995	-	728 831
Deposits from customers	29 473 719	6 508 275	9 797 936	322 362	37 248	1 022 629	-	47 162 169
Subordinated liabilities	4 378	-	-	-	-	404 732	-	409 110
Other items	-	-	-	-	-	-	9 604 338	9 604 338
Short position	**30 582 324**	**6 812 779**	**10 039 254**	**509 518**	**151 534**	**1 496 356**	**9 604 338**	**59 196 103**
Gap-balance sheet	**(19 193 432)**	**(4 190 836)**	**840 512**	**13 618 829**	**9 439 190**	**8 282 238**	**(8 796 501)**	
Contingent liabilities- sanctioned								
Financing related	207 444	713 732	4 105 083	3 554 499	1 683 493	1 077 015	(16 960)	**11 324 306**
Guarantees	70 746	127 055	1 117 228	713 250	125 314	378 402	(659)	**2 531 336**
Derivatives settled in gross terms								
Inflows	3 762 151	2 108 001	2 515 756	5 732 097	3 578 758	1 958 704	-	**19 655 467**
Outflows	5 242 802	2 607 920	2 994 439	5 728 262	3 690 862	1 943 246	-	**22 207 531**
Gap – off-balance sheet	**(1 758 841)**	**(1 340 706)**	**(5 700 994)**	**(4 263 914)**	**(1 920 911)**	**(1 439 959)**	**17 619**	

in thousands of PLN

Liquidity Policy Report – Modified Liquidity Gap:

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

Liquidity risk	<1W	<1M	>1M
31.12.2012			
Qualifying Liquid Assets	11 625 907	22 316	2 557 625
Treasury inflows	1 601 209	4 227 328	10 623 160
Other inflows	2 923 994	436 793	37 197 905
Treasury outflows	(1 238 695)	(4 380 125)	(11 211 499)
Other outflows	(5 246 928)	(276 015)	(48 862 975)
GAP	**9 665 487**	**30 297**	**(9 695 784)**
Cumulative GAP	**9 665 487**	**9 695 784**	**-**

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

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

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

Operating Risk

Bank Zachodni WBK adopted the operational risk definition of the Basel Committee on Banking Supervision, which states that: operational risk is the risk of a loss resulting from inadequate or failed internal processes, people and systems or from external events. The objective of the operational risk management is to minimise the likelihood and/or reduce the impact of unexpected adverse events.

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

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

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

The key challenge regarding operational risk management in 2013 were the processes related to the merger between Bank Zachodni WBK and Kredyt Bank. In order to ensure best practice in operational risk management in the transition period, each consolidated activity and integration project were subject to an in-depth analysis in terms of operational risk.

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

- Identification and estimation of operational risk

In the self-assessment process, Bank 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 Bank runs a database of operational incidents identified across the organisation. The data are used to analyse the root cause and consequences of the incidents, capture lessons learned and take preventive and corrective measures.

- Analysis of risk indicators

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

- Business continuity management (BCM)

Each organizational unit is required to develop and update their business continuity management plans to ensure that critical business processes remain uninterrupted following an unplanned disruption because of unavailability of systems, locations and staff. Business continuity plans must be tested at least annually to ensure that it is possible to restore critical business processes at the required service level and within the agreed timeframe. There are backup locations where critical processes can be restored and continued should an incident occur.

- Insurance

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

- Regular reporting to the Risk Management Committee and Supervisory Board

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

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

Legal & compliance risk

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

Risk Identification and Assessment

Within Bank Zachodni WBK several bodies have been assigned to manage legal and regulatory (compliance) risk.

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

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

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

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

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

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

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

Legal and regulatory (compliance) risk management is coordinated by the Compliance Area reporting to the Management Board Member.

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

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

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

4. Capital Management

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

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

in thousands of PLN

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

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

The regulatory solvency ratio is 8%.

Regulatory Capital

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

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

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

		31.12.2013	31.12.2012
I	**Total Capital requirement**	**6 096 879**	**3 649 855**
II	**Own funds after reductions**	**11 596 522**	**7 521 327**
	CAD [II/(I*12.5)]	**15.22%**	**16.49%**

Internal Capital

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

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

For the purpose of the ICAAP process, the Bank 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 Bank Zachodni WBK 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 Bank's strategy.

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

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

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

in thousands of PLN

Subordinated liabilities

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

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

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

Detailed information on subordinated liabilities is presented in Note 32.

5. Net interest income

Interest income	01.01.2013 -31.12.2013	01.01.2012 -31.12.2012
Loans and advances to enterprises	1 762 644	1 558 181
Loans and advances to individuals, of which:	2 078 803	1 212 511
Home mortgage loans	*841 385*	*420 853*
Debt securities incl.:	787 367	676 362
Investment portfolio available for sale	*743 718*	*567 980*
Trading portfolio	*43 649*	*108 382*
Loans and advances to banks	106 386	90 355
Public sector	20 688	23 254
Reverse repo transactions	15 200	11 611
Interest recorded on hedging IRS	314 730	177 191
Total	**5 085 818**	**3 749 465**
Interest expense	**01.01.2013 -31.12.2013**	**01.01.2012 -31.12.2012**
Deposits from individuals	(1 138 676)	(895 857)
Deposits from enterprises	(535 110)	(487 671)
Public sector	(105 435)	(92 795)
Repo transactions	(105 703)	(84 070)
Deposits from banks	(22 566)	(17 743)
Subordinated liabilities	(54 895)	(20 754)
Total	**(1 962 385)**	**(1 598 890)**
Net interest income	**3 123 433**	**2 150 575**

As at 31.12.2013 net interest income includes interest on impaired loans of PLN 258 416 k (as at 31.12.2012 - PLN 73 491 k).

in thousands of PLN

6. Net fee and commission income

Fee and commission income	01.01.2013 -31.12.2013	01.01.2012 -31.12.2012
eBusiness & payments	613 952	440 433
Current accounts and money transfer	311 348	245 868
Foreign exchange commissions	296 676	233 782
Credit commissions	207 093	141 259
Insurance commissions	91 141	93 937
Distribution fees	107 636	80 844
Credit cards	88 138	73 537
Off-balance sheet guarantee commissions	37 744	16 455
Asset management fees	16 811	-
Issue arrangement	12 079	5 007
Other commissions	13 125	6 687
Total	**1 795 743**	**1 337 809**
Fee and commission expense	**01.01.2013 -31.12.2013**	**01.01.2012 -31.12.2012**
eBusiness & payments	(158 549)	(93 892)
Commissions paid to credit agents	(12 514)	(11 745)
Credit cards	(14 706)	(10 014)
Other commissions	(50 869)	(26 374)
Total	**(236 638)**	**(142 025)**
Net fee and commission income	**1 559 105**	**1 195 784**

Included above is fee and commission income on credits, credit cards and off-balance sheet guarantee commissions of PLN 332 975 k (2012: PLN 231 251 k) and fee and commission expenses on credits cards and paid to credit agents of PLN (27 220) k (2012: PLN (21 759) k) other than fees included in determining the effective interest rate), relating to financial assets and liabilities not carried at fair value through profit or 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.

7. Dividend income

Dividend income	01.01.2013 -31.12.2013	01.01.2012 -31.12.2012
Dividends from subsidiaries and joint ventures	75 472	66 865
Dividends from investment portfolio entities	56 580	53 709
Total	**132 052**	**120 574**

in thousands of PLN

8. Net trading income and revaluation

Net trading income and revaluation	01.01.2013 -31.12.2013	01.01.2012 -31.12.2012
Derivative instruments and interbank fx transactions	182 694	152 187
Other FX related income	(5 687)	11 995
Profit on equity instruments	5 706	433
Profit on debt instruments	666	(610)
Total	**183 379**	**164 005**

Net trading income and revaluation includes the write-back of adjustments of derivatives resulting from counterparty risk in the amount of PLN 817 k for 2013 (2012: 3 340 k).Net trading income and revaluation includes depreciation of adjustment to the valuation of day 1 profit or lost for start forward CIRS transactions in the amount of PLN (533) k, disclosed in consolidated statement of financial position in line of Hedging derivatives. The initial valuation will be subject to linear depreciation for maturity of CIRS.

9. Gains (losses) from other financial securities

Gains (losses) from other financial securities	01.01.2013 -31.12.2013	01.01.2012 -31.12.2012
Profit on sale of debt securities	299 334	174 105
Profit on sale of equity shares	(1 171)	1 508
Total profit (losses) on financial instruments	**298 163**	**175 613**
Change in fair value of underlying hedged positions	(69 426)	61 413
Change in fair value of hedging instruments	68 934	(58 540)
Total profit (losses) on hedging and hedged instruments	**(492)**	**2 873**
Total	**297 671**	**178 486**

10. Other operating income

Other operating income	01.01.2013 -31.12.2013	01.01.2012 -31.12.2012
Income on sale of services	23 328	23 886
Reimbursements of BGF charges	15 732	11 274
Release of provision for legal cases and other assets	8 351	5 645
Recovery of other receivables	857	3 292
Settlements of leasing agreements	525	1 626
Received compensations, penalties and fines	667	435
Insurance indemnity received	352	416
Income on sales or liquidation of fixed assets, intangible assets and assets for dispos	6 005	476
Other	13 597	3 884
Total	**69 414**	**50 934**

in thousands of PLN

11. Impairment losses on loans and advances

Impairment losses on loans and advances	01.01.2013 -31.12.2013	01.01.2012 -31.12.2012
Collective and individual impairment charge	(867 642)	(524 730)
Incurred but not reported losses charge	180 337	17 025
Recoveries of loans previously written off	2 118	12 652
Off balance sheet credit related items	(16 355)	4 580
Total	**(701 542)**	**(490 473)**

12. Employee costs

Employee costs	01.01.2013 -31.12.2013	01.01.2012 -31.12.2012
Salaries and bonuses	(1 042 049)	(719 433)
Salary related costs	(168 596)	(112 826)
Staff benefits costs	(31 864)	(20 787)
Professional trainings	(17 371)	(15 662)
Retirement fund, holiday provisions and other employee-related costs	(10 120)	2 422
Total	**(1 270 000)**	**(866 286)**

13. General and administrative expenses

General and administrative expenses	01.01.2013 -31.12.2013	01.01.2012 -31.12.2012
Maintenance and rentals of premises	(379 598)	(222 373)
IT systems costs	(139 557)	(83 613)
Marketing and representation	(121 338)	(73 269)
Bank Guarantee Fund, Polish Financial Supervision Authority	(84 803)	(47 611)
Consulting fees	(126 598)	(40 076)
Postal and telecommunication costs	(52 540)	(36 416)
Car, transport expenses, carriage of cash	(65 099)	(34 796)
Other external services	(66 422)	(33 549)
Stationery, cards, cheques etc.	(31 362)	(18 082)
Sundry taxes	(23 686)	(16 573)
Data transmission	(21 902)	(13 420)
KIR, SWIFT settlements	(19 476)	(11 965)
Security costs	(21 111)	(10 597)
Costs of other repairs	(8 867)	(4 701)
Other	(23 699)	(13 357)
Total	**(1 186 058)**	**(660 398)**

in thousands of PLN

14. Other operating expenses

Other operating expenses	01.01.2013 -31.12.2013	01.01.2012 -31.12.2012
Donation paid	(3 678)	(4 610)
Charge of provisions for legal cases and other assets	(12 279)	(1 977)
Costs of purchased services	(2 028)	(1 757)
Paid compensations, penalties and fines	(1 798)	(1 345)
Other membership fees	(648)	(574)
Losses from past-due receivables	(50)	(270)
Other	(7 318)	(2 756)
Total	**(27 799)**	**(13 289)**

15. Corporate income tax

Corporate income tax	01.01.2013 -31.12.2013	01.01.2012 -31.12.2012
Current tax charge	(287 928)	(419 205)
Deferred tax	(69 981)	82 799
Total	**(357 909)**	**(336 406)**

Corporate total tax charge information	01.01.2013 -31.12.2013	01.01.2012 -31.12.2012
Profit before tax	1 969 380	1 703 995
Tax rate	19%	19%
Tax calculated at the tax rate	(374 182)	(323 759)
Non-deductible expenses	(9 708)	(9 575)
Sale of receivables	(34 842)	(12 587)
Non-taxable income (dividends)	24 909	22 448
Non-tax deductible bad debt provisions	(8 359)	(7 567)
Adjustment on financial instruments	24 660	-
Adjustment of deferred tax of prior years	11 393	-
Technological relief	4 242	-
Other	3 978	(5 366)
Total income tax expense	**(357 909)**	**(336 406)**

Deferred tax recognised directly in equity	01.01.2013 -31.12.2013	01.01.2012 -31.12.2012
Relating to equity securities available-for-sale	(134 346)	(95 539)
Relating to debt securities available-for-sale	(24 028)	(94 445)
Relating to cash flow hedging activity	(8 857)	(15 784)
Total	**(167 231)**	**(205 768)**

in thousands of PLN

16. Earnings per share

Net earnings per share (PLN/share)	01.01.2013 -31.12.2013	01.01.2012 -31.12.2012
Profit attributable to ordinary shares	1 611 471	1 367 589
Weighted average number of ordinary shares	93 337 884	73 835 488
Net earnings per share (PLN)	**17.26**	**18.52**
Profit attributable to ordinary shares	1 611 471	1 367 589
Weighted average number of ordinary shares	93 337 884	73 835 488
Weighted average number of potential ordinary shares *	303 156	302 683
Diluted earnings per share (PLN)	**17.21**	**18.45**

* The weighted average number of potential ordinary shares takes into account the number of share options granted under the incentive scheme described in Note 52.

17. Cash and balances with central banks

Cash and balances with central banks	31.12.2013	31.12.2012
Cash	1 766 253	1 084 104
Current accounts in central banks	3 383 429	3 073 166
Term deposits	-	-
Total	**5 149 682**	**4 157 270**

BZ WBK holds an obligatory reserve on a current account in the National Bank of Poland. The figure is calculated at a fixed percentage of the monthly average balance of the customers' deposits, which in all the covered periods was 3.5%.
In accordance with the applicable regulations, the amount of the calculated provision is reduced by the equivalent of EUR 500 k.

18. Loans and advances to banks

Loans and advances to banks	31.12.2013	31.12.2012
Loans and advances	1 198 899	916 475
Current accounts, other	789 677	470 025
Buy-sell-back transactions	176 987	67 813
Gross receivables	**2 165 563**	**1 454 313**
Impairment write down	(187)	-
Total	**2 165 376**	**1 454 313**

Fair value of loans and advances to banks is presented in Note 40.

in thousands of PLN

19. Financial assets and liabilities held for trading

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

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

Financial assets and liabilities held for trading	31.12.2013		31.12.2012	
	Assets	Liabilities	Assets	Liabilities
Trading derivatives	**1 022 133**	**1 022 114**	**643 094**	**711 669**
Interest rate operations	**632 323**	**632 008**	**365 998**	**371 136**
Options	4 323	4 328	564	564
IRS	614 340	617 987	357 116	358 516
FRA	13 660	9 693	8 318	12 056
Transactions on equity instruments	**2 819**	**717**	**-**	**-**
Options	2 819	717	-	-
FX operations	**386 991**	**389 389**	**277 096**	**340 533**
CIRS	95 642	147 521	77 480	152 711
Forward	28 994	49 144	27 050	22 343
FX Swap	202 087	130 109	142 466	135 140
Spot	792	1 037	901	1 140
Options	59 476	61 578	29 199	29 199
Debt and equity securities	**1 166 539**	**-**	**175 487**	**-**
Debt securities	**1 166 539**	**-**	**175 487**	**-**
Government securities:	966 567	-	175 487	-
- bonds	966 567	-	175 487	-
Central Bank securities:	199 972	-	-	-
- bills	199 972	-	-	-
Short sale	**-**	**255 133**	**-**	**17 162**
Total financial assets/liabilities	**2 188 672**	**1 277 247**	**818 581**	**728 831**

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

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

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

Profit and loss from fair value changes of financial assets and liabilities held for trading are disclosed under net trading income and revaluation in the 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. As at 31.12.2013 and in comparable period there were no cases of instruments designated to financial assets measured at fair value through profit and loss at initial recognition.

in thousands of PLN

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

	Derivatives' nominal values	31.12.2013	31.12.2012
1.	**Term derivatives (hedging)**	**29 792 094**	**14 675 607**
a)	Single-currency interest rate swaps	2 665 000	1 085 000
b)	Macro cash flow hedge -purchased (IRS)	3 229 513	2 213 144
c)	Macro cash flow hedge -purchased (CIRS)	11 847 013	5 585 823
d)	Macro cash flow hedge -sold (CIRS)	12 050 568	5 791 640
2.	**Term derivatives (trading)**	**128 448 020**	**69 681 667**
a)	Interest rate operations	81 780 541	35 419 700
	Single-currency interest rate swaps	57 528 184	28 068 156
	FRA - purchased amounts	23 350 000	6 850 000
	Options	902 357	501 544
b)	FX operations	46 667 479	34 261 967
	FX swap – purchased amounts	10 713 501	8 020 505
	FX swap – sold amounts	10 626 592	8 008 784
	Forward- purchased amounts	2 546 613	1 483 082
	Forward- sold amounts	2 585 261	1 482 429
	Cross-currency interest rate swaps – purchased amounts	5 454 320	4 965 537
	Cross-currency interest rate swaps – sold amounts	5 523 508	5 033 742
	FX options -purchased CALL	2 272 212	1 250 855
	FX options -purchased PUT	2 336 630	1 383 089
	FX options -sold CALL	2 272 212	1 250 855
	FX options -sold PUT	2 336 630	1 383 089
3.	**Currency transactions- spot**	**2 076 924**	**1 889 992**
	Spot-purchased	1 038 347	944 898
	Spot-sold	1 038 577	945 094
4.	**Transactions on equity financial instruments**	**271 382**	**-**
	Futures - purchased	11 275	-
	Futures - sold	260 107	-
	Total	**160 588 420**	**86 247 266**

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

20. Hedging derivatives

Hedging derivatives	31.12.2013		31.12.2012	
	Assets	Liabilities	Assets	Liabilities
IRS hedging fair value	21 567	25 091	-	60 214
IRS hedging cash flow	300 389	342 445	253 553	262 038
Total hedging derivatives	**321 956**	**367 536**	**253 553**	**322 252**

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

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

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

in thousands of PLN

21. Loans and advances to customers

Loans and advances to customers	31.12.2013	31.12.2012
Loans and advances to enterprises	36 659 729	27 080 320
Loans and advances to individuals, of which:	34 035 141	13 697 343
Home mortgage loans	*25 294 769*	*8 080 532*
Loans and advances to public sector	225 361	105 366
Buy-sell-back transactions	40 718	15 234
Other	9 297	11 815
Gross receivables	**70 970 246**	**40 910 078**
Impairment write down	(3 355 704)	(1 445 377)
Total	**67 614 542**	**39 464 701**

As at 31.12.2013 the fair value adjustment due to hedged risk on corporate loans was PLN 2 279 k (as at 31.12.2012 – PLN nil). Fair value of "loans and advances to customers" is disclosed in Note 40.

Movements on impairment losses on loans and advances to customers	31.12.2013	31.12.2012
Individual and collective impairment		
As at the beginning of the period	(1 121 025)	(982 865)
Individual and collective impairment acquired in a business combination	(1 645 106)	-
Charge/write back of current period	(867 642)	(524 730)
Write off/Sale of receivables	691 446	367 341
Transfer	13 364	16 215
F/X differences	6 298	3 014
Balance at the end of the period	**(2 922 665)**	**(1 121 025)**
IBNR		
As at the beginning of the period	(324 352)	(331 177)
IBNR acquired in a business combination	(196 873)	-
Charge/write back of current period	180 524	17 025
Transfer	(89 462)	(13 018)
F/X differences	(2 876)	2 818
Balance at the end of the period	**(433 039)**	**(324 352)**
Allowance for impairment	**(3 355 704)**	**(1 445 377)**

22. Investment securities available for sale

Investment securities available for sale	31.12.2013	31.12.2012
Available for sale investments - measured at fair value		
Debt securities	**21 069 359**	**11 048 024**
Government securities:	13 101 982	7 711 424
- bonds	13 101 982	7 711 424
Central Bank securities:	5 599 222	2 099 256
- bills	5 599 222	2 099 256
Commercial securities:	2 368 155	1 237 344
- bonds	2 368 155	1 237 344
Equity securities	**834 275**	**610 353**
- listed	24 902	2 759
- unlisted	809 373	607 594
Investment certificates	**20 855**	**39 016**
Total	**21 924 489**	**11 697 393**

As at 31.12.2013 fixed interest rate debt securities measured at fair value amount to PLN 18 857 130 k, variable interest rate securities amount to PLN 2 212 229 k.

in thousands of PLN

As at 31.12.2012 fixed interest rate debt securities measured at fair value amount to PLN 9 838 570 k, variable interest rate securities amount to PLN 1 209 454 k.
As at 31.12.2013 fair value adjustment resulting from fair value hedge on available for sale bonds totaled PLN (9 151) k (as at 31.12.2012 PLN 62 554 k).

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

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

Fair value of „Investment securities available for sale" is presented in Note 40.

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2013	**11 048 024**	**649 369**	**11 697 393**
Investment securities available for sale aquired in a business combination	**7 701 195**	**846**	**7 702 041**
Additions	219 046 087	-	219 046 087
Disposals (sale and maturity)	(216 231 933)	(15 248)	(216 247 181)
Fair value adjustment	(442 321)	205 557	(236 764)
Movements on interest accrued	(65 202)	-	(65 202)
Allowances for impairment	-	(2 468)	(2 468)
F/X differences	13 509	(9)	13 500
Transfer	-	17 083	17 083
F/X differences	**21 069 359**	**855 130**	**21 924 489**

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2012	**10 971 561**	**653 582**	**11 625 143**
Additions	41 537 666	3 319	41 540 985
Disposals (sale and maturity)	(41 659 215)	(3 969)	(41 663 184)
Fair value adjustment	448 057	(2 167)	445 890
Movements on interest accrued	(226 281)	-	(226 281)
Allowance for impairment	-	(1 386)	(1 386)
F/X differences	(23 764)	(10)	(23 774)
As at 31 December 2012	**11 048 024**	**649 369**	**11 697 393**

in thousands of PLN

23. Financial assets held to maturity

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

Fair value of „Financial assets held to maturity" is presented in Note 40.

24. Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures	31.12.2013	31.12.2012
Subsidiaries	271 191	218 127
Associates	8 000	8 000
Joint ventures	-	38 531
Total	**279 191**	**264 658**

Fair value of "Investment in subsidiaries, associates and joint ventures" is presented in Note 40.

in thousands of PLN

Investments in subsidiaries, associates as at 31.12.2013

Name of entity	BZ WBK Inwestycje Sp. z o.o.	BZ WBK Finanse Sp. z o.o.	Dom Maklerski BZ WBK S.A.	BZ WBK Nieruchomości S.A.	BZ WBK Asset Management S.A.	BFI Serwis Sp. z o.o. w likwidacji ***	POLFUND - Fundusz Poręczeń Kredytowych S.A.*	BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.	BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Total
Registered office	Poznań	Poznań	Poznań	Poznań	Poznań	Warszawa	Szczecin	Poznań	Poznań	
Type of connection	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Associate	Subsidiary	Subsidiary	
% of holding**	100.00	100.00	99.99	99.99	50.00	100.00	50.00	66.00	66.00	
Balance sheet value	46 600	130 097	45 925	753	6 755	2 530	8 000	20 015	18 516	**279 191**
Total assets	55 978	173 746	937 720	785	123 002	2 631	93 102	947 947	332 934	**2 667 845**
Own funds of entity, of which:	55 947	172 332	193 937	774	118 295	2 631	85 204	57 229	69 749	**756 098**
Share capital	100	1 165	44 974	750	13 500	2 530	16 000	24 250	27 000	130 269
Other own funds, of which:	55 847	171 167	148 963	24	104 795	101	69 204	32 979	42 749	625 829
from previous years	-	-	-	*(44)*	-	-	-	*13 584*	*20 017*	*33 557*
net profit (loss)	*993*	*5 914*	*33 232*	*(25)*	*47 411*	*101*	*2 819*	-	-	*90 445*
Liabilities of entity	31	1 414	743 783	11	4 707	-	7 898	890 718	263 185	**1 911 747**
Revenue	413	7 623	141 828	328	67 828	257	8 473	603 766	133 350	**963 866**

*selected financial information as at end of November 2013

** states percentage share of associates

*** BFI Serwis Sp. z o.o. in liquidation was acquired in a merger of BZ WBK and Kredyt Bank

Name of entity	Business
BZ WBK Inwestycje Sp. z o.o.	trading in shares of commercial companies as well as other securities; seeking investors for companies
BZ WBK Finanse Sp. z o.o.	centralised managemet of the bank's subsidiaries: BZ WBK Leasing S.A., Kredyt Lease SA and BZ WBK Faktor Sp. z o.o.
Dom Maklerski BZ WBK S.A.	offering securities on the primary market, buying and selling securities on customers' account, buying and selling securities on one's own account in order to perform duties related to organization of the regulated market
BZ WBK Nieruchomości S.A.	organisation of various events, catering and hotel services, agency services
BZ WBK Asset Management S.A.	brokerage activities: managing customer's share portfolios (listed and not listed)
BFI Serwis Sp. z o.o. w likwidacji	other activities auxiliary to financial services and other
POLFUND - Fundusz Poręczeń Kredytowych S.A.	providing lending guarantees, investing and managing funds invested in companies, management
BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.	life insurance
BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	property and personal insurance

in thousands of PLN

Investments in subsidiaries, associates and joint ventures as at 31.12.2012

Name of entity	BZ WBK Inwestycje Sp. z o.o.	BZ WBK Finanse Sp. z o.o.	Dom Maklerski BZ WBK S.A.	BZ WBK Nieruchomości S.A.	BZ WBK Asset Management S.A.	POLFUND - Fundusz Poręczeń Kredytowych S.A.*	BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.*	BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.*	Total
Registered office	Poznań	Poznań	Poznań	Poznań	Poznań	Szczecin	Poznań	Poznań	
Type of connection	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Associate	Joint venture	Joint venture	
% of holding**	100.00	100.00	99.99	99.99	50.00	50.00	50.00	50.00	
Balance sheet value	46 600	118 094	45 925	753	6 755	8 000	20 015	18 516	**264 658**
Total assets	56 886	118 080	1 116 806	809	155 680	89 088	1 012 477	273 876	**2 823 702**
Own funds of entity, of which:	56 844	118 071	188 029	802	151 726	83 466	53 047	51 183	**703 168**
Share capital	100	1 050	44 974	750	13 500	16 000	24 250	27 000	127 624
Other own funds, of which:	56 744	117 021	143 055	52	138 226	67 466	28 797	24 183	575 544
from previous years	-	-	-	-	-	*2 389*	-	-	*2 389*
net profit (loss)	*2 816*	*8*	*27 792*	*(41)*	*80 842*	*3 697*	*12 943*	*14 165*	*142 222*
Liabilities of entity	42	9	928 777	7	3 954	5 622	959 430	222 693	**2 120 534**
Revenue	2 431	63	136 812	278	102 396	10 316	594 262	103 242	**949 800**

*selected financial information as at end of November 2012

** states percentage share of associates or joint ventures profits

Name of entity	Business
BZ WBK Inwestycje Sp. z o.o.	trading in shares of commercial companies as well as other securities; seeking investors for companies
BZ WBK Finanse Sp. z o.o.	centralised managemet of the bank's subsidiaries: BZ WBK Finanse & Leasing S.A, BZ WBK Leasing S.A. and BZ WBK Faktor Sp. z o.o.
Dom Maklerski BZ WBK S.A.	offering securities on the primary market, buying and selling securities on customers' account, buying and selling securities on one's own account in order to perform duties related to organization of the regulated market
BZ WBK Nieruchomości S.A.	organisation of various events, catering and hotel services, agency services
BZ WBK Asset Management S.A.	brokerage activities: managing customer's share portfolios (listed and not listed)
POLFUND - Fundusz Poręczeń Kredytowych S.A.	providing lending guarantees, investing and managing funds invested in companies, management
BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.	life insurance
BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	property and personal insurance

in thousands of PLN

25. Intangible assets

Intangible assets Year 2013	Licences, patents etc.	Other	Expenditure on intangible assets	Total
Gross value - beginning of the period	**706 999**	**6 019**	**39 371**	**752 389**
Intangible assets acquired in a business combination	**307 318**	**207 756**	**6 698**	**521 772**
Additions from:				
- purchases	-	-	92 490	**92 490**
- intangible assets taken for use	38 165	-	-	**38 165**
- transfers	20 507	-	73	**20 580**
Disposals from:				
- liquidation	(8 386)	-	(104)	**(8 490)**
- intangible assets taken for use	-	-	(38 165)	**(38 165)**
- transfers	-	-	(501)	**(501)**
Gross value - end of the period	**1 064 603**	**213 775**	**99 862**	**1 378 240**
Accumulated depreciation - beginning of the period	**(632 692)**	**(6 019)**	**-**	**(638 711)**
Accumulated depreciation acquired in a business combinations	**(288 053)**	**-**	**-**	**(288 053)**
Additions/disposals from:				
- current year amortisation	(58 875)	(46 440)	-	**(105 315)**
- liquidation	8 385	-	-	**8 385**
- transfers	(12 102)	-	-	**(12 102)**
Write down/Reversal of impairment write down	361	-	-	**361**
Accumulated depreciation- end of the period	**(982 976)**	**(52 459)**	**-**	**(1 035 435)**
Balance sheet value				
Purchase value	1 064 603	213 775	99 862	**1 378 240**
Accumulated depreciation	(982 976)	(52 459)	-	**(1 035 435)**
As at 31 December 2013	**81 627**	**161 316**	**99 862**	**342 805**

in thousands of PLN

Intangible assets Year 2012	Licences, patents etc.	Other	Expenditure on intangible assets	Total
Gross value - beginning of the period	**657 832**	**6 019**	**71 864**	**735 715**
Additions from:				
- purchases	-	-	37 745	**37 745**
- intangible assets taken for use	70 120	-	-	**70 120**
Disposals from:				
- liquidation	(446)	-	(21)	**(467)**
- intangible assets taken for use	-	-	(70 120)	**(70 120)**
- transfers	(20 507)	-	(97)	**(20 604)**
Gross value - end of the period	**706 999**	**6 019**	**39 371**	**752 389**
Accumulated depreciation - beginning of the period	**(595 115)**	**(6 019)**	**-**	**(601 134)**
Additions/disposals from:				
- current year amortisation	(43 464)	-	-	**(43 464)**
- liquidation	326	-	-	**326**
- transfers	5 561	-	-	**5 561**
Accumulated depreciation- end of the period	**(632 692)**	**(6 019)**	**-**	**(638 711)**
Balance sheet value				
Purchase value	706 999	6 019	39 371	**752 389**
Accumulated depreciation	(632 692)	(6 019)	-	**(638 711)**
As at 31 December 2012	**74 307**	**-**	**39 371**	**113 678**

in thousands of PLN

26. Property, plant and equipment

Property, plant & equipment Year 2013	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value - beginning of the period	**644 123**	**429 579**	**53 318**	**180 470**	**28 250**	**1 335 740**
Property, plant and equipment acquired in a business combination	**379 797**	**282 917**	**1 442**	**106 942**	**9 087**	**780 185**
Additions from:						
- purchases	-	-	-	-	77 237	**77 237**
- leasing	-	-	2 645	-	-	**2 645**
- fixed assets taken for use	4 489	34 911	-	14 460	-	**53 860**
- transfers	-	46	-	162	44	**252**
Disposals from:						
- sale, liquidation, donation	(20 897)	(18 298)	(256)	(12 111)	(2 339)	**(53 901)**
- fixed assets taken for use	-	-	-	-	(53 860)	**(53 860)**
- transfers	(10 421)	(20 507)	(7 128)	-	(636)	**(38 692)**
Gross value - end of the period	**997 091**	**708 648**	**50 021**	**289 923**	**57 783**	**2 103 466**
Accumulated depreciation - beginning of the period	**(364 719)**	**(332 487)**	**(13 173)**	**(157 333)**	**-**	**(867 712)**
Accumulated depreciation acquired in a business combinations	**(235 387)**	**(247 994)**	**(383)**	**(90 878)**	**-**	**(574 642)**
Additions/disposals from:						
- current year amortisation	(35 144)	(46 539)	(8 024)	(14 322)	-	**(104 029)**
- sale, liquidation, donation	17 403	18 206	256	11 585	-	**47 450**
- transfers	-	12 057	4 800	(162)	-	**16 695**
Accumulated depreciation- end of the period	**(617 847)**	**(596 757)**	**(16 524)**	**(251 110)**	**-**	**(1 482 238)**
Balance sheet value						
Purchase value	997 091	708 648	50 021	289 923	57 783	**2 103 466**
Accumulated depreciation	(617 847)	(596 757)	(16 524)	(251 110)	-	**(1 482 238)**
As at 31 December 2013	**379 244**	**111 891**	**33 497**	**38 813**	**57 783**	**621 228**

in thousands of PLN

Property, plant & equipment Year 2012	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value - beginning of the period	**647 507**	**253 469**	**57 989**	**328 160**	**21 258**	**1 308 383**
Additions from:						
- purchases	-	-	-	-	38 347	**38 347**
- leasing	-	-	21 538	-	-	**21 538**
- fixed assets taken for use	1 102	21 516	-	8 731	-	**31 349**
- transfers	-	171 008	-	-	97	**171 105**
Disposals from:						
- sale, liquidation, donation	(4 486)	(16 414)	(696)	(5 920)	(104)	**(27 620)**
- fixed assets taken for use	-	-	-	-	(31 348)	**(31 348)**
- transfers	-	-	(25 513)	(150 501)	-	**(176 014)**
Gross value - end of the period	**644 123**	**429 579**	**53 318**	**180 470**	**28 250**	**1 335 740**
Accumulated depreciation - beginning of the period	**(342 719)**	**(208 198)**	**(22 608)**	**(248 546)**	**-**	**(822 071)**
Additions/disposals from:						
- current year amortisation	(24 694)	(37 317)	(8 264)	(12 178)	-	**(82 453)**
- sale, liquidation, donation	2 694	16 246	696	5 734	-	**25 370**
- transfers	-	(103 218)	17 003	97 657	-	**11 442**
Write down/Reversal of impairment write down	-	-	-	-	-	**-**
Accumulated depreciation- end of the period	**(364 719)**	**(332 487)**	**(13 173)**	**(157 333)**	**-**	**(867 712)**
Balance sheet value						
Purchase value	644 123	429 579	53 318	180 470	28 250	**1 335 740**
Accumulated depreciation	(364 719)	(332 487)	(13 173)	(157 333)	-	**(867 712)**
As at 31 December 2012	**279 404**	**97 092**	**40 145**	**23 137**	**28 250**	**468 028**

in thousands of PLN

27. Net deferred tax assets

Deferred tax asset	31.12.2013	31.12.2012
Provisions for loans	468 259	146 584
Unrealized liabilities due to derivatives	271 334	214 291
Other provisions which are not yet taxable costs	93 700	51 199
Deferred income	149 472	91 603
Unrealised interest expense on loans, deposits and securities	45 026	115 553
Depreciation, amortisation - effects of a change in estimate	-	14 369
Other	6 116	2 247
Total	**1 033 907**	**635 846**

Deferred tax liability	31.12.2013	31.12.2012
Revaluation of financial instruments available for sale*	(159 734)	(189 984)
Unrealised receivables on derivatives	(242 827)	(170 197)
Unrealised interests from loans, securities and interbank deposits	(141 746)	(82 932)
Provision due to application of investment relief	(3 402)	(3 088)
Difference between balance sheet and taxable value of unfinancial value assets	(4 949)	-
Cash flow hedges valuation*	(7 498)	(15 784)
Other	(3 950)	(1 416)
Total	**(564 106)**	**(463 401)**

Net deferred tax assets	**469 801**	**172 445**

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

As at 31 December 2013 the calculation of deferred tax asset did not include purchased receivables of PLN 16 614 k and loans that will not be realised of PLN 105 361 k.
As at 31 December 2012 the calculation of deferred tax asset did not include purchased receivables of PLN 14 728 k and loans that will not be realised of PLN 56 485 k.

Movements on net deferred tax	31.12.2013	31.12.2013
As at the beginning of the period	172 445	165 775
Changes on net deferred tax in a business combination	321 390	-
Changes recognised in income statement	(69 980)	82 799
Changes recognised in other net comprehensive income	38 535	(76 129)
Changes recognised in goggwill	7 411	-
As at end of the period	**469 801**	**172 445**

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 provision for impairment of loans and receivables and assets in the course of business.

28. Assets classified as held for sale

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

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

in thousands of PLN

29. Other assets

Other assets	31.12.2013	31.12.2012
Sundry debtors	215 477	150 149
Interbank and interbranch settlements	260 445	76 800
Prepayments	46 059	29 718
Repossessed assets*	60 965	74 764
Other	173	52
Total	**583 119**	**331 483**

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

30. Deposits from banks

Deposits from banks	31.12.2013	31.12.2012
Repo transactions	4 438 563	668 150
Term deposits, other	1 379 630	331 073
Current accounts	460 591	292 432
Total	**6 278 784**	**1 291 655**

Fair value of “Deposits from banks” is presented in Note 40.

31. Deposits from customers

Deposits from customers	31.12.2013	31.12.2012
Deposits from individuals	**47 470 810**	**28 073 106**
Term deposits	22 334 145	15 980 357
Current accounts	25 074 065	12 053 225
Other	62 600	39 524
Deposits from enterprises	**27 766 433**	**17 187 024**
Term deposits	13 565 131	9 424 385
Current accounts	11 452 518	6 239 902
Loans and advances	2 119 230	1 022 564
Sell-buy-back transactions	166 973	205 032
Other	462 581	295 141
Deposits from public sector	**3 498 420**	**1 902 039**
Term deposits	1 152 427	648 281
Current accounts	2 333 501	1 251 994
Other	12 492	1 764
Total	**78 735 663**	**47 162 169**

As at 31.12.2013 deposits held as collateral totalled PLN 332 173 k (as at 31.12.2012 – PLN 235 536 k).

Fair value of “Deposits from customers” is presented in Note 40.

in thousands of PLN

32. Subordinated liabilities

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

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

Other details on these liabilities are disclosed in Note 4.

33. Debt securities in issue

Debt securities in issue	Nominal value	Currency	Redemption date	31.12.2013
Tranche 1	500 000	PLN	19.12.2016	
Debt securities in issue - as at the end of the period				**500 695**

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

in thousands of PLN

34. Other liabilities

Other liabilities	31.12.2013	31.12.2012
Provisions:	412 829	212 922
Employee provisions	*267 965*	*176 457*
Provisions for legal claims	*44 630*	*15 546*
Provisions for off balance sheet credit facilities	*96 934*	*17 619*
Other	*3 300*	*3 300*
Interbank and interbranch settlements	250 941	217 711
Other deferred and suspended income	145 830	96 350
Sundry creditors	194 653	225 775
Accrued liabilities	96 551	51 153
Public and law settlements	44 359	33 697
Total	**1 145 163**	**837 608**

The Bank 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 51.

Change in provisions	31.12.2013	31.12.2012
As at the beginning of the period	**212 922**	**226 501**
Employee provisions	176 457	179 494
Provisions for legal claims	15 546	17 484
Provisions for off balance sheet credit facilities	17 619	22 223
Other	3 300	7 300
Provision acquired in a business combination	**184 815**	**-**
Employee provisions	92 679	-
Provisions for legal claims	28 961	-
Provisions for off-balance sheet credit facilities	63 175	-
Other	-	-
Provision charge	**522 530**	**214 357**
Employee provisions	257 921	171 094
Provisions for legal claims	2 208	355
Provisions for off balance sheet credit facilities	262 401	42 908
Other	-	-
Utilization	**(244 554)**	**(163 460)**
Employee provisions	(243 890)	(161 876)
Provisions for legal claims	(448)	(1 560)
Provisions for off balance sheet credit facilities	(216)	(24)
Other	-	-
Write back	**(255 730)**	**(64 476)**
Employee provisions	(8 048)	(12 255)
Provisions for legal claims	(1 637)	(733)
Provisions for off balance sheet credit facilities	(246 045)	(47 488)
Other	-	(4 000)
Other changes	**(7 154)**	**-**
Employee provisions	(7 154)	-
Provisions for legal claims	-	-
Provisions for off-balance sheet credit facilities	-	-
Other	-	-
Balance at the end of the period	**412 829**	**212 922**
Employee provisions	**267 965**	**176 457**
Provisions for legal claims	**44 630**	**15 546**
Provisions for off balance sheet credit facilities	**96 934**	**17 619**
Other	**3 300**	**3 300**

in thousands of PLN

35. Share capital

31.12.2013

Series/issue	Type of share	Type of preferences	Limitation of rights to shares	Number of shares	Nominal value of series/issue
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%. The remaining shares are in free float.

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

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

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

- The Management Board of Bank Zachodni WBK announced that on 8 January 2013 it became aware that the management board of the KDPW adopted resolution No. 24/13 on the registration of 18,907,458 series J shares in the Bank, i.e. the shares in the Bank issued in connection with its merger with Kredyt Bank. Pursuant to the KDPW resolution, the registration of the series J shares under code 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 this resolution of the KDPW, the reference date was set at 9 January 2013. The information memorandum prepared by the Bank in connection with the merger defines the reference date as the date at which the number of shares in Kredyt Bank held by shareholders of Kredyt Bank will be determined in exchange for which the series J shares in the Bank will be allotted to such shareholders in accordance with an agreed exchange ratio.

- On 24 January 2013 the Management Board of Bank Zachodni WBK announced that it had received a message from the Operations Department of the National Depository for Securities (Dział Operacyjny Krajowego Depozytu Papierów Wartościowych S.A.) ("KDPW") stating that on 25 January 2013 the KDPW would register 18,907,458 series J shares in the Bank with a nominal value of PLN 10 each, i.e. the merger shares in the Bank issued in connection with its merger with Kredyt Bank which were assigned the code: 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.

in thousands of PLN

- 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 hereby informs that on 31 July 2013 ING Otwarty Fundusz Emerytalny the notification on Company's shares sale and on the percentage share in the total number of votes, i.e. notification that Fund's stake in the share capital of the Company and in the total number of votes at the general meeting decreased below the threshold of 5%.

31.12.2012

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

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

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

36. Other reserve funds

Other reserve funds	31.12.2013	31.12.2012
General banking risk fund	649 810	649 810
Share premium	4 932 848	578 083
Other reserves of which:	4 741 916	4 064 982
Reserve capital	*4 630 244*	*3 953 310*
Supplementary capital	*111 672*	*111 672*
Total	**10 324 574**	**5 292 875**

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

Reserve capital as at 31.12.2013 includes share scheme charge of PLN 78 936 k, as at 31.12.2012 of PLN 58 648 k.
Other movements of other reserve funds are presented in "movements on equity" for 2013 and 2012.

in thousands of PLN

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

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

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

37. Revaluation reserve

Revaluation reserve	31.12.2013	31.12.2012
As at 31 December	877 221	552 669
Change in available for sale investments	132 979	555 831
Gross valuation related to cash flow hedge	(43 610)	18 955
Actuarial gains on retirement allowances	7 154	-
Decrease in revaluation reserve related to sale of investments	(299 344)	(174 105)
Deferred tax adjustment	38 536	(76 129)
Total	**712 936**	**877 221**

38. Hedge accounting

The Bank applies hedge accounting in line with the risk management assumptions described in note 3 of the annual financial statements.

Fair value hedge

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

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

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

The tables below contain details about individual groups of hedge transactions for 2013 and the comparative period:

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	(2 848)
Fair value adjustment of hedged instrument due to hedged risk 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	do roku 2023	up to 2018

in thousands of PLN

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

Cash flow hedging

Bank Zachodni WBK applies future cash flow hedge accounting. Hedge relationships are created using CIRS. The objective is to hedge against the risk of variability of future cash flow arising from fluctuations in exchange rates and market interest rates. A cash flow hedge is used in respect of foreign currency loans carrying variable interest rate.
Hedged items are measured at amortised cost. Hedging items are measured at fair value. Once effectiveness criteria of hedge accounting are met, a change in the fair value of hedging instruments is recognised in equity.

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

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

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

Bank Zachodni WBK 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 Bank's balance sheet portfolio.

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

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

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

The Bank 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 Bank does not retain any rewards or risks attaching to these assets.

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

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

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

in thousands of PLN

40. Fair value

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

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

Assets	31.12.2013		31.12.2012	
	Book Value	Fair Value	Book Value	Fair Value
Cash and balances with central banks	5 149 682	5 149 682	4 157 270	4 157 270
Loans and advances to banks	2 165 376	2 165 376	1 454 313	1 454 319
Financial assets held for trading	2 188 672	2 188 672	818 581	818 581
Hedging derivatives	321 956	321 956	253 553	253 553
Loans and advances to customers	67 614 542	68 185 873	39 464 701	39 547 083
Investment securities	21 924 489	21 924 489	11 697 393	11 697 393
Investments in subsidiaries, associates and joint ventures	279 191	279 191	264 658	264 658
Liabilities				
Deposits from central bank	-	-	-	-
Deposits from banks	6 278 784	6 278 784	1 291 655	1 291 574
Hedging derivatives	367 536	367 536	322 252	322 252
Financial liabilities held for trading	1 277 247	1 277 247	728 831	728 831
Subordinated liabilities	1 384 719	1 623 024	409 110	509 642
Deposits from customers	78 735 663	78 711 528	47 162 169	47 182 487

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

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

Loans and advances to customers: Carried at net value after impairment charges. Fair value is calculated as the discounted value of the expected future cash flows in respect of principal and interest payments. It is assumed that loans and advances will be repaid at their contractual maturity date. The estimated fair value of the loans and advances reflects changes in the credit risk from the moment of sanction (margins) and changes in interest rates. As the reporting date no estimates were made with regard to the fair value of the portfolio of mortgage loans denominated in CHF due to the lack of an active market for similar products, however in case of that part of the portfolio of mortgage loans denominated in CHF acquired from Kredyt Bank, the carrying amount includes the fair value component established as at the merger date.

Financial assets not carried at fair value: The Bank 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.

in thousands of PLN

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

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

As at 31 December 2013 and in the comparable periods the Bank 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 Bank 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 and 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): The level includes equity securities that are not quoted in the active market, measured using the expert valuation model; investment certificates measured at the balance sheet date at the price announced by the mutual fund and debt securities (commercial and municipal bonds).

As at 31 December 2013 and in the comparable period the Bank classified its financial instruments to the following fair value levels.

31.12.2013	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	756 951	1 431 721	-	2 188 672
Hedging derivatives	-	321 956	-	321 956
Financial investment assets - debt securities	10 889 753	10 179 606	-	21 069 359
Financial investment assets - equity securities	23 740	-	831 390	855 130
Total	**11 670 444**	**11 933 283**	**831 390**	**24 435 117**
Financial liabilities				
Financial liabilities held for trading	255 133	1 022 114	-	1 277 247
Hedging derivatives	-	367 536	-	367 536
Total	**255 133**	**1 389 650**	**-**	**1 644 783**

31.12.2012	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	174 922	463 509	180 150	818 581
Hedging derivatives	-	253 553	-	253 553
Financial investment assets - debt securities	6 501 969	3 308 711	1 237 344	11 048 024
Financial investment assets - equity securities	2 759	-	646 610	649 369
Total	**6 679 650**	**4 025 773**	**2 064 104**	**12 769 527**
Financial liabilities				
Financial liabilities held for trading	17 162	637 487	74 182	728 831
Hedging derivatives	-	322 252	-	322 252
Total	**17 162**	**959 739**	**74 182**	**1 051 083**

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
31.12.2013	**Financial assets held for trading**	**Financial investment assets - debt securities**	**Financial investment assets - equity securities**	**Financial liabilities held for trading**
Beginning of the period	**180 150**	**1 237 344**	**646 610**	**(74 182)**
Profit or losses				
recognised in income statement	-	-	-	-
recognised in equity	-	-	*195 235*	-
Purchase	-	-	-	-
Sale	-	-	(12 304)	-
Matured	-	-	-	-
Impairment	-	-	-	-
Transfer	(180 150)	(1 237 344)	1 849	74 182
At the period end	**-**	**-**	**831 390**	**-**

In the fourth quarter, the Bank has made the transfer between the second and third level of the fair value of derivative instruments (financial assets held for trading PLN 180 million, financial liabilities held for trading worth PLN 74 million) and available for sale debt instruments. This change was dictated by the change in approach to valuation model of these instruments. Today, the process of valuation is the same as for instruments concluded with a bank counterparties and is based on regularly observed market rates. There were no other transfers between the first, second and third category of fair value.

Level III	Financial assets			Financial liabilities
31.12.2012	**Financial assets held for trading**	**Financial investment assets - debt securities**	**Financial investment assets - equity securities**	**Financial liabilities held for trading**
Beginning of the period	**176 870**	**77 789**	**651 012**	**(46 906)**
Profit or losses				
recognised in income statement	*17 832*	*10 972*	-	*7 343*
recognised in equity	-	*83 703*	*(6 981)*	-
Purchase	-	1 064 880	3 713	-
Sale	-	-	(1 134)	-
Matured	(14 552)	-	-	(34 619)
Impairment	-	-	-	-
At the period end	**180 150**	**1 237 344**	**646 610**	**(74 182)**

41. Contingent liabilities

Significant court proceedings conducted by Bank Zachodni WBK

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

The value of all litigation amounts to PLN 306 482 k, which is ca. 2.26% of the Bank's equity. This amount includes PLN 66 492 k claimed by the Bank, PLN 197 822 k in claims against the Bank and PLN 42 168 k are Bank's receivables due to bankruptcy or arrangement cases.

In 2013 the amount of significant court proceedings which had been completed amounted to PLN 64 948 k.

in thousands of PLN

As at 31 December 2012, no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank amounting to a minimum of 10% of the Bank's equity.

The value of all litigation amounts to PLN 114 162 k, which is ca. 1.38% of the Bank's equity. This amount includes PLN 36 096 k claimed by the Bank, PLN 77 957 k in claims against the Bank and PLN 109 k are Bank's receivables due to bankruptcy or arrangement cases.

In 2012 the amount of significant court proceedings which had been completed amounted to PLN 77 997 k.

The Bank raises provisions for legal risk where an internal risk assessment for a particular case indicates a possible outflow of cash. Provisions for cases disputed in court are presented in Note 34.

Off-balance sheet liabilities

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

Contingent liabilities - sanctioned	31.12.2013	31.12.2012
Liabilities sanctioned		
- financial	**16 575 460**	**11 324 306**
- credit lines	14 211 743	10 118 501
- credit cards debits	1 875 786	1 109 436
- import letters of credit	441 505	96 369
- term deposits with future commencement term	46 426	-
- guarantees	**4 084 271**	**2 531 336**
Total	**20 659 731**	**13 855 642**

42. Assets and liabilities pledged as collateral

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

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

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

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

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

Other assets pledged and liabilities accepted as collateral are disclosed in Notes 31 and 38.

in thousands of PLN

43. Finance and operating leases

Finance leases

Bank Zachodni WBK acts as a lessee in finance lease agreements where the lessor side is represented by BZ WBK leasing subsidiaries. The leasing contracts finance purchase of cars and furniture.

Finance leases gross liabilities - maturity	31.12.2013	31.12.2012
less than 1 year	9 813	8 894
between 1 and 5 years	20 117	28 076
Total	**29 930**	**36 970**

Present value of minimum lease payments - maturity	31.12.2013	31.12.2012
less than 1 year	8 059	7 660
between 1 and 5 years	18 746	25 258
Total	**26 805**	**32 918**

Reconciliation between the gross investment and the present value of minimum lease payments	31.12.2013	31.12.2012
Finance leases gross liabilities	29 930	36 970
Unrealised financial costs	(3 125)	(4 052)
Present value of minimum lease payments	**26 805**	**32 918**

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 Bank. In 2013 and 2012 rentals totalled PLN 264 999 k and PLN 152 689 k, respectively. These payments are presented in the profit and loss account under "operating expenses".

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

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

44. Statement of cash flow- additional information

Table below specifies components of cash balances of Bank Zachodni WBK

Cash components	31.12.2013	31.12.2012
Debt investment financial instruments	5 149 682	4 157 270
Deposits in other banks, current account	1 304 278	1 444 206
Debt secutities held for trading	199 972	-
Investment securities	5 599 222	2 099 256
Total	**12 253 154**	**7 700 732**

Bank Zachodni WBK holds restricted cash, which are the funds accumulated on obligatory reserve account in the Central Bank.

in thousands of PLN

45. Related party disclosures

The tables below present intercompany transactions. They are effected between subsidiaries, associates, joint ventures and parent entity. Most of the transactions are banking transactions made as part of ordinary business activities and mainly include loans, deposits and guarantees.

Transactions with subsidiaries	31.12.2013	31.12.2012
ASSETS	**4 960 327**	**3 375 598**
Financial assets held for trading	474	2 043
Loans and advances to customers	4 947 758	3 362 687
Other assets	12 095	10 868
LIABILITIES	**1 012 334**	**938 660**
Financial liabilities held for trading	85	-
Deposits from customers	985 202	905 184
Debt securities in issue	50	-
Other liabilities	26 997	33 476
INCOME	**245 717**	**233 117**
Interest income	130 765	133 466
Fee and commission income	103 058	84 422
Other operating income	11 489	11 106
Net trading income and revaluation	405	4 123
EXPENSES	**37 241**	**53 209**
Interest expense	36 319	51 916
Fee and commission expense	904	270
Operating expenses incl.:	18	1 023
Bank's staff, operating expenses and management costs	*-*	*997*
Other	*18*	*26*
CONTINGENT LIABILITIES	**1 199 011**	**1 492 670**
Sanctioned:	1 199 011	1 492 670
- financing-related	*928 942*	*1 182 426*
- guarantees	*270 069*	*310 244*
DERIVATIVES' NOMINAL VALUES	**256 588**	**336 992**
Cross-currency interest rate swaps – purchased amounts	41 800	83 600
Cross-currency interest rate swaps – sold amounts	41 472	81 764
Single-currency interest rate swaps	173 316	171 628

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 therefore the balance sheet items are presented as transactions with subsidiaries, while items in the profit and loss account as transactions for the associates.

in thousands of PLN

Transactions with associates and joint ventures	31.12.2013	31.12.2012
ASSETS	**-**	**751**
Other assets	-	751
LIABILITIES	**7 168**	**480 361**
Deposits from customers	7 168	480 361
INCOME	**135 516**	**114 138**
Interest income	42 033	24 262
Fee and commission income	88 278	89 571
Dividend income	5 050	-
Gains (losses) from other financial securities	-	21
Other operating income	155	284
EXPENSES	**8 397**	**24 182**
Interest expense	5 989	22 362
Fee and commission expense	437	44
Operating expenses incl.:	1 971	1 776
General and administrative expenses	*1 971*	*1 768*

in thousands of PLN

Transactions with:	Santander Group 31.12.2013	Santander Group 31.12.2012
ASSETS	**801 211**	**335 684**
Loans and advances to banks, incl:	706 166	283 789
deposits	*674 579*	*197 009*
current accounts	*31 587*	*86 780*
Financial assets held for trading	93 723	48 729
Hedging derivatives	1 081	3 109
Loans and advances to customers	4	2
Other assets	237	57
LIABILITIES	**216 668**	**167 326**
Deposits from banks incl.:	71 485	36 328
current accounts	*71 485*	*36 328*
Hedging derivatives	6 235	-
Financial liabilities held for trading	85 784	121 440
Deposits from customers	48 970	9 089
Other liabilities	4 194	469
INCOME	**(51 543)**	**(24 132)**
Interest income	13 528	14 964
Fee and commission income	260	306
Other operating income	815	591
Net trading income and revaluation	(66 146)	(39 993)
EXPENSES	**8 185**	**5 872**
Interest expense	404	318
Operating expenses incl.:	7 781	5 554
Bank's staff, operating expenses and management costs	*7 781*	*5 554*
CONTINGENT LIABILITIES	**117**	**259 418**
Sanctioned:	-	158 175
- guarantees	*-*	*158 175*
Received:	117	101 243
- guarantees	*117*	*101 243*
DERIVATIVES' NOMINAL VALUES	**17 687 584**	**12 330 499**
Cross-currency interest rate swaps – purchased amounts	2 733 296	1 872 728
Cross-currency interest rate swaps – sold amounts	2 764 571	1 909 243
Single-currency interest rate swaps	4 360 662	1 748 351
Options	822 678	468 004
FX swap – purchased amounts	1 592 208	1 808 349
FX swap – sold amounts	1 599 563	1 882 817
FX options -purchased CALL	1 044 075	669 822
FX options -purchased PUT	1 076 295	663 176
FX options -sold CALL	682 163	581 032
FX options -sold PUT	717 682	719 912
Spot-purchased	44 475	3 508
Spot-sold	44 563	3 557
Forward- purchased amounts	100 936	-
Forward- sold amounts	93 727	-
Futures - purchased	10 690	-

in thousands of PLN

Transactions with Members of Management and Supervisory Boards

Remuneration of Bank Zachodni WBK Management and Supervisory Board Members

31.12.2013

Remuneration of Bank Zachodni WBK Supervisory Board Members.

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

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

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

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

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

First and last name	Position	Period	Renumeration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2013-31.12.2013	1 713,68	92,78
Andrzej Burliga	Member of the Managemet Board	01.01.2013-31.12.2013	1 002,78	116,88
Eamonn Crowley	Member of the Managemet Board	01.01.2013-31.12.2013	942,07	52,92
Michael McCarthy	Member of the Managemet Board	01.01.2013-31.12.2013	1 099,07	58,90
Piotr Partyga	Member of the Managemet Board	01.01.2013-31.12.2013	955,48	96,00
Juan de Porras Aguirre	Member of the Managemet Board	01.01.2013-31.12.2013	1 203,49	255,84
Marcin Prell	Member of the Managemet Board	01.01.2013-31.12.2013	909,01	91,78
Marco Antonio Silva Rojas	Member of the Managemet Board	01.01.2013-31.12.2013	1 653,72	397,39
Mirosław Skiba	Member of the Managemet Board	01.01.2013-31.12.2013	1017,49	103,6
Feliks Szyszkowiak	Member of the Managemet Board	01.01.2013-31.12.2013	1 022,90	94,38

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

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

in thousands of PLN

31.12.2012

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

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

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

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

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

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

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

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

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

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

In 2012, none of the Members of the Management Board of Bank Zachodni WBK received any remuneration from subsidiaries or associated entities.

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

31.12.2013 r.

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

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

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

31.12.2012 r.

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

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

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

Provisions for employee benefits disclosed in the note 51 include respectively amounts related to the Management Board of the Bank Zachodni WBK.

31.12.2013 r.

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

31.12.2012 r.

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

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

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

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

47. Acquisitions and disposals of investments in subsidiaries

Acquisitions and disposals of investments in subsidiaries in 2013

Kredyt Trade

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

The Group has finally settled remaining assets and liabilities of the entity.
The liquidation result of PLN (804) k was taken to ‘Net gains/(losses) on subordinated entities.’

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

48. Investment in joint ventures

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

in thousands of PLN

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

Transaction description

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

Assets and liabilities recognised at the acquisition date

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

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

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

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

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

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

in thousands of PLN

Non-controlling interests

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

Preliminary goodwill calculation

na dzień:	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 contingent liabilities described above.

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

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

Impact of the acquisition on the Group's results

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

The Management Board believes these provisional values are representative and approximate figures of the performance of the merged entities over the whole year. For the purpose of a provisional calculation of revenues and profit if the acquisition had taken place at the beginning of the current accounting period, the Management Board:

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

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

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

Introduction of series A bearer bonds of Bank Zachodni WBK to the Catalyst alternative trading system
The Management Board of Bank Zachodni WBK announced that on 28 January 2014, the bearer bonds with a nominal value of PLN 1,000 (one thousand PLN) each, issued by Bank Zachodni WBK S.A., started to be traded in the Catalyst system. Each of these bonds has been marked by the National Depositary of Securities (Krajowy Depozyt Papierów Wartościowych S.A.) with code PLBZ00000150 and introduced to the continuous quotations system under the short name "BZW1216". Concurrently the Management Board of Bank Zachodni WBK S.A. announced that commencing on the 28th of January, 2014 Dom Maklerski BZWBK S.A. performs market-making for these bonds.

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

51. 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 Bank Zachodni WBK creates 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 system 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 Bank to actuarial risk, such as:

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

in thousands of PLN

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

- the discount rate at the level of 4.4% (4.5% as at 31 December 2012),
- the future salary growth rate at the level of 2.5% (3% as at 31 December 2012),
- the probable number of leaving employees calculated on the basis of historical data concerning personnel rotation in the Bank
- the mortality adopted in accordance with Life Expectancy Tables for men and women, published the Central Statistical Office, adequately adjusted on the basis of historical data of the Bank.

Reconciliation of the present value of defined benefit plans obligations

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

	31.12.2013	31.12.2012
Balance as at 1 January	37 135	41 367
Provision acquired in a business combination	13 758	-
Current service cost	2 852	2 746
Prior service cost	-	(6 003)
Interest expense	1 763	2 449
Actuarial (gains) and losses	(7 154)	(3 424)
Balance as at 31 December	**48 354**	**37 135**

Sensivity analysis

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

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

Other staff-related provisions

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

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

Provisions	31.12.2013	31.12.2012
Provisions for unused holidays	45 472	21 003
Provisions for employee bonuses	165 279	115 930
Provisions for retirement allowances	48 354	37 135
Other staff-related provisions	8 860	2 389
Total	**267 965**	**176 457**

Detailed information about movements on staff-related provisions is available in Note 34.

Awards for the year 2012 granted in 2013 to the Members of the Management Board of Bank Zachodni WBK.
Awards paid out in the 2013 for the year 2012 included also portion of awards related to 2011 which was conditional and deferred in time:

First and last name	Position	Period	Awards for 2012
Mateusz Morawiecki	President of the Management Board	01.01.2013-31.12.2013	2 047,48
Andrzej Burliga	Member of the Management Board	01.01.2013-31.12.2013	757,83
Eamonn Crowley	Member of the Management Board	01.01.2013-31.12.2013	762,23
Michael McCarthy	Member of the Management Board	01.01.2013-31.12.2013	758,96
Piotr Partyga	Member of the Management Board	01.01.2013-31.12.2013	609,39
Juan de Porras Aguirre	Member of the Management Board	01.01.2013-31.12.2013	765,10
Marcin Prell	Member of the Management Board	01.01.2013-31.12.2013	542,41
Marco Antonio Silva Rojas	Member of the Management Board	01.01.2013-31.12.2013	187,85
Mirosław Skiba	Member of the Management Board	01.01.2013-31.12.2013	928,36
Feliks Szyszkowiak	Member of the Management Board	01.01.2013-31.12.2013	833,57

in thousands of PLN

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

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

Awards for the year 2011 granted in 2012 to the Members of the Management Board of Bank Zachodni WBK.
Awards paid out in the 2012 for the year 2011 included also portion of awards related to 2010 which was conditional and deferred in time.

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

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

52. Share based incentive scheme

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

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

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

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

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

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

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

in thousands of PLN

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

Share based payments granted in 2011:

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

The following table summarizes the share based payments activity:

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

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

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

The total expense is recognized in profit and loss account in correspondence with other reserve capital and settlements with subsidiaries. For 12 months of 2013, 2012 increase of equity amounted to PLN 19 394 k, PLN 19 380 k respectively.

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

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

in thousands of PLN

First and last name	Total as at 01.01.2013	Termination of appointment	Granted during 2013	Total as at 31.12.2013
Mateusz Morawiecki	10 120	-	-	10 120
Andrzej Burliga	4 282	-	-	4 282
Eamonn Crowley	4 003	-	-	4 003
Michael McCarthy	4 875	-	-	4 875
Piotr Partyga	2 855	-	-	2 855
Juan de Porras Aguirre	-	-	-	-
Marcin Prell	3 704	-	-	3 704
Marco Antonio Silva Rojas	-	-	-	-
Mirosław Skiba	4 282	-	-	4 282
Feliks Szyszkowiak	4 449	-	-	4 449
Total	**38 570**	**-**	**-**	**38 570**

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

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

53. Staff level

31.12.2013 r.

As at 31 December 2013 the Bank employed 12 084 persons and 11 917 FTE's.
In 2013, the average staffing level in Bank Zachodni WBK was 12 369 FTE's.

31.12.2012 r.

As at 31 December 2012 the Bank employed 8 295 persons and 8 217 FTE's.
In 2012, the average staffing level in Bank Zachodni WBK was 8 386 FTE's.

in thousands of PLN

54. Merger of Bank Zachodni WBK and Kredyt Bank

Transaction

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

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

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

Analysis of acquired assets and liabilities on a merger day

As at the date of issuance of the As at the date of issuance of the Annual Report of Bank Zachodni WBK for the year ended 31 December 2012 Bank Zachodni WBK Group performed a preliminary and provisional valuation related to the Kredyt Bank acquisition. The financial information as of 4 January 2013 of Kredyt Bank which formed the basis of this settlement were audited by a qualified auditor. Bank Zachodni WBK has completed the process of fair value estimation for the selected assets and liabilities of the Kredyt Bank S.A. such as loans and advances to customers, non-current assets, deposits from customers and contingent liabilities. Bank has also completed the fair value estimation of intangible assets that can be recognized in transaction. As a result, calculation of the total additional deferred tax asset and liabilities is deemend to be final.

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

"As described in the note 4 to the attached consolidated financial statements the Management Board of Bank Zachodni WBK S.A. after the merger with Kredyt Bank S.A. has performed the analysis of the credit risk relating to Kredyt Bank S.A. loan portfolio as at 31 December 2012. The analysis has been based on new assumptions towards collection scenarios weighted by their probabilities and significantly discounted collaterals for selected individual exposures as well as changed parameters for the calculation of the collective impairment. As a result of the above analysis the Bank has increased the level of loan impairment allowances in the attached financial statements by approx. PLN 319 million for the loans assessed individually and by approx. PLN 258 million for the loans assessed collectively. We have performed a review of the above analysis and based on such review we concluded that we have not been presented with sufficient evidence supporting approx. PLN 333 million of the above increases of impairment allowances. Therefore, we are not able to give our opinion on the reasonableness of such part of the additional loan impairment allowances as at 31 December 2012, and the corresponding impairment charge in the profit and loss for the year ended 31 December 2012 as well as approx. PLN 61 million of deferred tax asset, which has been recognised in relation to such additional loan impairment allowances and the corresponding tax credit in the profit and loss for 2012. Additionally, PLN 258 million out of the above increase in impairment allowances which relates to IBNR and collective impairment was presented in "Provisions" in the liabilities which is not compliant with the adopted accounting standards."

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

in thousands of PLN

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

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

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

Non-controlling interest

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

Provisional calculation of goodwill

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

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

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

55. Dividend per share

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

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

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

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

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

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