



ANNUAL REPORT 2014
OF BANK ZACHODNI WBK S.A.

2014



Bank Zachodni WBK

 Grupa Santander

FINANCIAL HIGHLIGHTS		PLN k		EUR k		
		for reporting period ended:		31.12.2014	31.12.2013	31.12.2014
Stand alone financial statements						
I	Net interest income		3 314 647	3 123 433	791 217	741 732
II	Net fee and commission income		1 622 314	1 559 105	387 252	370 246
III	Operating profit		2 478 396	1 969 380	591 601	467 675
IV	Profit before tax		2 478 396	1 969 380	591 601	467 675
V	Profit for the period		1 994 632	1 611 471	476 125	382 681
VI	Total net cash flow		(144 509)	2 717 695	(34 495)	645 380
VII	Total assets		121 607 365	103 367 046	28 530 926	24 924 538
VIII	Deposits from banks		6 171 077	6 278 784	1 447 828	1 513 981
IX	Deposits from customers		90 149 236	78 735 663	21 150 373	18 985 258
X	Total liabilities		104 495 353	89 782 614	24 516 189	21 648 971
XI	Total equity		17 112 012	13 584 432	4 014 737	3 275 567
XII	Number of shares		99 234 534	93 545 089		
XIII	Net book value per share in PLN/EUR		172.44	145.22	40.46	35.02
XIV	Solvency ratio *		13.46%	15.22%		
XV	Profit per share in PLN/EUR		20.74	17.26	4.95	4.10
XVI	Diluted earnings per share in PLN/EUR		20.69	17.21	4.94	4.09
XVII	Declared or paid dividend per share in PLN/EUR**		**	10.70	**	2.58

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

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

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

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

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



**FINANCIAL STATEMENTS
OF BANK ZACHODNI WBK S.A.
FOR 2014**

2014



Bank Zachodni WBK

 Grupa Santander

Dear All,

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

Economic success in a challenging environment

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

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

The banking sector in the whirlwind of change

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

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

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

Bank Zachodni WBK as the efficiency leader

In 2014, Bank Zachodni WBK clearly strengthened its position among top Polish financial institutions, posted better financial results than a year before and won the trust of nearly half a million of new customers. Our profit before tax exceeded PLN 2.47bn and was almost 26% higher versus 2013. The value of our assets last year was PLN 121bn, compared to PLN 103bn a year before. Despite a decline in interest rates and interchange fees, we generated a higher interest and fee income relative to the previous year.

Our business results in 2014 were also very strong. The number of newly opened accounts approximated half a million, including nearly 340,000 Accounts Worth Recommending. At the end of the year, our Bank maintained more than 2.9 million personal accounts. In the SME sector, we observed a 16.3% increase in the number of customers with high transactional activity and cross-sell. The business line sanctioned 26% loans more than a year before. Their total value reached the level of close to PLN 5bn excluding renewals of overdrafts. In corporate banking, the credit volumes increased by 14%, significantly outperforming the market growth rate. Moreover, the Bank continued to steadily develop its deposit base by expanding the offer of transactional banking products.

In 2014, Bank Zachodni WBK remained the leader of efficiency measured in terms of the return on equity and one of the leaders with respect to the cost-to-income and capital adequacy ratios.

A socially responsible Bank

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

A multi-channel, modern bank

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

Mateusz Morawiecki

President of the Management Board

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in thousands of PLN

Income statement of Bank Zachodni WBK

	for reporting period:	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Interest income		4 856 042	5 085 818
Interest expenses		(1 541 395)	(1 962 385)
Net interest income	Note 5	3 314 647	3 123 433
Fee and commission income		1 873 349	1 795 743
Fee and commission expenses		(251 035)	(236 638)
Net fee and commission income	Note 6	1 622 314	1 559 105
Dividend income	Note 7	417 914	132 052
Net gains/(losses) on subordinated entities	Note 51	-	(804)
Net trading income and revaluation	Note 8	93 599	183 379
Gains (losses) from other financial securities	Note 9	231 508	297 671
Other operating income	Note 10	108 105	69 414
Impairment losses on loans and advances	Note 11	(731 194)	(701 542)
Operating expenses incl.:		(2 578 497)	(2 693 328)
<i>Bank's staff, operating expenses and management costs</i>	Notes 12,13	(2 331 429)	(2 456 058)
<i>Depreciation/amortisation</i>		(192 636)	(209 471)
<i>Other operating expenses</i>	Note 14	(54 432)	(27 799)
Operating profit		2 478 396	1 969 380
Profit before tax		2 478 396	1 969 380
Corporate income tax	Note 15	(483 764)	(357 909)
Profit for the period		1 994 632	1 611 471
Net earnings per share (PLN/share)	Note 16		
Basic earnings per share		20,74	17,26
Diluted earnings per share		20,69	17,21

Statement of comprehensive income of Bank Zachodni WBK

	for reporting period:	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Profit for the period		1 994 632	1 611 471
Other comprehensive income which can be transferred to the profit and loss account:		245 378	(170 080)
Available-for sale financial assets valuation		474 540	(166 363)
<i>including deferred tax</i>		(90 163)	31 609
Cash flow hedges valuation		(171 604)	(43 611)
<i>including deferred tax</i>		32 605	8 285
Other comprehensive income which can't be transferred to the profit and loss account		(11 219)	5 795
Provision for retirement allowances – actuarial gains/losses		(13 851)	7 154
<i>including deferred tax</i>		2 632	(1 359)
Other comprehensive income for the period, net of income tax		234 159	(164 285)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		2 228 791	1 447 186

Notes presented on pages 12- 91 constitute an integral part of these Financial Statements.

in thousands of PLN

Statement of financial position of Bank Zachodni WBK

	as at:	31.12.2014	31.12.2013
ASSETS			
Cash and balances with central banks	Note 17	6 567 108	5 149 682
Loans and advances to banks	Note 18	3 673 519	2 165 376
Financial assets held for trading	Note 19	5 221 034	2 188 672
Hedging derivatives	Note 20	238 889	321 956
Loans and advances to customers	Note 21	74 645 880	67 614 542
Investment securities	Notes 22, 23	24 465 448	21 924 489
Investments in subsidiaries, associates and joint ventures	Note 24	2 387 250	279 191
Intangible assets	Note 25	393 265	342 805
Goodwill		1 688 516	1 688 516
Property, plant and equipment	Note 26	676 212	621 228
Net deferred tax assets	Note 27	794 008	469 801
Assets classified as held for sale	Note 28	637	3 503
Investment property		-	14 166
Other assets	Note 29	855 599	583 119
Total assets		121 607 365	103 367 046
LIABILITIES			
Deposits from banks	Note 30	6 171 077	6 278 784
Hedging derivatives	Note 20	1 233 926	367 536
Financial liabilities held for trading	Note 19	2 781 686	1 277 247
Deposits from customers	Note 31	90 149 236	78 735 663
Subordinated liabilities	Note 32	1 439 835	1 384 719
Debt securities in issue	Note 33	983 646	500 695
Current income tax liabilities		475 363	92 807
Other liabilities	Note 34	1 260 584	1 145 163
Total liabilities		104 495 353	89 782 614
Equity			
Share capital	Note 35	992 345	935 451
Other reserve funds	Note 36	13 177 940	10 324 574
Revaluation reserve	Note 37	947 095	712 936
Profit of the current period		1 994 632	1 611 471
Total equity		17 112 012	13 584 432
Total equity and liabilities		121 607 365	103 367 046

Notes presented on pages 12-91 constitute an integral part of these Financial Statements.

in thousands of PLN

Movements on equity of Bank Zachodni WBK

Statement of changes in equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Total
Note	35	36	37		
Opening balance as at 31.12.2013	935 451	10 324 574	712 936	1 611 471	13 584 432
Other comprehensive income which can be transferred to the profit and loss account	-	-	245 378	1 994 632	2 240 010
Other comprehensive income which can't be transferred to the profit and loss account	-	-	(11 219)	-	(11 219)
Issue of shares	56 894	2 102 575	-	-	2 159 469
Transfer to other capital	-	610 539	-	(610 539)	-
Transfer to dividends for 2013	-	-	-	(1 000 932)	(1 000 932)
Share scheme charge	-	6 846	-	-	6 846
Maklerski BZ WBK (Brokerage House) into the structure of Bank Zachodni WBK.	-	133 406	-	-	133 406
As at 31.12.2014	992 345	13 177 940	947 095	1 994 632	17 112 012

As at the end of the period revaluation reserve in the amount of PLN 947 095 k comprises of debt securities and equity shares classified as available for sale of PLN 488 575 k and PLN 570 978 k respectively and additionally cash flow hedge activities of PLN (107 033) k and accumulated actuarial losses -provision for retirement allowances of PLN (5 425) k.

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

Statement of changes in 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.

in thousands of PLN

Statement of cash flows of Bank Zachodni WBK

	for reporting period:	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Profit before tax		2 478 396	1 969 380
Total adjustments:			
Depreciation/amortisation		192 636	209 471
(Profit) loss from investing activities		(248 645)	(298 585)
Impairment losses		3 519	2 468
		2 425 906	1 882 734
Changes in:			
Trading portfolio financial instruments		(778 438)	(614 918)
Loans and advances to banks		(270 717)	(576 230)
Loans and advances to customers		(7 031 338)	(675 816)
Deposits from banks		(107 707)	(277 508)
Deposits from customers		11 020 204	454 767
Provisions		7 490	15 097
Other assets and liabilities		(415 265)	(306 075)
		2 424 229	(1 980 683)
Interests and similar charges		269 290	223 327
Dividend received		(417 914)	(132 052)
Paid income tax		(478 230)	(362 220)
Net cash flow from operating activities		4 223 281	(368 894)
Inflows		237 926 010	216 683 080
Sale/maturity of investment securities		237 483 273	216 546 516
Sale of intangible assets and property, plant and equipment		24 823	4 512
Dividend received		417 914	132 052
Outflows		(241 954 228)	(213 196 750)
Purchase of investment securities		(241 678 469)	(213 027 023)
Purchase of intangible assets and property, plant and equipment		(275 759)	(169 727)
Net cash flow from investing activities		(4 028 218)	3 486 330
Inflows		904 285	500 695
Debt securities in issue		475 000	500 695
Proceeds from issuing shares		3 055	-
Drawing of long-term loans		426 230	-
Outflows		(1 243 857)	(900 436)
Repayment of long-term loans		(32 861)	(31 368)
Dividends and other payments to shareholders		(1 000 932)	(710 943)
Other financing outflows		(210 064)	(158 125)
Net cash flow from financing activities		(339 572)	(399 741)
Total net cash flow		(144 509)	2 717 695
Cash at the beginning of the accounting period		12 253 154	7 700 732
Cash acquired in a business combination		4 881	1 834 727
Cash at the end of the accounting period *		12 113 526	12 253 154

*Cash components are presented in Note 44.

Notes presented on pages 12-91 constitute an integral part of these Financial Statements.

in thousands of PLN

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
- brokerage activity.

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 2014 have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and are in compliance with the respective regulations and the provisions of the Bank's Statutes that apply to the Bank's unconsolidated financial statements.

Changes in accounting policies

No major changes were introduced in accounting policies.

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 statements of Bank Zachodni WBK Group for 2014 are the first financial statements prepared after incorporation of Dom Maklerski BZ WBK into the structure of Bank Zachodni WBK. The incorporation has no effect on comparability of the Group's consolidated data, but certain items of the financial statements of Bank Zachodni WBK presented in the current reporting period are not comparable with previous years. See Note 47 for details of the incorporation.

Changes in judgments and estimates

The significant judgment and the key sources of estimation uncertainty were the same as those that applied to the Annual Report of Bank Zachodni WBK for 2013.

in thousands of PLN

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

in thousands of PLN

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

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

Basis of preparation

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

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

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

in thousands of PLN

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 global banking and markets customers, 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 judgments

Provisions for employee benefits paid on termination of employment, i.e. post-employment benefits, are estimated on the basis of an actuarial valuation. The actuarial valuation of those accruals is updated at least on an annual basis. Provisions for legal claims have been estimated considering the expected loss arising on individual cases.

in thousands of PLN

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.

in thousands of PLN

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.

in thousands of PLN

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.

in thousands of PLN

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;

in thousands of PLN

- 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 twice 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.

in thousands of PLN

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.

in thousands of PLN

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.

in thousands of PLN

Amortisation

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

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

Other items of 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.

Custody services

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

Dividends

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

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.

in thousands of PLN

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 it 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 Bank, 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 portion 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.

in thousands of PLN

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.

in thousands of PLN

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.

in thousands of PLN

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.

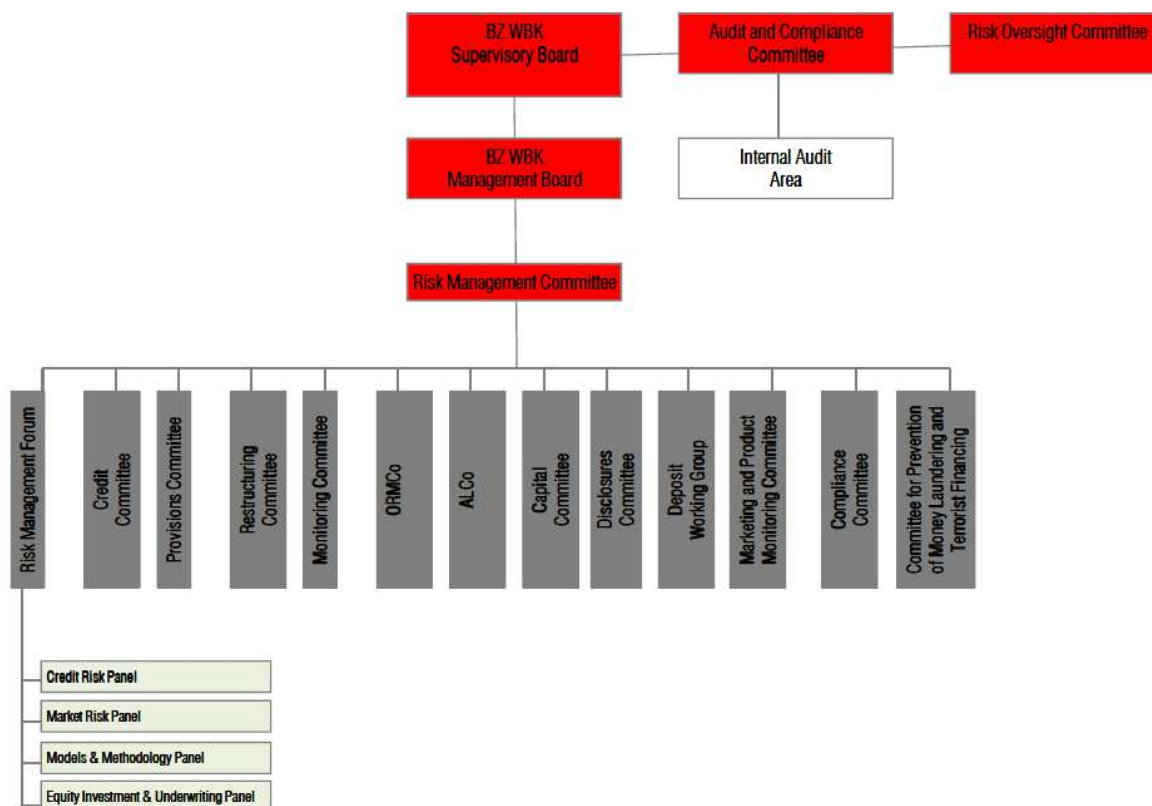
Compliance Committee is responsible for setting standards with respect to the management of compliance risk and the codes of conducts adopted by the Bank.

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.

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

in thousands of PLN

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.

in thousands of PLN

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 2014, the Bank continued its conservative credit risk management policy with the focus on ensuring a balanced growth of the high quality credit portfolio. The observed dynamic growth of loan portfolio volumes was driven by favourable macroeconomic developments, optimisation of credit policies and processes, development of loan portfolio management tools (in particular, for the SME and corporate portfolios) as well as finalised standardisation of policies and tools after the merger with Kredyt Bank. Credit policies were optimised in response to macroeconomic developments, such as interest rate cuts.

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

Forbearance Policy

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

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

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

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

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

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

in thousands of PLN

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

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

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.

in thousands of PLN

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.

in thousands of PLN

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).

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.

in thousands of PLN

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

31.12.2014	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
Impaired portfolio					
Individually impaired					
	up to 50%	2 270 954	-	-	-
	50% - 70%	495 567	-	-	-
	70% - 85%	271 511	-	-	-
	over 85%	785 613	-	-	-
Gross amount		3 823 645	-	-	-
Allowance for impairment		(1 709 956)	-	-	-
Net amount		2 113 689	-	-	-
Collectively impaired					
	up to 50%	670 326	-	-	-
	50% - 70%	495 587	-	-	-
	70% - 85%	587 265	-	-	-
	over 85%	404 887	-	-	-
Gross amount		2 158 065	-	-	-
Allowance for impairment		(1 370 142)	-	-	-
Net amount		787 923	-	-	-
IBNR portfolio					
	up to 0,10%	38 522 989	3 673 519	24 465 448	5 221 034
	0,10% - 0,30%	18 921 619	-	-	-
	0,30% - 0,65%	8 617 193	-	-	-
	over 0,65%	5 921 897	-	-	-
Gross amount		71 983 698	3 673 519	24 465 448	5 221 034
Allowance for impairment		(342 521)	-	-	-
Net amount		71 641 177	3 673 519	24 465 448	5 221 034
Other receivables					
		103 091	-	-	-
Off-balance sheet exposures					
Financing granted		17 475 546	-	-	-
Guarantees		4 470 118	-	-	-
Nominal value of derivatives - purchased		-	-	-	140 069 431
Allowance for off-balance sheet exposures		(71 050)	-	-	-
Off-balance sheet exposures - total		21 874 614	-	-	140 069 431

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

in thousands of PLN

31.12.2013	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.

IBNR portfolio

	Loans and advances to customers	
	31.12.2014	31.12.2013
Non-past due	69 005 437	62 185 911
Past-due	2 978 261	3 166 152
1-30 days	2 274 453	2 523 657
31-60 days	420 650	397 580
61-90 days	270 371	228 528
> 90 days	12 787	16 387
Gross amount	71 983 698	65 352 063

in thousands of PLN

Allowances for impairment by classes

Provision cover	Loans and advances to customers		Loans and advances to banks	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Individual allowance for impairment				
up to 50%	(468 989)	(385 266)	-	-
50% - 70%	(294 796)	(327 682)	-	-
70% - 85%	(206 017)	(423 569)	-	-
over 85%	(740 154)	(352 609)	-	-
Total individual allowance for impairment	(1 709 956)	(1 489 126)	-	-
Collective allowance for impairment				
up to 50%	(218 397)	(167 831)	-	-
50% - 70%	(301 576)	(548 877)	-	-
70% - 85%	(454 392)	(397 230)	-	-
over 85%	(395 777)	(319 601)	-	-
Total collective allowance for impairment	(1 370 142)	(1 433 539)	-	-
IBNR				
up to 0,10%	(10 120)	(11 760)	-	-
0,10%-0,30%	(29 218)	(23 180)	-	-
0,30%-0,65%	(41 288)	(50 601)	-	-
over 0,65%	(261 895)	(347 498)	-	-
Total IBNR	(342 521)	(433 039)	-	-
Total allowance for impairment	(3 422 619)	(3 355 704)	-	-

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 31.12.2014, pursuant to art. 71 of the Banking Law Act, the maximum limits for the bank totalled:

- PLN 2 828 574 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 2014, 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 31.12.2014.

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure	Committed credit lines, guarantees, treasury limits and capital investments
64	OTHER FINANCIAL SERVICES	5 580 147	5 083 097	497 050
64	OTHER FINANCIAL SERVICES	3 064 238	706 796	2 357 442
64	OTHER FINANCIAL SERVICES	2 870 739	2 853 500	17 239
61	TELECOMMUNICATION	1 294 195	1 090 902	203 293
19	RAFINERY	1 201 133	875 135	325 998
06	MINING	1 197 708	29 579	1 168 129
07	MINING	1 297 011	234 317	1 062 694
35	POWER INDUSTRY	751 000	-	751 000
68	REAL ESTATE SERVICES	743 207	742 949	258
35	POWER INDUSTRY	652 386	2 386	650 000
64	OTHER FINANCIAL SERVICES	545 430	338 520	206 910
33	MACHINE INDUSTRY	515 030	133 603	381 427
68	REAL ESTATE SERVICES	509 268	505 479	3 789
35	POWER INDUSTRY	459 786	131 486	328 300
19	RAFINERY	426 014	382 174	43 840
20	CHEMICAL INDUSTRY	417 248	417 248	-
41	CONSTRUCTION	414 013	357 828	56 185
33	MACHINE INDUSTRY	400 000	-	400 000
68	REAL ESTATE SERVICES	392 310	392 310	-
41	CONSTRUCTION	386 000	-	386 000
Total gross exposure		23 116 863	14 277 309	8 839 554

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	3 310 361	818 112
64	FINANCIAL SERVICES	2 000 008	1 633 019	366 989
61	TELECOMMUNICATION	1 229 864	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

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 31.12.2014, the highest concentration level was recorded in the “distribution” sector (12% of the Bank Zachodni WBK exposure), “property” (11%) and “financial sector” (11%).

Groups of PKD by industries:

Industry	Gross exposure		
	31.12.2014	31.12.2013	
Distribution	9 142 478	7 707 869	
Property	8 869 552	9 525 525	
Financial sector	8 712 222	5 935 763	
Manufacturing	7 331 479	6 750 816	
Energy	1 454 388	1 385 554	
Construction	1 078 112	1 030 769	
Transportation	1 068 087	984 677	
Agriculture	1 005 476	891 301	
Other industries	3 782 707	2 512 295	
A	Total Business Loans	42 444 501	36 724 569
B	Retail (including mortgage loans)	35 520 907	34 034 887
A+B	BZ WBK portfolio	77 965 408	70 759 456
C	Other receivables (commercial bonds, reverse repo)	103 091	210 788
A+B+C	Total BZ WBK	78 068 499	70 970 244

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 & Markets Division, which is also responsible for the activities of the Brokerage Services Office.

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.

in thousands of PLN

The Financial Risk Department within the Risk Management Division is responsible for ongoing assessment of the current risk, implementation of control procedures and risk monitoring and reporting. The Department is also responsible for shaping the market risk policy, proposing risk assessment methodologies and ensuring consistency of the risk management process across the 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.

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

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

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

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

In 2014, the global 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 & 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 & 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.

in thousands of PLN

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

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

FX risk

FX risk is the risk that adverse movements in foreign exchange rates will have an impact on results (and result in losses). This risk is managed by the VaR limit for the open currency positions in the 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 2014 and 2013.

FX risk 1 day holding period	VAR	
	31.12.2014	31.12.2013
Average	646	534
Maximum	2 676	1 647
Minimum	88	65
as at the end of the period	369	428
LIMIT	1 754	1 506

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

FX Balance Sheet

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

The tables below show the Bank's main FX items – as at 31 December 2014 and 2013.

31.12.2014	PLN	EUR	CHF	Other	Total
ASSETS					
Cash and balances with central banks	5 993 101	380 981	26 100	166 926	6 567 108
Loans and advances to banks	1 020 041	1 513 546	888 790	251 142	3 673 519
Loans and advances to customers	47 903 537	14 699 085	10 486 826	1 556 432	74 645 880
Investment securities	23 370 770	679 010	-	415 668	24 465 448
Selected assets	78 287 449	17 272 622	11 401 716	2 390 168	109 351 955
LIABILITIES					
Deposits from banks	3 421 269	160 692	2 482 252	106 864	6 171 077
Deposits from customers	78 606 832	8 197 793	1 008 438	2 336 173	90 149 236
Subordinated liabilities	74 927	426 290	938 618	-	1 439 835
Selected liabilities	82 103 028	8 784 775	4 429 308	2 443 037	97 760 148

in thousands of PLN

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

Equity investment risk

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

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

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

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

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

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).

in thousands of PLN

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

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

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

in thousands of PLN

Contractual Gap Analysis based on remaining time maturity as at 31.12.2014 and in comparable period:

31.12.2014	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	over 5 years	rate insensitive	Total
Cash and balances with central banks	6 567 108	-	-	-	-	-	-	6 567 108
Loans and advances to banks	2 479 999	78 082	407 982	707 456	-	-	-	3 673 519
Financial assets held for trading	110 939	153 549	414 963	1 608 443	1 977 845	878 390	76 905	5 221 034
Loans and advances to customers	5 795 001	3 252 849	13 226 295	20 412 860	10 070 009	25 311 484	(3 422 618)	74 645 880
Investment securities	2 999 833	-	1 791 208	3 427 646	4 950 830	10 442 975	852 956	24 465 448
Other items	-	-	-	-	-	-	7 034 376	7 034 376
Long position	17 952 880	3 484 480	15 840 448	26 156 405	16 998 684	36 632 849	4 541 619	121 607 365
Deposits from banks	4 912 634	15 292	426	1 242 725	-	-	-	6 171 077
Financial liabilities held for trading	578 086	132 000	650 841	763 539	326 581	307 120	23 519	2 781 686
Deposits from customers	58 829 584	12 883 886	14 831 404	1 644 105	1 038 147	922 110	-	90 149 236
Subordinated liabilities	-	-	-	-	1 013 544	421 968	4 323	1 439 835
Other items	-	-	-	-	-	-	21 065 531	21 065 531
Short position	64 320 304	13 031 178	15 482 671	3 650 369	2 378 272	1 651 198	21 093 373	121 607 365
Gap-balance sheet	(46 367 424)	(9 546 698)	357 777	22 506 036	14 620 412	34 981 651	(16 551 754)	
Contingent liabilities- sanctioned								
Financing related	149 250	1 738 315	7 528 145	4 383 334	1 418 863	2 257 638	(34 452)	17 441 093
Guarantees	4 767	401 080	1 096 817	1 916 160	455 794	595 500	(36 597)	4 433 521
Derivatives settled in gross terms								
Inflows	9 390 648	7 471 142	11 853 267	15 252 833	3 608 289	10 579 290	-	58 155 469
Outflows	9 382 319	7 422 211	12 354 430	16 350 875	3 745 131	10 488 077	-	59 743 043
Gap – off-balance sheet	(145 688)	(2 090 464)	(9 126 125)	(7 397 536)	(2 011 499)	(2 761 925)	71 049	

in thousands of PLN

31.12.2013	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	over 5 years	rate insensitive	Total
Cash and balances with central banks	5 149 682	-	-	-	-	-	-	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	(39 251 373)	(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)	(8 507 252)	(5 258 894)	(2 397 367)	(2 230 725)	96 933	

in thousands of PLN

Liquidity Policy Report – Modified Liquidity Gap:

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

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

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

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

BZ WBK 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

in thousands of PLN

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 and Compliance Risk

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

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

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

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

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

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

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

in thousands of PLN

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

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

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

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

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

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

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

in thousands of PLN

Reputation Risk Management

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

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

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

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

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

Key risk mitigation measures:

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

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 Bank Zachodni WBK and capital requirements estimated for the unexpected loss is determined in accordance with the CRD IV / CRR package implemented on 1 January 2014 by the European Parliament and EBA, plus KNF recommendations regarding stricter criteria for mortgage-backed exposures.

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, 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. 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 in accordance with the applicable law and the Bank's Statutes.

Capital Policy

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

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

The regulatory solvency ratio is 8%.

Regulatory Capital

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

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

The tables below show capital requirement for the Bank as of 31 December 2014 and 31 December 2013.

	31.12.2014**	31.12.2013**
I Total Capital requirement (Ia+Ib+Ic+Id+Ie), of which:	6 723 221	6 096 879
Ia - due to credit risk & counterparty credit risk	5 817 806	5 349 373
Ib - due to market risk	84 063	47 785
Ic - due to credit valuation adjustment risk	101 862	-
Id - due to operational risk	719 490	699 721
II Total own funds*	15 910 296	13 904 526
III Reductions	4 596 001	2 308 004
IV Own funds after reductions (II-III)	11 314 295	11 596 522
V CAD [IV/(I*12.5)]	13,46%	15,22%

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

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

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.

in thousands of PLN

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.

Subordinated liabilities

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

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

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

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

Detailed information on subordinated liabilities is presented in Note 32.

5. Net interest income

	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Interest income		
Loans and advances to enterprises	1 696 077	1 762 644
Loans and advances to individuals, of which:	2 000 344	2 078 803
<i>Home mortgage loans</i>	820 595	841 385
Debt securities incl.:	737 758	787 367
<i>Investment portfolio available for sale</i>	686 798	743 718
<i>Trading portfolio</i>	50 960	43 649
Loans and advances to banks	99 254	106 386
Public sector	14 259	20 688
Reverse repo transactions	25 513	15 200
Interest recorded on hedging IRS	282 837	314 730
Total	4 856 042	5 085 818
Interest expenses		
Deposits from individuals	(854 801)	(1 138 676)
Deposits from enterprises	(436 485)	(535 110)
Repo transactions	(66 424)	(105 703)
Deposits from public sector	(84 137)	(105 435)
Deposits from banks	(9 976)	(22 566)
Subordinated liabilities and issue of securities	(89 572)	(54 895)
Total	(1 541 395)	(1 962 385)
Net interest income	3 314 647	3 123 433

As at 31.12.2014 net interest income includes interest on impaired loans of PLN 245, 288 k (as at 31.12.2013 - PLN 258,416 k).

in thousands of PLN

6. Net fee and commission income

	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Fee and commission income		
eBusiness & payments	594 160	613 952
Current accounts and money transfer	311 584	311 348
Asset management fees	11 884	16 811
Foreign exchange commissions	332 584	296 676
Credit commissions	241 903	207 093
Insurance commissions	104 225	91 141
Brokerage commissions	14 181	-
Credit cards	92 024	88 138
Off-balance sheet guarantee commissions	41 871	37 744
Issue arrangement fees	4 626	12 079
Distribution fees	108 697	107 636
Other commissions	15 610	13 125
Total	1 873 349	1 795 743
Fee and commission expenses		
eBusiness & payments	(157 211)	(158 549)
Credit cards	(11 712)	(14 706)
Brokerage commissions	(1 949)	-
Finance lease commissions	(555)	(407)
Commissions paid to credit agents	(19 790)	(12 514)
Other	(59 818)	(50 462)
Total	(251 035)	(236 638)
Net fee and commission income	1 622 314	1 559 105

Included above is fee and commission income on credits, credit cards and off-balance sheet guarantee commissions of PLN 375 798 k (2013: PLN 332 975 k) and fee and commission expenses on credits cards and paid to credit agents of PLN (31 502) k (2013: PLN (27 220) 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

	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Dividend income		
Dividends from subsidiaries and joint ventures	338 698	75 472
Dividends from investment portfolio entities	79 216	56 580
Total	417 914	132 052

in thousands of PLN

8. Net trading income and revaluation

Net trading income and revaluation	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Derivative instruments and interbank fx transactions	28 828	182 694
Other FX related income	58 417	(5 687)
Profit on equity instruments	(6 909)	5 706
Profit on debt instruments	13 263	666
Total	93 599	183 379

Net trading income and revaluation includes the write-back of adjustments of derivatives resulting from counterparty risk in the amount of PLN 8,772 k for 2014 and PLN 817 k for 2013.

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

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

9. Gains (losses) from other financial securities

Gains (losses) from other financial securities	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Profit on sale of equity shares	16 758	(1 171)
Profit on sale of debt securities	220 466	299 334
Charge due to impairment losses	(3 519)	-
Total profit (losses) on financial instruments	233 705	298 163
Change in fair value of hedging instruments	(244 815)	68 934
Change in fair value of underlying hedged positions	242 618	(69 426)
Total profit (losses) on hedging and hedged instruments	(2 197)	(492)
Total	231 508	297 671

10. Other operating income

Other operating income	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Income on sale of services	26 471	23 328
Insurance indemnity received	1 052	352
Reimbursements of BGF charges	16 949	15 732
Release of provision for legal cases and other assets	28 096	8 351
Settlements of leasing agreements	171	525
Recovery of other receivables	9 081	857
Income on sales or liquidation of fixed assets, intangible assets and assets for disposal	13 932	6 005
Received compensations, penalties and fines	1 469	667
Other	10 884	13 597
Total	108 105	69 414

in thousands of PLN

11. Impairment losses on loans and advances

	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Impairment losses on loans and advances		
Collective and individual impairment charge	(873 335)	(867 642)
Incurring but not reported losses charge	113 318	180 337
Recoveries of loans previously written off	1 058	2 118
Off-balance sheet credit related facilities	27 765	(16 355)
Total	(731 194)	(701 542)

12. Employee costs

	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Employee costs		
Salaries and bonuses	(961 619)	(980 160)
Salary related costs	(160 473)	(165 541)
Staff benefits costs	(29 387)	(31 626)
Professional trainings	(12 596)	(13 890)
Retirement fund, holiday provisions and other employee costs	(2 426)	(10 120)
Integration costs*	(68 305)	(68 663)
Total	(1 234 806)	(1 270 000)

*In addition to the integration costs included in Notes 12 and 13, the amortization /depreciation related to the cost of integration for 2014 was PLN 15,025 k and PLN 2,576 k for 2013.

13. General and administrative expenses

	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
General and administrative expenses		
Maintenance and rentals of premises	(320 561)	(352 924)
Marketing and representation	(119 092)	(96 291)
IT systems costs	(123 220)	(121 304)
Securities	(111 680)	(84 803)
Postal and telecommunication costs	(42 323)	(48 525)
Consulting fees	(20 743)	(29 621)
Cars, transport expenses, carriage of cash	(63 293)	(64 831)
Other external services	(68 732)	(60 278)
Stationery, cards, cheques etc.	(27 309)	(29 342)
Sundry taxes	(24 287)	(23 218)
Data transmission	(18 188)	(21 205)
KIR, SWIFT settlements	(19 219)	(19 440)
Security costs	(19 429)	(18 454)
Costs of repairs	(8 651)	(6 656)
Integration costs*	(93 154)	(190 122)
Other	(16 742)	(19 044)
Total	(1 096 623)	(1 186 058)

*In addition to the integration costs included in Notes 12 and 13, the amortization /depreciation related to the cost of integration for 2014 was PLN 15,025 k and PLN 2,576 k for 2013.

in thousands of PLN

14. Other operating expenses

	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Other operating expenses		
Charge of provisions for legal cases and other assets	(34 325)	(12 279)
Costs of purchased services	(3 196)	(2 028)
Other membership fees	(676)	(648)
Paid compensations, penalties and fines	(1 103)	(1 798)
Donation paid	(5 467)	(3 678)
Other	(9 665)	(7 368)
Total	(54 432)	(27 799)

15. Corporate income tax

	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Corporate income tax		
Current tax charge	(860 323)	(287 928)
Deferred tax	376 559	(69 981)
Total	(483 764)	(357 909)

	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Corporate total tax charge information		
Profit before tax	2 478 396	1 969 380
Tax rate	19%	19%
Tax calculated at the tax rate	(470 895)	(374 182)
Non-deductible expenses	(7 242)	(9 708)
Sale of receivables	(61 684)	(34 842)
Non-tax deductible bad debt provisions	(8 527)	(8 359)
Non-taxable income (dividends)	79 404	24 909
Adjustment of financial instruments	-	24 660
Adjustment of prior year tax	(13 274)	15 635
Other	(1 546)	3 978
Total income tax expense	(483 764)	(357 909)

	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Deferred tax recognised directly in equity		
Relating to equity securities available-for-sale	(133 933)	(134 346)
Relating to debt securities available-for-sale	(114 604)	(24 028)
Relating to cash flow hedging activity	25 107	(8 857)
Relating to valuation of defined benefit plans	1 272	-
Total	(222 158)	(167 231)

in thousands of PLN

16. Earnings per share

	01.01.2014- 31.12.2014	01.01.2013- 31.12.2013
Net earnings per share (PLN/share)		
Profit attributable to ordinary shares	1 994 632	1 611 471
Weighted average number of ordinary shares	96 154 065	93 337 884
Net earnings per share (PLN)	20,74	17,26
Profit attributable to ordinary shares	1 994 632	1 611 471
Weighted average number of ordinary shares	96 154 065	93 337 884
Weighted average number of potential ordinary shares *	235 066	303 156
Diluted earnings per share (PLN)	20,69	17,21

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

17. Cash and balances with central banks

	31.12.2014	31.12.2013
Cash and balances with central banks		
Cash	2 434 018	1 766 253
Current accounts in central banks	4 133 090	3 383 429
Total	6 567 108	5 149 682

Bank Zachodni 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

	31.12.2014	31.12.2013
Loans and advances to banks		
Loans and advances	1 508 090	1 198 899
Current accounts, other	1 768 457	789 677
Buy-sell-back transaction	397 017	176 987
Gross receivables	3 673 564	2 165 563
Allowance for impairment	(45)	(187)
Total	3 673 519	2 165 376

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

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.

in thousands of PLN

Financial assets and liabilities held for trading	31.12.2014		31.12.2013	
	Assets	Liabilities	Assets	Liabilities
Trading derivatives	1 935 843	2 304 681	1 022 133	1 022 114
Interest rate operations	1 280 892	1 635 924	632 323	632 008
Forward	-	139	-	-
Options	1 798	1 798	4 323	4 328
IRS	1 271 709	1 626 181	614 340	617 987
FRA	7 385	7 806	13 660	9 693
Transactions on equity instruments	9 956	33 398	2 819	717
Options	9 956	33 398	2 819	717
FX operations	644 995	635 359	386 991	389 389
CIRS	145 697	169 956	95 642	147 521
Forward	38 428	34 840	28 994	49 144
FX Swap	310 711	287 270	202 087	130 109
Spot	4 740	2 419	792	1 037
Options	140 796	140 798	59 476	61 578
Other	4 623	76	-	-
Debt and equity securities	3 285 191	-	1 166 539	-
Debt securities	3 212 909	-	1 166 539	-
Government securities:	3 212 769	-	966 567	-
- bonds	3 212 769	-	966 567	-
Central Bank securities:	-	-	199 972	-
- bills	-	-	199 972	-
Commercial securities:	140	-	-	-
- bonds	140	-	-	-
Equity securities:	72 282	-	-	-
- listed	72 282	-	-	-
Short sale	-	477 005	-	255 133
Total financial assets/liabilities	5 221 034	2 781 686	2 188 672	1 277 247

Financial assets and liabilities held for trading - trading derivatives include the value of adjustments resulting from counterparty risk in the amount of PLN 6,091 k as at 31.12.2014 and PLN (1,668) k as at 31.12.2013.

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

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

Profit and loss from fair value changes of financial assets and liabilities held for trading are disclosed under net trading income and revaluation in the 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 31.12.2014 and in comparable period there were no cases of instruments designated to financial assets measured at fair value through profit and loss at initial recognition.

in thousands of PLN

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

Derivatives' nominal values		31.12.2014	31.12.2013
1. Term derivatives (hedging)		33 953 647	29 792 094
a)	Single-currency interest rate swap	2 988 000	2 665 000
b)	Macro cash flow hedge -purchased (IRS)	2 740 423	3 229 513
c)	Macro cash flow hedge -purchased (CIRS)	13 754 095	11 847 013
d)	Macro cash flow hedge -sold (CIRS)	14 471 129	12 050 568
2. Term derivatives (trading)		179 730 504	128 448 020
a)	Interest rate operations	95 087 752	81 780 541
	Single-currency interest rate swap	86 409 126	57 528 184
	FRA - purchased amounts	6 450 000	23 350 000
	Options	1 792 126	902 357
	Forward- sold amounts	436 500	-
b)	FX operations	84 642 752	46 667 479
	FX swap – purchased amounts	20 757 332	10 713 501
	FX swap – sold amounts	20 728 416	10 626 592
	Forward- purchased amounts	3 372 360	2 546 613
	Forward- sold amounts	3 394 071	2 585 261
	Cross-currency interest rate swap – purchased amounts	6 845 102	5 454 320
	Cross-currency interest rate swap – sold amounts	6 872 957	5 523 508
	FX options -purchased CALL	5 519 076	2 272 212
	FX options -purchased PUT	5 817 181	2 336 630
	FX options -sold CALL	5 519 076	2 272 212
	FX options -sold PUT	5 817 181	2 336 630
3. Currency transactions- spot		4 656 294	2 076 924
	Spot-purchased	2 329 321	1 038 347
	Spot-sold	2 326 973	1 038 577
4. Transactions on equity financial instruments		678 415	22 550
	Derivatives contract- purchased	341 307	11 275
	Derivatives contract - sold	337 108	11 275
5 Capital options related to subsidiary entities		255 738	248 832
Total		219 274 598	160 588 420

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

20. Hedging derivatives

Hedging derivatives	31.12.2014		31.12.2013	
	Assets	Liabilities	Assets	Liabilities
Derivatives hedging fair value	-	251 397	21 567	25 091
Derivatives hedging cash flow	238 889	982 529	300 389	342 445
Total hedging derivatives	238 889	1 233 926	321 956	367 536

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

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

For the valuation of hedging transactions, 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	31.12.2014	31.12.2013
Loans and advances to enterprises	42 569 128	36 659 729
Loans and advances to individuals, of which:	35 302 881	34 035 141
<i>Home mortgage loans</i>	26 248 235	25 294 769
Loans and advances to public sector	190 426	225 361
Buy-sell-back transaction	100	40 718
Other	5 964	9 297
Gross receivables	78 068 499	70 970 246
Allowance for impairment	(3 422 619)	(3 355 704)
Total	74 645 880	67 614 542

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

Fair value of "loans and advances to customers" is disclosed in Note 40.

Movements on impairment losses on loans and advances to customers	31.12.2014	31.12.2013
Individual and collective impairment		
As at the beginning of the period	(2 922 665)	(1 121 025)
Individual and collective impairment acquired in a business combination	-	(1 645 106)
Charge/write back of current period	(873 335)	(867 642)
Write off/Sale of receivables	679 008	691 446
Transfer	50 383	13 364
F/X differences	(13 490)	6 298
Balance at the end of the period	(3 080 099)	(2 922 665)
IBNR		
As at the beginning of the period	(433 039)	(324 352)
IBNR acquired in a business combination	-	(196 873)
Charge/write back of current period	113 170	180 524
Transfer	(18 943)	(89 462)
F/X differences	(3 708)	(2 876)
Balance at the end of the period	(342 520)	(433 039)
Allowance for impairment	(3 422 619)	(3 355 704)

22. Investment securities available for sale

Investment securities available for sale	31.12.2014	31.12.2013
Available for sale investments - measured at fair value		
Debt securities	23 612 492	21 069 359
Government securities:	18 395 809	13 101 982
- bonds	18 395 809	13 101 982
Central Bank securities:	2 999 833	5 599 222
- bills	2 999 833	5 599 222
Commercial securities:	2 216 850	2 368 155
- bonds	2 216 850	2 368 155
Equity securities	835 621	834 275
- listed	20 467	24 902
- unlisted	815 154	809 373
Investment certificates	17 335	20 855
Total	24 465 448	21 924 489

As at 31.12.2014 fixed interest rate debt securities measured at fair value amount to PLN 18,350,972 k, variable interest rate securities amount to PLN 5, 261,520 k.

in thousands of PLN

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.

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

Unlisted equity investments classified as available-for-sale for which no active market exists are recognized at cost and tested for impairment or their fair value is assessed based on valuation models. The 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 combined positive upward movement in total amount of PLN 200 950 k. The review included the impact of the final approval of amendments to the Act on Open pension funds and its influence on of PTE Aviva BZ WBK S.A. As at 31.12.2014, no changes were introduced to the fair value measurement of investments in Aviva Group companies.

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

Movements on investment securities available for sale	Financial instruments representing equity rights		Total
	Debt securities		
As at 1 January 2014	21 069 359	855 130	21 924 489
Additions	241 664 063	14 480	241 678 543
Disposals (sale and maturity)	(239 834 476)	(10 962)	(239 845 438)
Fair value adjustment	702 073	(2 173)	699 900
Movements on interest accrued	(59 226)	-	(59 226)
Allowances for impairment	-	(3 519)	(3 519)
F/X differences	70 699	-	70 699
As at 31 December 2014	23 612 492	852 956	24 465 448

Movements on investment securities available for sale	Financial instruments representing equity rights		Total
	Debt securities		
As at 1 January 2013	11 048 024	649 369	11 697 393
Investment securities available for sale acquired 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
As at 31 December 2013	21 069 359	855 130	21 924 489

23. Financial assets held to maturity

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

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

in thousands of PLN

24. Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures	31.12.2014	31.12.2013
Subsidiaries	2 379 250	271 191
Associates	8 000	8 000
Total	2 387 250	279 191

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 31.12.2014

Name of entity	BZ WBK			BZ WBK		POLFUND -	BZ WBK Aviva	BZ WBK Aviva	Santander	Total
	Inwestycje Sp. z o.o.	BZ WBK Finanse Sp. z o.o.	Gieldokracja Sp. z o.o.	Nieruchomości S.A.	BZ WBK Asset Management S.A.	Fundusz Poręczeń Kredytowych S.A.*	Towarzystwo Ubezpieczeń na Życie S.A.	Towarzystwo Ubezpieczeń Ogólnych S.A.	Consumer Bank S.A.	
Registered office	Poznań	Poznań	Poznań	Poznań	Poznań	Szczecin	Poznań	Poznań	Wrocław	
Type of connection	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Associate	Subsidiary	Subsidiary	Subsidiary	
% of holding**	100.00	100.00	100.00	99.99	50.00	50.00	66.00	66.00	60.00	
Balance sheet value	46 600	130 097	100	753	6 755	8 000	20 015	18 516	2 156 414	2 387 250
Total assets	68 507	180 116	211	640	58 506	93 705	931 556	319 294	16 125 405	17 777 940
Own funds of entity, of which:	68 188	178 313	191	501	55 013	85 583	59 748	100 160	2 251 796	2 799 493
Share capital	100	1 165	100	750	13 500	16 000	24 250	27 000	520 000	602 865
Other own funds, of which:	68 088	177 148	91	(249)	41 513	69 583	35 498	73 160	1 731 796	2 196 628
from previous years	752	-	-	(68)	(16 853)	-	-	-	281 156	264 987
net profit (loss)	6 898	5 981	(44)	(273)	50 037	2 602	15 584	39 143	192 212	312 140
Liabilities of entity	319	1 803	20	139	3 493	8 122	871 808	219 134	13 873 609	14 978 447
Revenue	7 611	9 757	-	120	69 187	9 069	322 823	179 605	847 323	1 445 495

* selected financial information as at end of November 2014

** states percentage share of associates

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 management of the bank's subsidiaries: BZ WBK Leasing S.A., Kredyt Lease SA and BZ WBK Faktor Sp. z o.o.
Gieldokracja Sp. z o.o.	advertising services, educational services related to the capital market, maintenance of internet portals (including www.gieldokracja.pl) and communication services
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
Santander Consumer Bank S.A.	accepting savings and term deposits, granting and taking out loans and advances

in thousands of PLN

Investments in subsidiaries, associates and joint ventures as at 31.12.2013

Name of entity	BZ WBK		Dom Maklerski BZ WBK S.A.	BZ WBK		BFI Serwis Sp. z o.o. w likwidacji ***	POLFUND -	BZ WBK Aviva	BZ WBK Aviva	Total
	Inwestycje Sp. z o.o.	BZ WBK Finanse Sp. z o.o.		Nieruchomości S.A.	BZ WBK Asset Management S.A.		Fundusz Poręczeń Kredytowych S.A. *	Towarzystwo Ubezpieczeń na Życie S.A.	Towarzystwo Ubezpieczeń Ogólnych S.A.	
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 management 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

25. Intangible assets

Intangible assets Year 2014	Licences, patents etc.	Other	Expenditure on intangible assets	Total
Gross value - beginning of the period	1 064 603	213 775	99 862	1 378 240
Intangible assets acquired in a business combination	15 347	-	1 078	16 425
Additions from:				
- purchases	-	-	149 634	149 634
- donation	64	-	-	64
- intangible assets taken for use	93 844	-	-	93 844
- transfers	-	-	987	987
Disposals from:				
- liquidation, sale	(17 349)	-	(73)	(17 422)
- intangible assets taken for use	-	-	(93 844)	(93 844)
- transfers	-	-	-	-
Gross value - end of the period	1 156 509	213 775	157 644	1 527 928
Accumulated depreciation - beginning of the period	(982 976)	(52 459)	-	(1 035 435)
Accumulated depreciation acquired in a business combinations	(12 052)	-	-	(12 052)
Additions/disposals from:				
- current year amortisation	(65 845)	(38 585)	-	(104 430)
- liquidation, sale	17 254	-	-	17 254
- transfers	-	-	-	-
Write down/Reversal of impairment write down	-	-	-	-
Accumulated depreciation- end of the period	(1 043 619)	(91 044)	-	(1 134 663)
Balance sheet value				
Purchase value	1 156 509	213 775	157 644	1 527 928
Accumulated depreciation	(1 043 619)	(91 044)	-	(1 134 663)
As at 31 December 2014	112 890	122 731	157 644	393 265

in thousands of PLN

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

26. Property, plant and equipment

Property, plant & equipment Year 2014	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value - beginning of the period	997 091	708 648	50 021	289 923	57 783	2 103 466
Property, plant and equipment acquired in a business combination	1 067	11 139	2 024	3 372	167	17 769
Additions from:						
- purchases	-	-	-	-	126 126	126 126
- leasing	-	-	13 000	-	-	13 000
- fixed assets taken for use	2 358	76 007	-	12 587	-	90 952
- transfers	19 452	-	-	384	-	19 836
Disposals from:						
- sale, liquidation, donation	(44 379)	(95 621)	(1 423)	(13 752)	-	(155 175)
- fixed assets taken for use	-	-	-	-	(90 952)	(90 952)
- transfers	-	(384)	(2 349)	-	(987)	(3 720)
Gross value - end of the period	975 589	699 789	61 273	292 514	92 137	2 121 302
Accumulated depreciation - beginning of the period	(617 847)	(596 757)	(16 524)	(251 110)	-	(1 482 238)
Accumulated depreciation acquired in a business combinations	(734)	(10 143)	(1 043)	(3 146)	-	(15 066)
Additions/disposals from:						
- current year amortisation	(26 760)	(40 933)	(8 246)	(12 150)	-	(88 089)
- sale, liquidation, donation	32 477	95 426	787	13 303	-	141 993
- transfers	(3 064)	370	1 374	(370)	-	(1 690)
Accumulated depreciation - end of the period	(615 928)	(552 037)	(23 652)	(253 473)	-	(1 445 090)
Balance sheet value						
Purchase value	975 589	699 789	61 273	292 514	92 137	2 121 302
Accumulated depreciation	(615 928)	(552 037)	(23 652)	(253 473)	-	(1 445 090)
As at 31 December 2014	359 661	147 752	37 621	39 041	92 137	676 212

in thousands of PLN

Property, plant & equipment Year 2013	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value - beginning of the period	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

27. Net deferred tax assets

Deferred tax asset	31.12.2014	31.12.2013
Provisions for loans	444 130	468 259
Unrealized liabilities due to derivatives	681 206	271 334
Other provisions which are not yet taxable costs	98 165	93 700
Deferred income	233 695	149 472
Unrealised interest expense on loans, deposits and securities	135 436	45 026
Other	6 601	6 116
Total	1 599 233	1 033 907

Deferred tax liability	31.12.2014	31.12.2013
Revaluation of financial instruments available for sale*	(222 158)	(167 232)
Unrealised receivables on derivatives	(411 757)	(242 827)
Unrealised interests from loans, securities and interbank deposits	(163 530)	(141 746)
Provision due to application of investment relief	(3 227)	(3 402)
Difference between balance sheet and taxable value of unfinancial value assets	(1 171)	(4 949)
Other	(3 382)	(3 950)
Total	(805 225)	(564 106)

Net deferred tax assets	794 008	469 801
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*Changes in deferred tax liabilities arising of cash flow revaluation were recognised in the statement of comprehensive income. As at 31 December 2014 the calculation of deferred tax asset did not include purchased receivables of PLN 11,874 k and loans that will not be realised of PLN 95,001 k.

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

Movements on net deferred tax	31.12.2014	31.12.2013
As at the beginning of the period	469 801	172 445
Changes on net deferred tax in a business combination	2 574	321 390
Changes recognised in income statement	376 559	(69 980)
Changes recognised in other net comprehensive income	(54 926)	38 535
Changes recognised in goodwill	-	7 411
As at end of the period	794 008	469 801

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

Assets classified as held for sale	31.12.2014	31.12.2013
Land and buildings	637	3 503
Total	637	3 503

in thousands of PLN

29. Other assets

Other assets	31.12.2014	31.12.2013
Interbank and interbranch settlements	456 910	260 445
Sundry debtors	300 942	215 477
Prepayments	33 654	46 059
Reposessed assets	41 425	60 965
Settlements of stock exchange transactions	22 615	-
Other	53	173
Total	855 599	583 119

30. Deposits from banks

Deposits from banks	31.12.2014	31.12.2013
Repo transactions	5 664 694	4 438 563
Term deposits	110 592	1 379 630
Current accounts	395 791	460 591
Total	6 171 077	6 278 784

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

31. Deposits from customers

Deposits from customers	31.12.2014	31.12.2013
Deposits from individuals	52 936 866	47 470 810
Term deposits	25 677 068	22 334 145
Current accounts	27 204 884	25 074 065
Other	54 914	62 600
Deposits from enterprises	33 692 263	27 766 433
Term deposits	16 703 200	13 565 131
Current accounts	13 734 630	11 452 518
Sell-buy-back transaction	157 134	166 973
Credits	2 587 686	2 119 230
Other	509 613	462 581
Deposits from public sector	3 520 107	3 498 420
Term deposits	1 317 191	1 152 427
Current accounts	2 202 706	2 333 501
Other	210	12 492
Total	90 149 236	78 735 663

As at 31.12.2014 deposits held as collateral totalled PLN 384,050 k (as at 31.12.2013 - PLN 332,173 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	31.12.2014	31.12.2013
As at the beginning of the period	1 384 719	409 110
Subordinated liabilities acquired in a business combination	-	978 237
Increase (due to):	116 631	54 896
- interest on subordinated loan	61 925	54 896
- FX differences	54 706	-
Decrease (due to):	(61 515)	(57 524)
- interest repayment	(61 515)	(54 481)
- FX differences	-	(3 043)
As at the end of the period	1 439 835	1 384 719
Short-term	4 770	4 352
Long-term (over 1 year)	1 435 065	1 380 367

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

Other details on these liabilities are disclosed in Note 4.

33. Debt securities in issue

Debt securities in issue	ISIN	Nominal value	Currency	Redemption date	31.12.2014
Series A	PLBZ00000150	500 000	PLN	19.12.2016	
Series B	PLBZ00000168	475 000	PLN	17.07.2017	
Debt securities in issue - as at the end of the period					983 646

34. Other liabilities

Other liabilities	31.12.2014	31.12.2013
Provisions:	420 319	412 829
<i>Employee provisions</i>	<i>306 503</i>	<i>267 965</i>
<i>Provisions for legal claims</i>	<i>39 466</i>	<i>44 630</i>
<i>Provisions for off-balance sheet credit facilities</i>	<i>71 050</i>	<i>96 934</i>
<i>Other</i>	<i>3 300</i>	<i>3 300</i>
Interbank and interbranch settlements	238 803	250 941
Other deferred and suspended income	117 629	145 830
Sundry creditors	260 363	194 653
Accrued liabilities	124 790	96 551
Public and law settlements	50 303	44 359
Settlements of stock exchange transactions	48 377	-
Total	1 260 584	1 145 163

The Bank raises provisions for disputable or expected, certain or highly probable, future liabilities that can be reliably estimated.

in thousands of PLN

The liabilities arise from past events and an outflow of resources embodying economic benefits will be required to settle the present obligation.

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

Change in provisions	31.12.2014	31.12.2013
As at the beginning 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
Provision acquired in a business combination	7 553	184 815
Employee provisions	7 360	92 679
Provisions for legal claims	193	28 961
Provisions for off-balance sheet credit facilities	-	63 175
Provision charge	447 092	522 530
Employee provisions	276 173	257 921
Provisions for legal claims	11 415	2 208
Provisions for off balance sheet credit facilities	159 504	262 401
Utilization	(237 919)	(244 554)
Employee provisions	(239 561)	(243 890)
Provisions for legal claims	(240)	(448)
Provisions for off balance sheet credit facilities	1 882	(216)
Write back	(209 236)	(255 730)
Employee provisions	(5 434)	(8 048)
Provisions for legal claims	(16 532)	(1 637)
Provisions for off balance sheet credit facilities	(187 270)	(246 045)
Other changes	-	(7 154)
Employee provisions	-	(7 154)
Balance at the end of the period	420 319	412 829
Employee provisions	306 503	267 965
Provisions for legal claims	39 466	44 630
Provisions for off balance sheet credit facilities	71 050	96 934
Other	3 300	3 300

35. Share capital

31.12.2014

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

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

in thousands of PLN

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

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

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

31.12.2013

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

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

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

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

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

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

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

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

- On 24 January 2013 the Management Board of Bank Zachodni WBK announced that it had received a message from the Operations Department of the National Depository for Securities (Dział Operacyjny Krajowego Depozytu Papierów Wartościowych S.A.) ("KDPW") stating that on 25 January 2013 the KDPW would register 18,907,458 series J shares in the Bank with a nominal value of PLN 10 each, i.e. the merger shares in the Bank issued in connection with its merger with Kredyt Bank which were assigned the code: PLBZ00000044 in compliance with resolution No. 24/13 of the Management Board of the KDPW dated 8 January 2013.
- On 22 March 2013, KBC Bank NV and Banco Santander announced a secondary offering for the shares of Bank Zachodni WBK. The offering was for 19,978,913 shares representing 21.4% of the Bank's share capital, with 15,125,964 shares owned by KBC Bank NV, and 4,852,949 owned by Banco Santander. The final price per share was set in a book-building process at PLN 245. The total value of the offering was PLN 4.9bn.

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

36. Other reserve funds

Other reserve funds	31.12.2014	31.12.2013
General banking risk fund	649 810	649 810
Share premium	7 035 424	4 932 848
Other reserves of which:	5 492 706	4 741 916
<i>Reserve capital</i>	5 321 957	4 630 244
<i>Supplementary capital</i>	170 749	111 672
Total	13 177 940	10 324 574

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

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

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

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

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

37. Revaluation reserve

Revaluation reserve	31.12.2014	31.12.2013
As at 31 December	712 936	877 221
Change in available for sale investments	694 985	132 979
Gross valuation related to cash flow hedge	(171 604)	(43 610)
Actuarial gains on retirement allowances	(13 851)	7 154
Decrease in revaluation reserve related to sale of investments	(220 445)	(299 344)
Deferred tax adjustment	(54 926)	38 536
Total	947 095	712 936

in thousands of PLN

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 hedges

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

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

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

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

The tables below contain details about individual groups of hedge transactions for 2014 and the comparative period:

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

31.12. 2013	Bonds	Loans
Nominal value of hedging position in PLN k	1 515 000	1 150 000
Fair value adjustment of hedging instrument in PLN k	10 867	(2 848)
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	up to 2023	up to 2018

Cash flow hedges

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

Hedged items are measured at amortised cost, while hedging items are measured at fair value. Subject to fulfilment of the criteria for effectiveness of hedging relationships, changes in the fair value of hedging instruments are recognised in equity.

As of 31 December 2014, the nominal value of the hedging item was PLN 17 211 552 k (31 December 2013 – PLN 15 280 081 k). Adjustment to fair value of the hedging instrument was PLN (132 140) k (31 December 2013 – PLN 39 464 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 2028.

The non-effective portion of measurement of the cash flow hedge was PLN (14 619) k as of 31.12.2014 and PLN 3 188 k as of 31.12.2013. It was taken to the 'Net trading income and revaluation' line of the profit and loss account.

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.

in thousands of PLN

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.

	31.12.2014	31.12.2013
	Balance sheet value	Balance sheet value
Liabilities valued at amortised cost (contains sell-buy-back)	5 821 828	4 605 536
Treasury bonds held on the assets side	5 948 452	4 815 019
Buy-sell-back transactions	397 017	217 605

All of the above-mentioned risks and costs related to the holding of the underlying debt securities in the sell-buy-back transactions remain with the 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 31.12.2014 and 31.12.2013, consolidated statements of financial position contained no financial instruments serving as collateral to repo transactions maturing within a period shorter or equal to that of the main transaction.

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	31.12.2014		31.12.2013	
	Book Value	Fair Value	Book Value	Fair Value
Cash and balances with central banks	6 567 108	6 567 108	5 149 682	5 149 682
Loans and advances to banks	3 673 519	3 673 519	2 165 376	2 165 376
Financial assets held for trading	5 221 034	5 221 034	2 188 672	2 188 672
Hedging derivatives	238 889	238 889	321 956	321 956
Loans and advances to customers	74 645 880	74 687 611	67 614 542	68 185 873
Investment securities	24 465 448	24 465 448	21 924 489	21 924 489
Investments in subsidiaries, associates and joint ventures	2 387 250	2 387 250	279 191	279 191
Liabilities				
Deposits from banks	6 171 077	6 171 077	6 278 784	6 278 784
Hedging derivatives	1 233 926	1 233 926	367 536	367 536
Financial liabilities held for trading	2 781 686	2 781 686	1 277 247	1 277 247
Subordinated liabilities	1 439 835	1 691 305	1 384 719	1 623 024
Deposits from customers	90 149 236	90 157 500	78 735 663	78 711 528

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.

in thousands of PLN

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.

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 2014 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.

As at 31 December 2014 and in the comparable period the Bank classified its financial instruments to the following fair value levels.

31.12.2014	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	1 848 187	3 371 457	1 390	5 221 034
Hedging derivatives	-	238 889	-	238 889
Financial investment assets - debt securities	15 351 139	8 261 354	-	23 612 493
Financial investment assets - equity securities	20 467	-	832 488	852 955
Total	17 219 793	11 871 700	833 878	29 925 371
Financial liabilities				
Financial liabilities held for trading	477 005	2 304 681	-	2 781 686
Hedging derivatives	-	1 233 926	-	1 233 926
Total	477 005	3 538 607	-	4 015 612

in thousands of PLN

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	24 902	-	830 228	855 130
Total	11 671 606	11 933 283	830 228	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

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
31.12.2014	Financial assets held for trading	Financial investment assets - debt securities	Financial investment assets - equity securities	Financial liabilities held for trading
Beginning of the period	-	-	830 228	-
Profit or losses				
<i>recognised in income statement</i>	-	-	-	-
<i>recognised in equity</i>	-	-	11	-
Purchase	-	-	5 868	-
Sale	-	-	(100)	-
Matured	-	-	-	-
Impairment	-	-	(3 519)	-
Transfer	1 390	-	-	-
At the period end	1 390	-	832 488	-

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	646 338	(74 182)
Profit or losses				
<i>recognised in income statement</i>	-	-	-	-
<i>recognised in equity</i>	-	-	195 235	-
Purchase	-	-	-	-
Sale	-	-	(12 304)	-
Matured	-	-	-	-
Impairment	-	-	-	-
Transfer	(180 150)	(1 237 344)	959	74 182
At the period end	-	-	830 228	-

in thousands of PLN

41. Contingent liabilities

Significant court proceedings conducted by Bank Zachodni WBK

As at 31 December 2014, 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 234 070 k, which is ca. 1.37% of the Bank's equity. This amount includes PLN 63 879 k claimed by the Bank, PLN 170 191 k in claims against the Bank and PLN 0 k are Bank's receivables due to bankruptcy or arrangement cases.

In 2014 the amount of significant court proceedings which had been completed amounted to PLN 158 877 k.

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.

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	31.12.2014	31.12.2013
Liabilities sanctioned		
- financial	17 441 093	16 575 460
- credit lines	14 838 913	14 211 743
- credit cards debits	2 055 517	1 875 786
- import letters of credit	414 581	441 505
- term deposits with future commencement term	132 082	46 426
- guarantees	4 433 521	4 084 271
Total	21 874 614	20 659 731

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 2013 the bank calculated this fund using 0.55% rate) of the annual contribution base which is defined the same as for calculating the obligatory reserve.

Accordingly, as at 31 December 2014 Bank Zachodni WBK pledged as collateral PLN 484 402 k of debt securities (PLN 448 172 k as at 31.12.2013).

In 2014 a deposit for PLN 1 622 004 k was placed with another financial institutions as a collateral for the day-to-day Treasury business (in 2013 it was PLN 523 973 k).

In 2014 BZ WBK hold a deposit for PLN 176 877 k (in 2013 it was PLN 317 004 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 39.

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	31.12.2014	31.12.2013
less than 1 year	14 655	9 813
between 1 and 5 years	18 018	20 117
Total	32 673	29 930

Present value of minimum lease payments - maturity	31.12.2014	31.12.2013
less than 1 year	13 809	8 059
between 1 and 5 years	16 739	18 746
Total	30 548	26 805

Reconciliation between the gross investment and the present value of minimum lease payments	31.12.2014	31.12.2013
Finance leases gross liabilities	32 673	29 930
Unrealised financial costs	(2 125)	(3 125)
Present value of minimum lease payments	30 548	26 805

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 2014 and 2013 rentals totalled PLN 237 288 k and PLN 264 999 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	31.12.2014	31.12.2013
less than 1 year	241 525	251 960
between 1 and 5 years	553 927	615 426
over 5 years	345 356	373 909
Total	1 140 808	1 241 295

44. Statement of cash flow- additional information

Table below specifies components of cash balances of Bank Zachodni WBK.

Cash components	31.12.2014	31.12.2013
Cash and balances with central banks	6 567 108	5 149 682
Deposits in other banks, current account	2 546 585	1 304 278
Debt securities held for trading	-	199 972
Investment securities	2 999 833	5 599 222
Total	12 113 526	12 253 154

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, leases and guarantees.

Transactions with subsidiaries	31.12.2014	31.12.2013
ASSETS	9 299 050	4 960 327
Loans and advances to banks	1 333 090	-
Financial assets held for trading	16 522	474
Loans and advances to customers	7 938 369	4 947 758
Other assets	11 069	12 095
LIABILITIES	2 187 963	1 012 334
Deposits from banks	29 370	-
Financial liabilities held for trading	50	85
Deposits from customers	2 127 105	985 202
Debt securities in issue	-	50
Other liabilities	31 438	26 997
INCOME	325 369	245 717
Interest income	141 930	130 765
Fee and commission income	166 923	103 058
Other operating income	10 445	11 489
Net trading income and revaluation	6 032	405
Gains (losses) from other financial securities	39	-
EXPENSES	35 182	37 241
Interest expenses	28 429	36 319
Fee and commission expenses	4 297	904
Operating expenses incl.:	2 456	18
<i>Bank's staff, operating expenses and management costs</i>	2 443	-
<i>Other</i>	13	18
CONTINGENT LIABILITIES	458 958	1 199 011
Sanctioned:	458 958	1 199 011
- <i>financing-related</i>	393 853	928 942
- <i>guarantees</i>	65 105	270 069
DERIVATIVES' NOMINAL VALUES	1 160 300	256 588
Spot-purchased	3 344	-
Spot-sold	3 334	-
Cross-currency interest rate swap – purchased amounts	513 982	41 800
Cross-currency interest rate swap – sold amounts	500 120	41 472
Single-currency interest rate swap	139 520	173 316

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.

Transactions with associates and joint ventures	31.12.2014	31.12.2013
LIABILITIES	2 931	7 168
Deposits from customers	2 931	7 168
INCOME	3	135 516
Interest income	-	42 033
Fee and commission income	3	88 278
Dividend income	-	5 050
Other operating income	-	155
EXPENSES	201	8 397
Interest expenses	201	5 989
Fee and commission expenses	-	437
Operating expenses incl.:	-	1 971
<i>General and administrative expenses</i>	-	1 971

in thousands of PLN

Transactions with Santander Group	31.12.2014	31.12.2013
ASSETS	259 377	801 211
Loans and advances to banks, incl:	697	706 166
<i>deposits</i>	-	674 579
<i>current accounts</i>	697	31 587
Financial assets held for trading	256 908	93 723
Hedging derivatives	869	1 081
Loans and advances to customers	-	4
Other assets	903	237
LIABILITIES	410 458	216 668
Deposits from banks incl.:	155 537	71 485
<i>current accounts</i>	155 537	71 485
Hedging derivatives	21 505	6 235
Financial liabilities held for trading	158 907	85 784
Deposits from customers	74 459	48 970
Other liabilities	50	4 194
INCOME	215 508	(51 543)
Interest income	7 585	13 528
Fee and commission income	823	260
Other operating income	-	815
Net trading income and revaluation	207 100	(66 146)
EXPENSES	8 066	23 112
Interest expenses	1 309	404
Fee and commission expenses	204	14 927
Operating expenses incl.:	6 553	7 781
<i>Bank's staff, operating expenses and management costs</i>	6 553	7 781
CONTINGENT LIABILITIES	725	117
Sanctioned:	725	-
- <i>guarantees</i>	725	-
Received:	-	117
- <i>guarantees</i>	-	117
DERIVATIVES' NOMINAL VALUES	32 826 135	17 687 584
Cross-currency interest rate swap – purchased amounts	3 052 808	2 733 296
Cross-currency interest rate swap – sold amounts	2 970 459	2 764 571
Single-currency interest rate swap	7 265 993	4 360 662
Options	1 669 031	822 678
FX swap – purchased amounts	2 920 096	1 592 208
FX swap – sold amounts	2 896 754	1 599 563
FX options -purchased CALL	3 002 819	1 044 075
FX options -purchased PUT	3 116 998	1 076 295
FX options -sold CALL	2 516 257	682 163
FX options -sold PUT	2 700 183	717 682
Spot-purchased	90 068	44 475
Spot-sold	90 297	44 563
Forward- purchased amounts	96 328	93 727
Forward- sold amounts	100 936	100 936
Capital derivatives contract - purchased	337 108	10 690

in thousands of PLN

Transactions with Members of Management and Supervisory Boards

Remuneration of Bank Zachodni WBK Management and Supervisory Board Members

31.12.2014

Remuneration of Bank Zachodni WBK Supervisory Board Members.

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

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

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

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

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

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

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

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

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

in thousands of PLN

31.12.2013

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

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

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

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

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

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

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

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

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

31.12.2014

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

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

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

in thousands of PLN

31.12.2013

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

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

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

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

31.12.2014

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

31.12.2013

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

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

In 2014 Bank issued 41 227 banking writs of execution with total amount of PLN 1 174 274 k.

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

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

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

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

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

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

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

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

in thousands of PLN

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

Transaction details

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

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

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

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

Assets and liabilities as at the acquisition date

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

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

Below is an estimate of the carrying value of the acquired assets and liabilities.

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

Non-controlling interest

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

in thousands of PLN

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

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

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

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 had 66% shareholding and 66% voting power in the two insurance companies, while the remaining 34% voting power is held by Aviva.

Assets and liabilities recognised at the acquisition date

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

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

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

in thousands of PLN

- 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.

Non-controlling interests

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

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 following contingent liabilities.

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

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

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

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

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

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

in thousands of PLN

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

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

51. Acquisitions and disposals of investments in subsidiaries

Acquisitions and disposals of investments in subsidiaries 2014 and 2013.

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

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

Incorporation of Dom Maklerski BZ WBK into Bank Zachodni WBK

The incorporation of Dom Maklerski BZ WBK into Bank Zachodni WBK and the foundation of a company Gieldokracja Sp. z o.o has been described in detail in Note 47.

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

Acquisition of controlling interest in Santander Consumer Bank S.A. has been described in detail in Note 48.

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).

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

Controlling stake at the companies BZ WBK- AVIVA

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

52. Employee benefits

Staff benefits include the following categories:

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

Within these categories, the 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:

in thousands of PLN

- 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.

The principal actuarial assumptions as at 31 December 2014 are as follows:

- the discount rate at the level of 2,6% (4.4% as at 31 December 2013),
- the future salary growth rate at the level of 2.5% (2.5% as at 31 December 2013),
- the probable number of leaving employees calculated on the basis of historical data concerning personnel rotation in the 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.

	31.12.2014	31.12.2013
Balance as at 1 January	48 354	37 135
Provision acquired in a business combination	1 105	13 758
Current service cost	453	2 852
Prior service cost	-	-
Interest expense	2 062	1 763
Actuarial (gains) and losses	13 851	(7 154)
Balance as at 31 December	65 825	48 354

Sensitivity analysis

The following table presents how the impact on the defined benefits obligations would have increased (decreased) as a result of a change in the respective actuarial assumptions by one percent as at 31 December 2014.

Defined benefit plan obligations	1 percent increase	1 percent decrease
Discount rate	12,89%	-14,26%
Future salary growth rate	-14,19%	12,95%

Other staff-related provisions

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

in thousands of PLN

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

Provisions	31.12.2014	31.12.2013
Provisions for unused holidays	49 700	45 472
Provisions for employee bonuses	181 674	165 279
Provisions for retirement allowances	65 825	48 354
Other staff-related provisions	9 304	8 860
Total	306 503	267 965

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

BZ WBK Group applies the Policy on variable components of remuneration for individuals holding managerial positions in BZ WBK Group. The Policy has been approved by the bank's Management Board and Supervisory Board and is reviewed annually or each time significant organisational changes are made.

Persons holding managerial positions are paid variable remuneration once a year following the end of the settlement period and release of the bank's results. Variable remuneration is awarded in accordance with applicable bonus regulations and paid in cash and phantom stock. The latter shall represent min. 50% of the total amount of variable remuneration. Payment of min. 40% of variable remuneration referred to above is conditional and deferred for the period of three years (13.3% per annum). Variable remuneration is paid in arrears in equal annual instalments depending on individual performance in the period subject to assessment and the value of the phantom stock.

Awards for 2013 for members of BZ WBK Management Board paid in 2014

The awards for 2013 paid to members of the bank's Management Board in 2014 might have included part of the award for 2012 which was conditional and deferred in time.

First and last name	Position	Period	
Mateusz Morawiecki	President of the Management Board	01.01.2014-31.12.2014	1 768,77
Andrzej Burliga	Member of the Management Board	01.01.2014-31.12.2014	789,97
Eamonn Crowley	Member of the Management Board	01.01.2014-31.12.2014	765,70
Michael McCarthy	Member of the Management Board	01.01.2014-31.12.2014	751,04
Piotr Partyga	Member of the Management Board	01.01.2014-31.12.2014	674,33
Juan de Porras Aguirre	Member of the Management Board	01.01.2014-31.12.2014	747,63
Marcin Prell	Member of the Management Board	01.01.2014-31.12.2014	602,53
Marco Antonio Silva Rojas	Member of the Management Board	01.01.2014-31.12.2014	691,04
Miroslaw Skiba	Member of the Management Board	01.01.2014-31.12.2014	878,37
Feliks Szyszowskiak	Member of the Management Board	01.01.2014-31.12.2014	910,27

Pursuant to the bank's remuneration system, the Management Board members have a conditional right to a bonus for 2014 which could be paid in part in 2015 and in part thereafter, provided that certain criteria are met. As at the date of this report, a relevant decision has not yet been made by the bank's Supervisory Board.

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

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

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

In 2013, Management Board members received an additional one-off award of PLN 2 469.3 k for delivery of 2012 objectives related to the integration with Kredyt Bank.

in thousands of PLN

53. Share based incentive scheme

The fourth edition of the BZWBK incentive scheme closed as at 31/12/2013. It vested at the maximum level and its realization through issuance of new shares and their allocation to entitled individuals was processed in first half of 2014.

On the 30th of June 2014, Annual General Meeting of the Shareholders of Bank Zachodni WBK S.A. implemented three-year Incentive Scheme no. V which participants are key employees of the Bank Zachodni WBK Group (including Members of the Management Board), however not more than 500 individuals.

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

In every single year annual award not exceeding one third on total award will be considered. Shares will vest on a linear pattern between 25% and 100% contingent on profit after tax (PAT) growth. The range of the scale requires PAT growth between 7% and 11% in first year and between 17% and 26% in second and third year of duration of scheme.

Additionally, after 3 years cumulative award will be considered. Shares will vest on a linear pattern between 25% and 100% contingent on PAT compound annual growth rate in 3 years' time between 13.6% and 20.8%. If number of shares resulting from cumulative assessment will be higher than sum of annual awards vested to date, additional shares will be allocated to individuals up to the amount resulting from cumulative assessment.

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

Share based payments granted in 2014:

	2014
Number of share based payments	177 336
Share price in PLN	363,30
Exercise price (PLN)	10
Vesting period	2,8 years
Expected volatility	26,40%
Award life	3 years
Risk free rate	2,29%
Fair value per award	322.39 PLN
Dividend yield	2,75%

The following table summarizes the share based payments activity:

	12 months of 2014	12 months of 2013
	Number of share based payments	Number of share based payments
Outstanding at 1 January	311 989	315 917
Granted	177 336	-
Exercised	(305 543)	-
Forfeited	(6 446)	(3 928)
Expired	-	-
Outstanding at 31 December	177 336	311 989
Exercisable at 31 December	-	-

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

For the share based payments outstanding as at 31 December 2014 and 31 December 2013 the average remaining contractual life is approximately 2,5 years and 0 year respectively.

The total expense is recognized in profit and loss account in correspondence with other reserve capital and settlements with subsidiaries. For 12 months of 2014, 2013 increase of equity amounted to PLN 6 697 k, PLN 19 394 k respectively.

in thousands of PLN

The tables above present detailed information about the number of conditional rights to shares vested in BZ WBK Management Board members under the 5th Incentive Scheme. The rights may be exercised only in part depending on the future performance of the Group. Information about the rights exercised in full or in part will be provided in the future reports.

No. of awards		2014
Outstanding at 1 January		38 570
Granted		24 073
Exercised		(38 570)
Expired		-
Outstanding at 31 December		24 073
Exercisable at 31 December		-

First and last name	Total as at			Total as at 31.12.2014
	01.01.2014	Exercised during 2014	Granted during 2014	
Mateusz Morawiecki	10 120	(10 120)	3 857	3 857
Andrzej Burliga	4 282	(4 282)	2 204	2 204
Eamonn Crowley	4 003	(4 003)	2 094	2 094
Michael McCarthy	4 875	(4 875)	2 424	2 424
Piotr Partyga	2 855	(2 855)	2 094	2 094
Juan de Porras Aguirre	-	-	2 217	2 217
Marcin Prell	3 704	(3 704)	1 983	1 983
Marco Antonio Silva Rojas	-	-	2 704	2 704
Miroslaw Skiba	4 282	(4 282)	2 248	2 248
Feliks Szyszkowski	4 449	(4 449)	2 248	2 248
Total	38 570	(38 570)	24 073	24 073

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

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

in thousands of PLN

54. Staff level

31.12.2014

As at 31 December 2014 the Bank employed 11 838 persons and 11 688 FTE's.
In 2014, the average staffing level in Bank Zachodni WBK was 11 583 FTE's.

31.12.2013

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.

55. Dividend per share

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

On 16 April 2014, the Annual General Meeting of Bank Zachodni WBK adopted a Resolution allocating PLN 1 000 932 k to dividend for shareholders, from the profit for 2013, which meant that the dividend was PLN 10.70 per share.

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

The closing of the sale by the Bank of a 17% equity stake in BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. to AVIVA International Insurance Limited

On 27 February 2015, Bank Zachodni WBK S.A. lost control over insurance entities BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. („TUnŻ S.A.”) and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. („TUO S.A.”) following the exercise of a call option by Aviva International Insurance Limited (“Aviva Ltd.”). After the fulfilment of the conditions precedent, including the obtaining of the European Commission consent and a decision of the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego) confirming the absence of formal grounds for objecting to the direct acquisition by Aviva Ltd. and indirect acquisition by Aviva plc. of 17% of shares in TUnŻ S.A. and 17% of shares in TUO S.A., the ownership transfer of the abovementioned shares has been completed.

After the transfer, the Bank holds 49% of the total number of shares in the share capital and the total number of the votes at the general meetings of each of the Insurance Companies, with the remaining 51% of the shares and votes being held by Aviva Ltd.

Transfer of the stake by the Bank and settlement of the options arising from the agreement will generate a pre-tax profit of PLN 257,834 k, which will be reflected in the income statement of Bank Zachodni WBK.

The impact of the National Swiss Bank decision on the FX mortgage loans

Pursuant to the decision of the Swiss National Bank, following the end of the reporting period, there occurred a material depreciation of the zloty against the Swiss franc. As at 31 December 2014, the average NBP PLN/CHF exchange rate was 3.5447 vs. 3,8919 as at a 28 February 2015.

Detailed information about the impact of FX movements on the value and risk profile of the affected assets is presented in the consolidated financial statements of Bank Zachodni WBK Group for 2014 released on 6 March 2015.

Supervisory Board Member resignation

Bank Zachodni WBK S.A. informed that on 5th February 2015 the Bank Management Board received the notice from Mr. Jose Antonio Alvarez of his resignation as the Bank Supervisory Board member effective immediately.



Signatures of Members of the Management Board			
Date	Name	Function	Signature
05.03.2015	Mateusz Morawiecki	President	
05.03.2015	Andrzej Burliga	Member	
05.03.2015	Eamonn Crowley	Member	
05.03.2015	Michael McCarthy	Member	
05.03.2015	Piotr Partyga	Member	
05.03.2015	Juan de Porras Aguirre	Member	
05.03.2015	Marcin Prell	Member	
05.03.2015	Marco Antonio Silva Rojas	Member	
05.03.2015	Mirosław Skiba	Member	
05.03.2015	Feliks Szyszkowiak	Member	

Signature of a person who is responsible for maintaining the book of account			
Date	Name	Function	Signature
05.03.2015	Wojciech Skalski	Financial Accounting Area Director	