# SANTANDER CONSUMER BANK S.A.
# FINANCIAL STATEMENTS
# FOR THE FINANCIAL YEAR 2013
**together with the independent auditor's report**

# INDEPENDENT AUDITORS' REPORT

**To the General Shareholders' Meeting of Santander Consumer Bank S.A.**

1. We have audited the attached financial statements for the year ended 31 December 2013 of Santander Consumer Bank S.A. ('the Bank') located in Wrocław at Strzegomska Street 42c, containing the statement of comprehensive income for the period from 1 January 2013 to 31 December 2013, the statement of financial position as at 31 December 2013, the statement of changes in equity and the statement of cash flow for the period from 1 January 2013 to 31 December 2013, the summary of significant accounting policies and other explanatory notes ('the attached financial statements').
2. The truth and fairness[1] of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Bank's Management Board. In addition, the Bank's Management Board and Members of the Supervisory Board are required to ensure that the attached financial statements and the Directors' Report for the period from 1 January 2013 to 31 December 2013 meet the requirements of the Accounting Act dated 29 September 1994 (2013 Journal of Laws No. 330, item 613 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Bank and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.
3. We conducted our audit of the attached financial statements in accordance with:
   - chapter 7 of the Accounting Act,
   - national auditing standards issued by the National Council of Statutory Auditors,

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.

[1] Translation of the following expression in Polish: '*rzetelność i jasność*'
[2] Translation of the following expression in Polish: '*rzetelnie i jasno*'

4. In our opinion, the attached financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Bank's operations for the period from 1 January 2013 to 31 December 2013, as well as its financial position[3] as at 31 December 2013;
   - have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and based on properly maintained accounting records;
   - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Bank's Articles of Association.
5. We have read the 'Directors' Report and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with art. 49 par. 2 of the Accounting Act.

on behalf of
Ernst & Young Audyt Polska
spółka z ograniczoną
odpowiedzialnością sp.k.
(formerly: Ernst & Young
Audit sp. z o.o.)
Rondo ONZ 1, 00-124 Warsaw
Reg. No. 130

Key Certified Auditor

Arkadiusz Krasowski
Certified Auditor
No. 10018

Warsaw, 3 March 2014

[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

**SANTANDER CONSUMER BANK S.A.**

**Wrocław, Strzegomska St. 42c**

**FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR 2013**

**prepared in accordance with the International**

**Financial Reporting Standards**

**as adopted by the European Union**

**together with the independent auditor’s report**

## TABLE OF CONTENTS

## I) Statement of comprehensive income

Prepared for the year ended 31 December 2013 (in PLN)

| Item | Note | 2013 | 2012 (restated) |
|---|---|---|---|
| **Continuing operations** | | | |
| Interest income | 6 | 1,201,099,328 | 1,374,562,904 |
| Interest expenses | 7 | -470,914,430 | -478,539,662 |
| **Net interest income** | | **730,184,898** | **896,023,242** |
| Commission income | 8 | 256,519,552 | 251,470,247 |
| Commission expenses | 9 | -34,883,931 | -22,457,775 |
| **Net commission income** | | **221,635,621** | **229,012,472** |
| Result on financial operations and FX result | 10 | 12,991,393 | -523,364 |
| **Result on banking activities** | | **964,811,912** | **1,124,512,350** |
| Other operating income | 11 | 69,890,770 | 104,401,963 |
| Bank's operating expenses | 12 | -413,592,843 | -373,232,326 |
| Depreciation and amortization | 12 | -45,190,143 | -44,154,382 |
| Impairment losses on financial assets | 13 | 12,377,267 | -116,767,481 |
| Other operating expenses | 14 | -43,633,198 | -32,109,074 |
| **Result on operating activities** | | **544,663,765** | **662,651,050** |
| **Profit before tax** | | **544,663,765** | **66,2651,050** |
| Income tax expense | 15 | -95,311,524 | -129,346,380 |
| **Net profit** | | **449,352,241** | **533,304,670** |
| **Other comprehensive income** | | | |
| Valuation of financial assets available for sale | 36 | -7,132,757 | 435,616 |
| Effective portion of cash flow hedging instruments' revaluation | 36 | 518,385 | -6,938,417 |
| Deferred tax | 36 | 1,256,731 | 1,230,912 |
| **Total other comprehensive income** | | **-5,357,641** | **-5,271,889** |
| **Total comprehensive income** | | **443,994,600** | **528,032,781** |

Notes presented below constitute an integral part of these financial statements.

## II) Statement of financial position

Prepared as at 31 December 2013 (in PLN)

| **ASSETS** | **Note** | **31.12.2013** | **31.12.2012 (restated)** | **01.01.2012 (restated)** |
|---|---|---|---|---|
| Cash and balances with the Central Bank | 17 | 254,064,109 | 707,544,096 | 115,289,671 |
| Accounts and deposits in other banks | 18 | 545,653,208 | 535,389,054 | 570,689,311 |
| Financial assets available for sale | 19 | 1,306,037,387 | 700,552,717 | 437,967,993 |
| Hedging derivatives | 20 | 40,767,698 | 76,656,690 | 3,303,786 |
| Loans granted to customers | 21 | 11,475,269,688 | 9,137,644,071 | 11,646,625,665 |
| Shares and interests in subsidiaries | 22 | 181,861,762 | 27,253,554 | 27,253,554 |
| Intangible assets | 23 | 53,538,853 | 71,201,274 | 61,119,037 |
| Property plant and equipment | 24 | 67,408,151 | 74,890,995 | 88,107,111 |
| Other assets | 25 | 23,695,576 | 21,819,962 | 29,114,881 |
| Deferred tax assets | 26 | 265,901,457 | 243,104,430 | 290,879,309 |
| Prepayments | 27 | 49,313,149 | 54,538,782 | 44,189,012 |
| **TOTAL ASSETS** | | **14,263,511,038** | **11,650,595,625** | **13,314,539,330** |

| **EQUITY AND LIABILITIES** | **Note** | **31.12.2013** | **31.12.2012 (restated)** | **01.01.2012 (restated)** |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| Liabilities due to banks | 28 | 2,541,497,526 | 875,884,894 | 4,790,490,246 |
| Hedging derivatives | 20 | 170,082 | 2,441,454 | 732,455 |
| Liabilities due to customers | 29 | 6,993,989,548 | 6,812,496,998 | 5,211,289,826 |
| Liabilities arising from issuance of debt securities | 30 | 1,988,370,462 | 1,110,945,241 | 956,653,213 |
| Other liabilities including: | 31 | 128,690,516 | 103,382,063 | 85,852,474 |
| *- income tax liabilities* | | *59,490,542* | *48,471,316* | *27,640,409* |
| Accrued expenses and deferred income | 32 | 279,629,882 | 154,847,045 | 170,557,749 |
| Restructuring and other provisions | 33 | 27,243,767 | 27,840,843 | 64,239,061 |
| Subordinated debt | 34 | 150,000,000 | 150,000,000 | 150,000,000 |
| **TOTAL LIABILITIES** | | **12,109,591,783** | **9,237,838,538** | **11,429,815,024** |
| **EQUITY** | | | | |
| Share capital | 35 | 520,000,000 | 520,000,000 | 520,000,000 |
| Share premium | 35 | 768,047,473 | 768,047,473 | 768,047,473 |
| Other reserves | 36 | 483,391,236 | 356,275,678 | 33,366,635 |
| Retained earnings | 37 | 382,480,546 | 768,433,936 | 563,310,198 |
| **TOTAL EQUITY** | | **2,153,919,255** | **2,412,757,087** | **1,884,724,306** |
| **TOTAL EQUITY AND LIABILITIES** | | **14,263,511,038** | **11,650,595,625** | **13,314,539,330** |

| | | | | |
|---|---|---|---|---|
| **Capital adequacy ratio** | 46 | 14.36% | 15,18% | 10.90% |

Notes presented below constitute an integral part of these financial statements.

## III) Statement of changes in equity

Prepared for the year ended 31 December 2013 (in PLN)

| | Share capital | Share premium | Other supplementary capital | Revaluation reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| **Note** | 35 | 35 | 36 | 36 | 37 | |
| **Equity at the beginning of the period** | **520,000,000** | **768,047,473** | **361,369,709** | **-5,094,031** | **768,433,936** | **2,412,757,087** |
| - net profit | 0 | 0 | 0 | 0 | 449,352,241 | **449,352,241** |
| - other comprehensive income for the year | 0 | 0 | 0 | -5,357,641 | 0 | **-5,357,641** |
| - result of the business combination | 0 | 0 | 0 | 0 | -40,389,644 | **-40,389,644** |
| - dividends paid-out | 0 | 0 | 0 | 0 | -662,442,788 | **-662,442,788** |
| - transfer of profit to supplementary capital | 0 | 0 | 132,473,199 | 0 | -132,473,199 | **0** |
| **Equity at the end of the period** | **520,000,000** | **768,047,473** | **493,842,908** | **-10,451,672** | **382,480,546** | **2,153,919,255** |

Prepared for the year ended 31 December 2012 (in PLN) (restated)

| | Share capital | Share premium | Other supplementary capital | Revaluation reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| **Note** | 35 | 35 | 36 | 36 | 37 | |
| **Equity at the beginning of the period before change in accounting policies** | 520,000,000 | 768,047,473 | 33,188,777 | 177,858 | 593,204,122 | **1,914,618,230** |
| - change in accounting policies | 0 | 0 | 0 | 0 | -29,893,924 | **-29,893,924** |
| **Equity at the beginning of the period after change in accounting policies** | 520,000,000 | 768,047,473 | 33,188,777 | 177,858 | 563,310,198 | **1,884,724,306** |
| - net profit | 0 | 0 | 0 | 0 | 533,304,670 | **533,304,670** |
| - other comprehensive income for the year | 0 | 0 | 0 | -5,271,889 | 0 | **-5,271,889** |
| - profit transfer to supplementary capital | 0 | 0 | 328,180,932 | 0 | -328,180,932 | **0** |
| **Equity at the end of the period** | **520,000,000** | **768,047,473** | **361,369,709** | **-5,094,031** | **768,433,936** | **2,412,757,087** |

Notes presented below constitute an integral part of these financial statements.

## IV) Statement of cash flows

Prepared for the year ended 31 December 2013 (in PLN)

| CASH FLOW | Note | 2013 | 2012 (restated) |
|---|---|---|---|
| **A. CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Net profit** | | **449,352,241** | **533,304,670** |
| **Total adjustments:** | | **-1,204,735,887** | **220,252,089** |
| Depreciation and amortization | 12 | 45,190,143 | 44,154,382 |
| Profit/(loss) on investing activities | 41 | 1,437,126 | 2,034,827 |
| Income tax paid | 41 | -108,463,344 | -59,509,683 |
| Change in debt securities | 19 | -605,116,765 | -262,177,123 |
| Change in receivables from banks | 41 | -289,570,761 | 304,724,802 |
| Change in loans granted to customers | 41 | -504,142,885 | 2,508,981,594 |
| Change in liabilities due to banks | 41 | -213,387,368 | -3,914,605,352 |
| Change in liabilities due to customers | | 181,492,550 | 1,601,207,173 |
| Change in liabilities arising from issuance of debt securities | 30 | 7,525,221 | 3,692,028 |
| Change in other liabilities | 41 | 72,669,746 | 77,039,273 |
| Change in prepayments and accruals | 41 | 139,967,819 | 21,714,406 |
| Change in provisions | 33 | -597,076 | -36,398,218 |
| Change in other assets | 41 | -23,233,822 | -25,989,286 |
| Disposal of loans written off | 11 | 33,514,587 | 33,000,000 |
| Derivatives measured through profit and loss account | 41 | 27,892,074 | -77,323,394 |
| Other adjustments | 41 | 30,086,868 | -293,340 |
| **Cash flow from operating activities** | | **-755,383,646** | **753,556,759** |
| **B. CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| **Inflows from investing activities** | | **11,357,385** | **2,693,447** |
| Disposal of intangible assets and property, plant and equipment | 41 | 1,674,470 | 2,693,447 |
| Cash acquired as a result of acquisition of entities | 50 | 9,682,915 | 0 |
| **Outflows from investing activities** | | **-196,217,543** | **-45,171,237** |
| Acquisitions of shares in subsidiaries | 22 | -172,275,200 | 0 |
| Acquisition of intangible assets and property, plant and equipment | 23, 24 | -23,942,343 | -45,171,237 |
| **Cash flow from investing activities** | | **-184,860,158** | **-42,477,790** |
| **C. CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| **Inflows from financing activities** | | **1,064,900,000** | **886,600,000** |
| Issuance of debt securities | 30 | 1,064,900,000 | 886,600,000 |
| **Outflows from financing activities** | | **-857,442,788** | **-736,000,000** |
| Dividends and other payments to shareholders | 37 | -662,442,788 | 0 |
| Redemption of debt securities | 30 | -195,000,000 | -736,000,000 |
| **Cash flows from financing activities** | | **207,457,212** | **150,600,000** |
| **D. TOTAL CASH FLOWS (A+/-B+/-C)** | | **-732,786,592** | **861,678,969** |
| **E. BALANCE SHEET CHANGE IN CASH** | | **-732,786,592** | **861,678,969** |
| **F. OPENING BALANCE OF CASH** | 41 | **1,242,204,653** | **380,525,684** |
| **G. CLOSING BALANCE OF CASH** | 41 | **509,418,061** | **1,242,204,653** |

Notes presented below constitute an integral part of these financial statements.

## Accounting policies and other explanatory notes

### 1 Details of the Bank

| | |
|---|---|
| Name: | Santander Consumer Bank Spółka Akcyjna (thereinafter "the Bank") |
| Registered address: | Strzegomska St. 42c, 53-611 Wrocław |
| Country of incorporation: | Poland |
| Statistical number (REGON): | 012736938 |
| Tax identification number (NIP): | 527-20-46-102 |
| Register: | District Court in Wrocław, VI Business Division of the National Court Register, KRS 0000040562 |

The scope of business activities defined in the National Court Register includes amongst other:

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

The Bank's parent company is Santander Consumer Finance S.A. with its registered office in Madrid, Spain. The parent company holds 100% of the Bank's share capital.
The Bank's ultimate parent company is Banco Santander Central Hispano S.A.

As at 31 December 2013, the Bank's Management Board was composed of:

- Arkadiusz Wiktor Przybył – President of the Management Board,
- Piotr Żabski – Vice-President of the Management Board,
- Rafał Szmuc – Member of the Management Board,
- Artur Wawrzyniak – Member of the Management Board,
- Przemysław Kończal – Member of the Management Board,
- Sebastian Ślanda – Member of the Management Board,
- Mariusz Klepacz – Member of the management Board,
- Oleksandr Krupchenko – Member of the Management Board.

In 2013, there were the following changes in the Bank's Management Board:

- On 21 May 2013, the resignation of Mr. Piotr Żabski as a President of the Management Board submitted on 28 June 2012 became effective;

- On 21 May 2013, the appointment of Mr. Arkadiusz Wiktor Przybył as a President of the Management Board became effective due to acceptance of Polish Financial Supervision Authority;
- On 18 August 2013, Mr. Jose Luis Sanchez Diaz resigned as a Member of the Management Board;
- On 31 August 2013 Mr. Ramon Billordo resigned as a Member of the Management Board;
- On 24 September 2013 Supervisory Board appointed Mr. Piotr Żabski as a Vice-President of the Management Board;
- On 24 September 2013 Supervisory Board appointed Mr. Rafał Szmuc as a Member of the Management Board;
- On 24 September 2013 Supervisory Board appointed Mr. Mariusz Klepacz as a Member of the Management Board;
- On 24 September 2013 Supervisory Board appointed Mr. Oleksandr Krupchenko as a Member of the Management Board.

The financial statements of Santander Consumer Bank S.A. were prepared on a going concern basis for the foreseeable future, i.e. at least 12 months from 31 December 2013. The Management Board believes that as at the date of preparation of the financial statements there are no threats to the Bank's ability to continue as a going concern within at least 12 months from 31 December 2013.
The Bank applied exemption from the requirement to prepare consolidated financial statements as it meets conditions of IIFRS 10.4. The parent company, Santander Consumer Finance S.A., consolidates the financial statements of all subsidiaries which applied exemption from the requirement to prepare consolidated financial statements.
Santander Consumer Finance S.A has been registered and operates in Spain. The consolidated financial statements of Santander Consumer Finance S.A are available at website http://www.santanderconsumer.com.

There were no discontinued operations in 2013 and 2012.

## 2 Indication of periods covered by the financial statements and comparative financial data

The financial statements are presented for the period from 1 January 2013 to 31 December 2013.

Presented financial data for the previous period refers to the period from 1 January 2012 to 31 December 2012. As a result of the changes in accounting policies described in note 51, competitive data for 2012 was restated in order to achieve comparability.

## 3 Entity authorized to audit the financial statements

These financial statements were audited by Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. (former Ernst & Young Audit sp. z.o.o.) with its registered office in Warsaw, at Rondo ONZ 1 and registered on the list of entities authorized to audit financial statements conducted by the National Council of Statutory Auditors under No. 130.

## 4 Significant accounting policies

Key accounting policies used in the preparation of the financial statements have been presented below. The policies were consistently applied in all presented periods, except for the changes in accounting policies described in Note 51 *Changes in accounting policies.*

### a) Statement of compliance

The presented financial statements were prepared in compliance with the International Financial Reporting Standards (IFRS) and IFRS adopted by the European Union. In view of the ongoing process of IFRS introduction in the EU and the business run by the Bank, as at the approval date of these financial statements, there are no differences between the already effective IFRSs and the IFRSs adopted by the EU in terms of the accounting principles applied by the Bank. IFRS include standards and interpretations accepted by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretation Committee ("IFRIC").

These financial statements were approved by the Management Board of the Bank on 3 March 2014.

**Standards and interpretations adopted for the first time in 2013**

The accounting policies applied in preparation of the financial statements are consistent with those used for preparation of the Bank's financial statements for the year ended 31 December 2012, except for the following amendments to the standards, new interpretations applicable to annual periods starting on 1 January 2013 and change disclosed in note 51 *Changes in accounting policies.*

The following changes to the existing standards published by the International Accounting Standards Board and adopted by the EU became effective in 2013:

- **Amendments to IAS 19 Employee benefits (2011 changes)** – applicable to annual periods starting on or after 1 January 2013;
- **Amendments to IAS 1 Presentation of financial statements: Presentation of other comprehensive income**, applicable to annual periods starting on or after 1 July 2013;
- **IAS 1 Clarification of the requirement for comparative data (amendment)**;
- **Amendments to IAS 12 Income tax: Recovery of underlying assets** - applicable to annual periods starting on or after 1 January 2013- in the EU effective at the latest for financial years beginning on or after 1 January 2013;
- **IFRS 13 Fair value measurement** - applicable to annual periods starting on or after 1 January 2013;
- **Amendments to IFRS 7 Financial Instruments: Disclosures: Transfer of financial assets** – applicable to annual periods starting on or after 1 July 2013;
- **Amendments resulting from the review of IFRS (published in May 2012)** - applicable to annual periods starting on or after 1 January 2013, concerning IAS 16 and IAS 32;
- **Amendments to IFRS 1 First–time Adoption of IFRS: Severe hyperinflation and removal of fixed dates for first-time adopters**, applicable to annual periods starting on or after 1 July 2012- in the EU effective at the latest for financial years beginning on or after 1 January 2013 and **Amendments to IFRS 1 First–time Adoption of IFRS: Government loans** – applicable to annual periods starting on or after 1 January 2013;
- **IFRIC 20 Stripping costs in the production phase of a surface mine** - applicable to annual periods starting on or after 1 January 2013.

The above changes to standards did not significantly affect the accounting policy applied the Bank.

**Standards and interpretations already published and approved by the EU, but not yet effective**

During approval of these financial statements, the Bank did not apply the following standards, amendments to standards and interpretations that have been published and approved for use in the EU, but which had not yet come into force:

- **IFRS 10 Consolidated Financial Statements** – effective for financial years beginning on or after 1 January 2013, – in the EU effective at the latest for financial years beginning on or after 1 January 2014;
- **IFRS 11 Joint Arrangements** – effective for financial years beginning on or after 1 January 2013 – in the EU effective at the latest for financial years beginning on or after 1 January 2014;
- **IFRS 12 Disclosure of Interests in Other Entities** – effective for financial years beginning on or after 1 January 2013 – in the EU effective at the latest for financial years beginning on or after 1 January 2014;
- **Amendments to IFRS 10, IFRS 11 and IFRS 12 Transition Guidance** - effective for financial years beginning on or after 1 January 2013 in the EU effective at the latest for financial years beginning on or after 1 January 2014;
- **IAS 27 Separate Financial Statements** – effective for financial years beginning on or after 1 January 2013 – in the EU effective at the latest for financial years beginning on or after 1 January 2014;
- **IAS 28 Investments in Associates and Joint Ventures** – effective for financial years beginning on or after 1 January 2013 – in the EU effective at the latest for financial years beginning on or after 1 January 2014;
- **Amendments to IAS 32 Financial Instruments – Presentation: Offsetting Financial Assets and Financial Liabilities-** effective for financial years beginning on or after 1 January 2014;

- **Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities (**issued on 31 October 2012) – effective for financial years beginning on or after 1 January 2014;
- **Amendments to IAS 36 Recoverable Amounts Disclosures for Non-Financial Assets** (issued on 29 May 2013) – effective for financial years beginning on or after 1 January 2014;
- **Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting** *(issued on 27 June 2013)* – effective for financial years beginning on or after 1 January 2014.

The Bank did not decide on earlier application of the above standards, amendments to standards and interpretations. According to the Bank's estimates, the above standards, interpretations and amendments to standards would not have significantly influenced the financial statements, if they had been adopted by the entity as at the balance sheet date.

**Standards and interpretations adopted by IASB, however not yet approved by the EU**

At present, IFRS in the form adopted by the EU do not differ significantly from regulations adopted by the International Accounting Standards Board (IASB), except for the following standards as well as amendments to standards and interpretations which as at 3 March 2014 had not been yet adopted for use:

- **Amendments to IAS 19 Defined Benefit Plans: Employee Contributions** (issued on 21 November 2013) – effective for financial years beginning on or after 1 July 2014;
- **Annual Improvements to IFRSs 2010-2012** – some amendments effective for financial years beginning on or after 1 July 2014 and some effective prospectively for transactions occurring on or after 1 July 2014;
- **Annual Improvements to IFRSs 2011-2013** – effective for financial years beginning on or after 1 July 2014;
- **IFRIC 21 Levies** – effective for financial years beginning on or after 1 January 2014;
- **IFRS 14 Regulatory Deferral Accounts** – effective for financial years beginning on or after 1 January 2016 - not yet endorsed by the EU till the date of approval of these financial statements;
- **The first phase of IFRS 9 Financial Instruments: Classification and Measurement and subsequent amendments –** effective date postponed by IASB without proposing potential deadline for endorsement,

According to the Bank's estimates, the above standards, interpretations and amendments to standards would not have significantly influenced the financial statements, if they had been adopted as at the balance sheet date, except for new IFRS 9, the impact of which is being analyzed by the Bank. At present, the impact of those changes cannot be reliably estimated due to the need to appropriately adjust the IT systems and credit risk models used by the Bank.

In addition, hedge accounting principles applicable to financial assets and liabilities portfolios continue to remain outside the scope of regulations adopted by the EU, as they have not been approved for use in the EU.

**b) Basis for preparation of the financial statements**

The financial statements of Santander Consumer Bank S.A. for the period from 1 January 2013 to 31 December 2013 have been prepared in PLN and all rounded to the nearest PLN.

The financial statements have been based on the historical cost concept, except for financial assets and liabilities which are measured at fair value through profit or loss and financial assets available for sale.

The statement of financial position was prepared according to assets' liquidity.

**c) Accounting estimates**

While preparing the financial statements in accordance with IFRS, the Bank makes certain estimates and assumptions that influence the financial statements and explanatory notes.

Estimates and assumptions made as at the end of each reporting period reflect current conditions, i.e. market prices, interest rates, exchange rates, etc. Although the estimates are based on the best knowledge of current conditions and activities of the Bank, actual results may differ from the estimates.

The Bank discloses the nature and amounts of changes in estimates, if the change impacts the current period or it is reasonably expected to impact future periods.

Estimates and assumptions adopted by the Bank for the carrying amounts of assets and liabilities as well as revenue and expenses are calculated based on historical data and other information which is available and considered as appropriate under the given circumstances. The key assumptions for the future and other available data are used in determining the amounts of assets and liabilities presented in the financial statements that cannot be reliably evaluated using other sources. In making the assumptions, the Bank takes into account the causes and sources of uncertainty that it is able to foresee as at the date of preparation of the financial statements.

Estimates and assumptions made by the Bank are subject to ongoing reviews. Adjustments to estimates are recognized in the period in which the estimate was changed, provided it applies to this period only.

The key assumptions concerning the future used in the Bank's estimates refer mainly to the following areas:

**Impairment of financial assets**

At the end of each month, the Bank assesses whether there is any objective impairment trigger of a financial asset or a group of financial assets. Impairment is incurred only if there are objective events or groups of events that took place after the initial recognition of an asset or a group of assets and could have adverse effect on the expected future cash flows of the asset or group of financial assets. Impairment loss is estimated at the moment of recognition of impairment triggers.

The Bank adopts three approaches to measurement of impairment:

- for loans with impairment trigger of a single asset considered individually significant, the impairment loss is estimated based on an analysis of future cash flows for each individual asset;
- for loans with impairment trigger of a single asset not considered individually significant, the impairment loss is estimated on the level for separated exposure, based on expected average cash flows generated by particular credit portfolios;
- loans without impairment trigger of a single asset are collectively assessed for impairment following inclusion in a group of financial assets with similar credit risk to evaluate the possibility of losses incurred but not reported, with impairment loss estimated based on the loss identification period and the probability of default, as well as the loss given default.

**Impairment of non-current assets**

At the end of each reporting period, the Bank assesses whether there is any objective impairment trigger of any non-current assets (or cash generating units). If such trigger exists, the Bank evaluates the recoverable amount and value in use of the non-current asset (or cash generating unit). To estimate these values, the Bank needs to make assumptions e.g. on future cash flows that could be obtained from further use or disposal of the non-current asset (or the cash generating unit). Different assumptions on measurement of the future cash flows may impact the amount of certain non-current assets presented in the financial statements.

**Calculation of provision for post-employment benefits**

The provision is measured by an external actuarial firm in line with International Accounting Standard 19 (IAS 19). The calculation is based on the following data:

- standard HR data of employees (sex, date of birth, seniority, salary, etc.),
- information about the number of employees leaving the Bank in the past few years,
- forecasted increase in salaries in the Bank in the next years,

as well as actuarial tables, probability of getting retired, mobility model and technical discount rate.

The gains or losses resulting from the estimations are recognized in profit and loss account.

**Useful life of property, plant and equipment, intangible assets and investment property**

Useful life of property, plant and equipment, intangible assets and investment property is estimated taking into consideration the following factors:

- current average useful lives reflecting physical wear and tear, intensity of usage, etc.;

– technological obsolescence;
– period of control over the asset, legal and other limitations on period in use;
– co-relation between the useful life of the asset and the useful life of other assets;
– other factors that may affect useful life of a given type of non-current assets.

The expected useful life of a given asset is equal to its period in use defined under terms of the appropriate contract. If the expected useful life of an asset is shorter than its contractual period in use, then the asset is depreciated or amortized over its useful life.

**Revenues and costs from distribution of insurance products**

Revenues from distribution of the following insurance products:

a) life insurance;
b) GAP insurance, covering the difference between insurance compensation and the amount due from car loan or lease agreement;
c) unemployment or temporary disability insurance;

offered to clients together with credit contracts are recognized as income from bundled products with the principle of splitting revenues from insurance products distributed together with credit contracts into interest and commission income based on relative fair value analysis for each of these products.

Revenue recognized as interest income is deferred as part of effective interest rate calculation for bundled loan.

Revenue recognized as commission income is recognized in part as one-off income or deferred income on a straight line basis according to analysis of the stage of completion of service provided.

Costs directly related to sale of insurance product are recognized in a similar ways as revenues. This means that part of costs is recognized as adjustment to interest income using effective interest rate while the rest of costs is recognized as one-off or deferred over time as commission expenses.

Also, the Bank estimates the revenue to be reimbursed due to early termination of an insurance agreement and respectively decreases interest or commission income.

The Bank used the relative fair value model according to its best knowledge, based on the guidelines of the Deputy Chairman of the Polish Financial Supervision Authority addressed to the presidents of banks in the letter dated on 23 December 2013, as well as based on the draft of Recommendation U issued by the Polish Financial Supervision Authority on 27 December 2013.

Given that the above guidelines were published just before the end of the financial year 2013, the Bank plans to continue its works on the full implementation of these guidelines in 2014. In the Bank's opinion, the methods used to recognize the revenues from distribution of insurance products in the financial statements for the year 2013 fairly present the results, which would have been achieved following full implementation of the relative fair value model. The effect of the changes in accounting policy for insurance intermediation income and costs was presented in Note 51.

Additionally, the Bank recognizes income from profit share from the insurance companies' on insurance contracts distributed by the Bank, in commission income.

The amount of expected revenue is recognized on an accrual basis according to the information received from insurance companies, while the companies recognize insurance income.

**Hedging derivatives**

Hedging derivatives are carried at fair value. The measurement of the value and effectiveness of those transactions is based on the discount curves' methodology determined using the bootstrapping method.

For CHF/PLN, the following curves are applied:

– the discount curves for CHF and PLN based on quotations of swap and basis points for EUR using direct quotations of Cross Currency Basis Swaps for the currency against EUR;
– EUR base curve on deposit rates, FRA and IRS.

**Deferred tax assets**

The deterred tax is calculated as 19% of the difference between the tax value of assets and liabilities and their book value and is presented in the financial statements either as deferred tax assets or deferred tax liabilities

Changes in the balance of deferred tax assets and liabilities are included into the statutory deductions from profit except for valuation of financial assets through other comprehensive income.
The carrying amount of the deferred tax assets is verified as at the end of each reporting period and is reduced as appropriate, taking into account a decrease in probability to achieve taxable income sufficient to completely or partially realize the deferred tax assets.
Deferred tax assets and liabilities are measured using tax rates expected to be applicable in the period of realization of the assets or the liabilities, based on the tax rates (tax regulations) applicable as at the end of the reporting period.

**d) Cash and cash equivalents**

Cash and cash equivalents include the current account at the National Bank of Poland as well as receivables from other banks on the current accounts, and other cash with maturity of up to 3 months, disclosed at the nominal value.

**e) Financial assets and liabilities**

Financial assets are classified to the following categories:

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

The Bank decides on classification of a given asset at its initial recognition. Financial assets and liabilities are recorded at the transaction date.

**Financial assets at fair value through profit or loss**

This category includes financial assets held for trading and the assets which at initial recognition are classified as financial assets at fair value through profit or loss.
Financial assets held for trading include derivatives, debt and equity securities, loans and receivables acquired or granted primarily for the purpose of selling them in short term.
As at 31 December 2013 and 31 December 2012, the Bank did not classify any assets to the group of financial assets at fair value through profit or loss.

**Financial assets available for sale**

This category includes financial assets which will be held for an unspecified period, and have not been classified as either financial assets measured at fair value through profit or loss or investments held to maturity. The category includes debt and equity securities.

<u>Debt instruments</u>

Debt instruments classified as available for sale are measured at fair value determined as follows:

- debt instruments quoted on an active market – according to their market price;
- debt instruments not quoted on an active market – according to another value which reflects the fair value estimated by reference to:
  - other asset value;
  - yield curve method, based on market quotations of interest rates, adjusted by a risk margin equal to the margin specified in the terms of issue.

The results of the fair value changes in the carrying amount of an instrument measured at amortized cost are recognized in other comprehensive income and charged to revaluation reserve, except for impairment losses, which are recognized through profit or loss. Interest income and discount determined with the use of effective interest rate are recognized under interest income, while the profit or loss charged to revaluation reserve is the difference between the fair value determined at the end of the reporting period and the value of the assets measured at amortized cost.

Equity instruments

Equity instruments classified as available for sale are measured at fair value determined as follows:

- equity instruments quoted on an active market – according to their market price;
- equity instruments not quoted on an active market:
  - based on the current bid price received,
  - based on the valuation made by a specialized external company preparing such valuation services.

When it is not possible to establish the fair value of an equity instrument, it is measured at cost less impairment.

Changes in fair values of equity instruments classified as available for sale are recognized in revaluation reserve, except for the impairment losses, which are recognized through profit or loss.

In case of equity instruments, impairment previously recorded as a loss is not reversed through profit or loss.

Dividends on equity instruments are recognized in the statement of comprehensive income as at the date when the entity acquires right to receive payment.

**Loans and receivables**

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

- financial assets that the Bank plans to sell immediately or in the near future, which are classified as held for trading, and those that the Bank designated upon initial recognition as measured at fair value through profit or loss;
- financial assets that the Bank designated upon initial recognition as available for sale; or
- financial assets for which the holder may not recover substantially all of its initial investment, for reasons other than deterioration of loan quality, which are classified as available for sale.

This category includes loans and other receivables acquired or granted. Loans and receivables are measured at amortized cost with the use of effective interest rate and considering impairment loss.

Amortized cost is the amount at which the loan or advance is measured at initial recognition less principal repayments, plus or minus any difference between the value at initial recognition and value at maturity and less impairment loss allowance. The amortized cost is calculated using the effective interest rate that discounts estimated future cash payments or receipts to the net carrying amount over the period remaining to the item's maturity or, as appropriate, over the period remaining to the item's next market valuation, which is the internal rate of return of the financial asset for the given period. When calculating the effective interest rate, the Bank takes into account all payments received that influence the nature of the financial instrument. Fees and commissions that are an integral part of effective return on a loan or credit adjust the carrying amount of these assets and are included in calculation of the effective interest rate.

Loans with undefined repayment schedules are measured at their nominal value increased by interests due and reduced by impairment loss allowance.

Receivables for the services rendered by the Bank to contractors are valued at nominal value increased by the accrued interests and decreased by any impairment losses.

The Bank identifies restructured credit exposures and classifies them, in order to estimate impairment losses, to selected portfolios with separate modeling of PD parameters.

In the case of restructuring exposures overdue by at least 90 days, the Bank applies the recovery period, during which, regardless of the current delay, the exposure is treated as impaired.

All restructured exposures are being monitored and reported until expiration.

**Financial assets held to maturity**

Financial assets held to maturity include financial assets with determined or determinable due dates and amounts, which were acquired with the intention to hold and which the Bank is able to hold to maturity.

Financial assets classified to this category are measured at amortized cost using the effective interest rate and the impairment losses. The settlement of amortized cost using the effective interest rate is recognized as interest income in the statement of comprehensive income.

**Other financial liabilities**

This category includes financial liabilities resulting from a contractual obligation to pay in cash or other financial asset to another entity, which are not classified to the group of liabilities measured at fair value through profit and loss with characteristics of deposit or loan received. The other financial liabilities are measured at amortized cost or at the payment amount required.

**Hedging derivatives**

The Bank may designate certain derivatives as fair value or cash flow hedges. The Bank applies the hedge accounting if the following conditions have been met:

- at inception of the hedge relationship, the Bank formally documented the hedging relationship and the Bank's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction and the nature of the risk being hedged. The Bank determines the way in which it will evaluate the effectiveness of the hedging instrument in offsetting changes in cash flows attributable to the hedged transaction with respect to mitigation of the hedged risk;
- the hedging financial instrument which is the subject of the contract and the hedged assets and liabilities are characterized by similar features, especially the nominal value, maturity date, sensitivity to changes in the interest rate or changes in the currency exchange rate;
- the Bank expects that the hedging will be highly effective in offsetting changes in cash flows, consistently with the originally documented risk management strategy for that particular hedging relationship;
- for cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss account;
- the effectiveness of the hedge can be reliably measured, i.e. the fair value of the hedged item or cash flows that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;
- the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the designated period.

**Fair value hedge**

Fair value hedge is defined as a hedge of the exposure to changes in fair value of a recognized asset or liability or 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.

The fair value hedge is accounted for as follows: the gain or loss from valuation of the hedging instrument at fair value (i.e. for hedging derivative) are recognized in the statement of comprehensive income; the gain or loss on the hedged item attributable to the hedged risk adjust the carrying amount of the hedged item and are recognized in profit or loss. This way, any ineffective portion (i.e. lack of full offsetting of the fair value of the hedged item and changes in the fair value of the hedged instrument) is immediately charged to profit or loss account.

For hedged items classified as financial assets available for sale, the gains or losses on the hedged risk are recognized in profit or loss account whereas the gain or loss on the unhedged risk are charged to equity.

**Cash flow hedges**

Cash flow hedge is defined as a hedge of the exposure to variability in cash flows that:

- is attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecasted transaction;
- could affect the Bank's profit or loss account.

The cash flow hedge is accounted for as follows: changes in the fair value of the hedging instrument that is determined to be an effective hedge shall be recognized in equity and the ineffective portion of the gain or loss on the hedging instrument shall be recognized in profit or loss account.

Gains and losses recognized in equity (effective hedge) upon recognition of the financial asset or liability attributable to the hedged forecasted transaction are reclassified to profit or loss account in the period or periods when the hedged financial asset or liability affects the profit or loss account.

In the case of hedge of non-financial assets and liabilities, gain or loss recognized in equity as effective hedge are reclassified into the income statement on an ongoing basis, in the same period as the non-financial assets or liabilities affect the profit or loss (e.g. in the form of amortization) or on an one-off basis as an adjustment of the initial cost or carrying amount of the hedged item.

The Bank applies cash flow hedges to hedge future cash flows of a specific pool of assets and liabilities of the Bank or a portfolio of highly probable forecasted transactions against the risk resulting from changes in foreign exchange rates.

**Derecognition of financial instruments**

Financial instruments are derecognized from the financial statements when contractual rights to cash flows from these assets expire or when the Bank transfers the entire risk and rewards associated with a given financial instrument to another entity.

The Bank usually derecognizes loans when they are cancelled, expired or are irrecoverable. Derecognized loans and other receivables are charged to impairment loss allowance created for these items. When no impairment loss allowance has been created or when their value is lower than the value of loans, advances and other receivables, the value of the impairment loss allowance is increased, before the receivables are written down, by the difference between the value of receivables and the impairment loss allowance created thus far.

**f) Impairment of financial assets**

At the end of each month, the Bank assesses whether there is any objective impairment trigger of a financial asset or a group of financial assets. If any such trigger exists, the Bank determines the impairment loss allowances. The impairment loss is identified when there is objective evidence of impairment associated with one or more events that took place after the initial recognition of an asset and the loss generating event affects the expected future cash flows related to a financial asset or group of financial assets with reliably estimated value. Losses expected to arise as a result of future events are not accounted for regardless of their probability.

In case of loans granted to individual clients, the following situations can in particular result in impairment loss recognition:

- delinquency in repayment exceeding 90 days;
- information about client’s bankruptcy;
- fraud identified;
- client’s death;
- restructuring of exposure overdue by more than 90 days or agreement with the client regarding the repayment of the debt;
- information of effective contract termination;
- information of acquisition of credit exposure collateral;
- high probability of bankruptcy or other financial reorganization of borrower;
- information of retail client financial problems;
- exposure being affected by impairment of other exposures.

In case of individually assessed loans granted to corporate clients, impairment triggers include:

- delinquency in repayment exceeding 90 days;
- material deterioration of counterparty’s financial standing that poses a threat to timely repayments, including losses severely affecting client’s net assets;
- the Bank’s notice to terminate the credit contract;
- a downgrade in a credit rating of counterparty by recognized rating agency;
- information about the bankruptcy proceedings or liquidation of the debtor;
- initiation of enforcement proceedings against the contractor;
- the debtor legally questions the loan exposure;
- the whereabouts of the client are unknown or his possessions are not disclosed;
- loss of client’s major source of revenue.

The impairment allowance is equal to the difference between the book value of the asset and the current value of estimated future cash flows discounted using the initial effective interest rate for a given item.

*Individual impairment assessment:*

The individual assessment of impairment is performed for corporate portfolio credit receivables and for other credit receivables above a specific level of involvement, when individual impairment triggers have been identified.

Future cash flows for individual impairment valuation are calculated based on:

- type and value of collaterals attributable to the Bank;
- expected timing and value of recovery from respective collateral;
- expected costs needed to recover from the collateral.

If as a result of the assessment for a given financial asset no impairment triggers are identified or they exist, but the estimated impairment loss is equal to zero, the given item is classified to a group of assets of similar credit risk, which show debtor's ability to settle the liability with accordance to the agreement. Such groups are subsequently collectively tested for their impairment. Items of financial assets, for which impairment loss based on individual assessment have been identified, are not taken into account when a collective assessment of impairment is performed.

*Collective assessment of impairment*

For the purpose of collective assessment of impairment, financial assets are grouped to portfolios according to their similar credit risk characteristics. Future cash flows for the group of financial assets, for which impairment is assessed collectively, are estimated based on impairment loss history for assets characterized by a similar credit risk. Historical impairment loss data is adjusted for available present information (in order to reflect the impact of the present conditions, which had no impact in the past), as well as adjusted by elimination of past factors, which had impact on historical data, but they do not at present. The Bank regularly verifies its methodology and its assumptions for estimating future cash flows in order to minimize the discrepancies between estimated and actual impairment losses.

In order to calculate the impairment loss for balance sheet exposures analyzed collectively, amongst other the modified probability of default (PD) parameter is used. Modifications of the parameter enable to take into account the specificity of the product as well as periods when the impairment occurs.

Such approach, in particular, allows to identify in particular:

- losses which already occurred;
- losses, which occurred at the date of impairment, but have not been yet documented (so called provision for credit losses, for which impairment occurred but was not reported – IBNR).

The book value of an item of assets is reduced impairment allowances, and that amount is recognized as cost in profit and loss account. If in the next period the level of impairment loss is reduced as a result of an event that occurred after the impairment was recognized (e.g. improvement of debtor's credit score), then the previously made impairment loss is reversed. The amount of the reversal is recognized as revenue in profit and loss account.

There were no changes in the impairment methodology for exposures assessed collectively.
Only the parameters in impairment calculation model have been subject to changes, i.e.:

– extension of the loss identification period, period of historical date for the PD parameter and period for recoveries for the LGD parameter for the mortgage loan portfolio,
– refreshing the PD and LGD parameters according to the internal instructions collectively assessed portfolio.

**g) Property, plant and equipment and intangible assets**

Property, plant and equipment as well as intangible assets are disclosed as at the end of the reporting period at cost less depreciation/amortization charges and impairment losses. All non-current assets, whose value decreases due to their use or the time elapsed, are depreciated using the straight line method over their estimated useful lives. The adopted depreciation periods and rates are reviewed periodically. If circumstances or changes which suggest that the carrying amount of property,

plant and equipment may not be recoverable occur, such assets are tested for impairment. Depreciation charges and impairment loss are charged directly to profit or loss as expenses for a given period.
Costs of leasehold improvements are divided into components, when these components have different useful lives or when they provide the Bank with different benefits. Each component is depreciated separately.
Depreciation/amortization is finished no later than the moment when:

– the value of depreciation/amortization or accumulated depreciation/amortization charge becomes equal to the initial value of a given asset;
– assets are designated for liquidation;
– sale;
– their shortage is identified;
– verification reveals that the asset's expected residual value exceeds their net carrying amount.

In the case of intangible assets, it is assumed that their residual value is zero, unless there is a third party obligation to buy back the asset in question or when an active market exists and will continue to exist upon end of the asset's use, and its value on this market can be determined.

Depreciation/amortization periods for basic groups of fixed assets and intangible assets applied at the Bank:

| **Fixed assets** | **Periods** |
|---|---|
| Leasehold improvements (buildings, facilities) | 10 years<br>(or the rent period, if shorter) |
| Machines, technical equipment, tools and devices | 3–15 years |
| Computer sets | 3 years |
| Vehicles | 2.5–5 years |

| **Intangible assets** | **Periods** |
|---|---|
| Computer software | 3-10 years |
| Other intangible assets | 3-5 years |

#### h) Assets seized for debt by the Bank

The Bank recognizes assets seized for debt as its own assets only when it takes over all the risks and rewards related to them.
In particular, the Bank does not recognize as assets vehicles took over as collateral for car loans, if according to the loan contract, the risk related to the decrease of the value of the vehicle (between the date of takeover and date of cash recovery) is incurred by the debtor, not the Bank.

#### i) Lease arrangements

The Bank is a party of lease arrangements, under which it rents an asset for use and benefiting from the PP&E or intangible assets for a given period. The Bank is also a party of lease arrangements, under which it receives fixed assets or intangibles for a chargeable use for a given period. The basis for classification of lease arrangements is the extent in which the risks and rewards of the ownership of the asset are attributable to the lessor or the lessee.

Lease arrangements, under which the lessor holds substantially all the risks and rewards of the ownership of the asset, are classified as operating lease.
Operating lease payments are recognized as costs in profit and loss account throughout the lease period.

#### j) Recognition of investments in controlled entities

Investments in associates, subsidiaries and co-subsidiaries are measured at cost less impairment loss.

**k) Non-current assets held for sale**

Non-current assets classified as held for sale include assets whose carrying amount is to be recovered through their sale, instead of continued use. Only assets that are available for immediate sale in their current status, whose sale is highly likely (i.e. the decision to carry out the plan to sell a given asset has been made, and an active search for a buyer in order to execute the sale plan has begun), are classified as held for sale. Such assets must also be offered at prices that are rational as compared to the current fair value of the asset and it is expected that the sales transactions shall be recognized as completed within one year of the asset's classification to this category.

Non-current assets classified as held for sale are measured at their book value or fair value less cost to sell, whichever is lower. Impairment losses on non-current assets held for sale are recognized in profit or loss of the period, when such impairment is recognized. Assets classified as held for sale are not depreciated.

**l) Measurement of items denominated in foreign currencies and FX result**

The Bank disclosed on- and off-balance sheet foreign currency items in PLN after translation, using the NBP's average exchange rate applicable at the end of the reporting period. Impairment losses on loans, advances and other receivables denominated in foreign currency that are recognized in PLN are revalued in line with changes in the value of the foreign currency assets for which they are recognized. Realized and unrealized exchange differences are charged to profit or loss.

**m) Exchange rates used for preparation of the financial statements**

The Bank used the following exchange rates announced by the National Bank of Poland at the end of the reporting period when translating on- and off-balance sheet items:

| Currency | 31.12.2013 | 31.12.2012 |
|---|---|---|
| CHF | 3.3816 | 3.3868 |
| USD | 3.0120 | 3.0996 |
| EUR | 4.1472 | 4.0882 |

When write-offs for credit receivables in foreign currencies are recognized, the Bank applies an approach that for each reporting date the value of the impairment is calculated in PLN and the change in the impairment is presented in statement of comprehensive income under *Impairment losses on financial assets*.

**n) Granted off-balance sheet liabilities**

As part of its operating activity, the Bank enters into transactions which are not recognized upon conclusion in the financial statements as assets or liabilities, but they still result in origination of contingent liabilities. A contingent liability is:

- a possible obligation that arises from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not fully controlled by the Bank;
- a present obligation that arises from past events but which is not recognized in the financial statements, as it is unlikely that cash or other assets will have to be used to fulfill this obligation, or the amount of the related liability cannot be reliably estimated.

Off-balance sheet liabilities include in particular credit lines and guarantees granted.

Granted off-balance sheet liabilities with the risk that the contractual terms will not be fulfilled are covered by provisions created in accordance with IAS 37 and IAS 39.

**o) Deferred tax**

Deferred tax is provided on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognized for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

– in respect of taxable temporary differences associated with investments in subsidiaries, associates and share in joint arrangements except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred tax assets relating to the deductible temporary difference arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects either the accounting profit nor taxable profit or loss
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and share in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### p) Financial liabilities measured at amortized cost

Financial liabilities (except for derivatives) are measured at amortized cost using the effective interest rate. If cash flow schedule cannot be determined for a given financial liability and therefore the effective interest rate cannot be reliably estimated, such a liability is measured at amount due.

Debt instruments issued by the Bank are recognized as liabilities and measured at amortized cost taking into account effective interest rate.

#### q) Accruals

Accrued expenses relate to particular types of expenses, which will be charged to profit or loss in future reporting periods in line with the passage of time.

#### r) Provisions

Provisions are recognized in the financial statements, if the Bank is subject to legal or customary obligation resulting from past events, and if there is a probability that fulfillment of the obligation results in outflow of funds that include economic benefits. If the effect is material, the value of the provision is determined using expected discounted future cash flows, with pre-tax interest rate, which reflects the current market assessment of the time value of money value and, when applicable, risks related to a given liability. The Bank creates provisions for future liabilities whose value can be reliably estimated, as well as for contingent liabilities.

According to IAS 37, the Bank recognizes in the financial statements a restructuring provision for documented costs of restructuring. The provision is recognized, based on a detailed, formal and announced restructuring plan. The provision does not account for future operating costs.

#### s) Calculation of profit or loss

The Bank recognizes all material items of expenses and revenue in accordance with the accrual and matching principle, as well as principles of recognition and measurement of assets and liabilities, and recognition of impairment loss allowance.

**Interest income and expenses**

Interest income and expenses include interest recognized based on the accrual method using the effective interest rate. The effective interest rate method is a method of accruing the amortized cost of financial assets or liabilities (or a group of financial assets or financial liabilities) and assigning interest income and expenses to relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected period. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms but without possible credit losses not yet incurred. The calculation includes all fees paid and received by the parties to the agreement that include an integral part of the effective interest rate, transaction costs and any other premiums and discounts.

**Commission income and expenses**

Commissions on credit limits, revolving loans and off-balance sheet liabilities are settled on a straight-line basis in profit or loss. Other commissions and fees related to post-sales support are recognized in profit or loss when services are provided.

**Insurance commission income and expenses**

Insurance contracts distribution income and costs are recognized according to assumptions described in point 4.c. *Accounting estimates.*

**FX result**

FX result includes exchange gains and losses, both realized and unrealized, resulting from everyday measurement of foreign currency assets and liabilities at the average exchange rate of the National Bank of Poland applicable at the end of the reporting period.

**Other operating income and expenses**

Other operating income and expenses include revenue and expenses that are not related directly to banking operations. Other operating income include the recovered overdue, redeemed and lost receivables, profit from sale/liquidation of non-current assets and assets seized for debts compensations, received damages, fines and profit from debt collection. Other operating expenses include mainly the loss on sale/liquidation of non-current assets, including assets seized for debts, costs of granted donations and costs related to compensations, fines and loss on debt collection.

**t) Current income tax**

Current income tax is calculated based on profit before tax adjusted by: revenue which in accordance with tax regulations is not classified as taxable income, taxable income not recognized as revenue for accounting purposes, non-deductible expenses and costs that are not recognized as expenses for accounting purposes, in accordance with Polish tax regulations. These items include mainly accrued but not received interest income and expenses as well as provisions for receivables, off-balance sheet liabilities and other assets.

**u) Equity**

Equity includes capitals created by the Bank in line with current legal regulations and the Bank's statute. Equity also includes undistributed previous years' profits and uncovered previous year's losses.

Share capital is recognized in the amount stated in the statute and the entry in the register of entrepreneurs, at nominal value.

Supplementary capital is created in accordance with the Bank's statute, from profit and share premiums write-offs, and is designated to cover losses that may result from the Bank's activity. Decisions on the use of supplementary capital are made by the General Shareholders' Meeting.

The following items are also included in equity:

– profit/loss under approval;
– declared but unpaid dividends;
– revaluation reserve, recognized following the measurement of financial instruments classified as available for sale and financial instruments designated as cash-flow hedges.

The net profit/loss for the financial year is defined as profit before tax adjusted by the income tax charge.

**v) Company Social Benefits Fund**

The Bank has created a social benefits fund in accordance with the Act on Social Benefits Funds of 4 March 1994 (1994 Journal of Laws No. 43, item 163 with subsequent changes). The purpose of the fund is to finance social benefits for employees. The fund's assets comprise accumulated contributions made by the Bank to the social benefits fund increased by the installments of loans repaid by employees, less non-refundable expenses from that fund. The Bank offsets the fund's assets and liabilities in the financial statements, due to the fact that the fund's assets do not constitute the Bank's assets.

**w) Share-based payments**

The Bank participates in the Long-Term Incentive Plan (LTIP) introduced by the Santander Group in which employees of the Santander entities receive additional benefits depending on the performance of the Santander Group. LTIP is addressed to top management. It is based on three-year share plans which are launched on an annual basis. Group has not launched new programs over 2012 and 2013.

The Bank's top management receives shares of Banco Santander. The Bank is obliged to pay to Banco Santander for the shares granted to their employees.

The Bank classified the plan as cash-settled payments.

Share-based employee benefits are measured at fair value of the shares based on the market price (which reflects the future actual cash payment) and recognized in profit or loss (under salaries and wages) proportionally to the passage of time of the plan. Liabilities related to the plan are recognized as accruals.

## 5 Objectives and principles of financial risk management

The purpose of risk management is supporting business operations by optimizing expenses incurred by the Bank if a given type of risk occurs.

The key risks affecting the Bank's financial profit/loss include: credit and market risk comprising interest rate risk, liquidity risk capital adequacy risk and currency risk. The Bank verifies and agrees the management principles applied to each type of risk – these principles are summarized below.

**a) Credit risk**

Credit risk is managed in two areas of operations: ex ante, i.e. credit approval, and ex post, i.e. monitoring of repayments and collateral, restructuring, collection of receivables and alternatively the sale of irregular portfolio, if collection of receivables is not economically justified, considering the proportion of collection expenses to potential recoveries. The credit risk management consists of the following actions taken by the Bank:

- assessment and review of credit applications;
- credit risk ratios monitoring and reporting;
- repayment monitoring and collection and debt restructuring;
- collateral management;
- trading in liabilities portfolios;
- determining a special provision to cover impairment losses on credit exposures;
- determining concentration limits for exposures and production and red light levels for these limits;
- monitoring, reporting and validation of score cards and other instruments used in the credit application analysis, which define decision rules and which are created based on quantitative methods.

Credit risk monitoring is carried out on an ongoing basis and reports are prepared every day, month or quarter. The reports constitute part of the management reporting system and are sent to the Member of the Management Board responsible for the Bank's credit risk and discussed during the meetings of the Management Board and the Supervisory Board.

The Bank manages credit risk using the methodology of annual credit forecasts and mitigating key risks. The Bank prepares forecasts for annual periods which coincide with calendar years. The forecasts are divided into separate business lines (products).

The forecasts are verified on a monthly basis and any deviations from the assumption are subject to a detailed analysis. The objective of the Bank is to reach credit risk ratios assumed in the forecast and to control credit risk impact on the credit portfolio profitability.

Apart from the risk forecasting methodology, the Bank applies other tools for measuring and projecting credit risk, which also allow for simulating results of potential business decisions. In particular the Bank prepares:

- vintage analysis,
- analysis of key loss ratios in the portfolio,
- boundary value analysis of selected credit risk ratios,
- matrix of exposure migrations between delinquency buckets;
- analysis of impairment provisions;
- analysis of identification of risk, its levels and possibility of managing it in relation to new products and services,
- analysis of application and behavioral characteristics of customers;
- statistical analyses considering the historical data as well as portfolio forecasts and other internal analyses to determine the limits applicable in the Bank;
- stress testing;
- other ad-hoc analyses and reports to monitor and report the quality of credit portfolio.

The Bank's objective is to ensure the most comprehensive IT support for the analyses and verification of credit applications. The Bank's strategy is to restructure the acceptance of credit decisions so that the Bank is able to service a bigger volume of credit applications at the same acceptable credit risk exposure, measured as the capital requirement for credit risk.

In order to identify impairment losses on credit exposures, the Bank uses the methodology consistent with IFRS.

**b) Market risk**

The Bank is exposed to market risk understood as the risk resulting from adverse movement in the current measurement of open positions debt, F/X and equity instruments due to changes in risk factors, in particular interest rates, currency exchange rates, share prices. Market risk includes: interest rate risk, currency risk, capital adequacy risk and liquidity risk in the short, mid and long term.

The purpose of managing market and liquidity risk of the Bank is to mitigate exposure to particular types of risk and to optimize the Bank's income at acceptable levels of liquidity, interest rate and currency risks. The Bank's objective is not to generate speculative gains on short-term changes in prices but to prevent adverse impact of these changes on the Bank's profit or loss. Consequently, the Bank classifies all transactions to its banking portfolio, not to the trading one.

The Bank uses open position limits in financial instruments to determine the acceptable risk level is limiting open positions in financial instruments. The Bank's exposure to market and liquidity risk is measured using standard tools applied for particular risk types.

The risk management process in the Bank ensures separating operational functions, i.e. concluding transactions in the inter-bank market from risk assessment, monitoring and control functions. The process covers the Bank and its subsidiaries applying the same methods and principles of managing market risk.

Market risk reporting is an integral part of the management information system, including monthly reporting to the Management Board of the Bank and the Asset Liability Management Committee and quarterly reporting to the Supervisory Board.

**c) Interest rate risk in banking register**

The Bank understands the interest rate risk as the risk which results from the exposure of the Bank's present and future financial profit/loss as well as its equity to adverse impact of interest rate fluctuations. The Bank monitors and mitigates all elements of the interest rate risk, such as:

- repricing risk;
- baseline risk;
- yield curve risk;
- option risk.

In order to measure interest rate risk, the Bank applies e.g. interest rate gap adjusted by early repayments of loans, taking into account deposits termination assumption. The Bank analyses the impact of the potential change in interest rates on the interest income. The Bank also estimates the Value at Risk. The analysis includes stress tests in case of a sudden shock change in interest rates.

**d) Currency risk**

The Bank understands the currency risk as the risk which results from the exposure of the Bank's present and future financial profit/loss as well as its equity to adverse impact of exchange rate fluctuations. As a part of its currency risk monitoring the Bank analyses the liquidity risk in foreign currencies and the impact of the currency risk on the credit risk, which occurs in case of credit facilities denominated in foreign currencies if there is a mismatch between the loans currency and the currency of the Bank's revenue as well as the influence of currency risk on liquidity risk, resulting from the PLN valuation of CIRS and FX Swap instruments. Such risk occurs in case of a large portion of the Bank's portfolio, as loans denominated in foreign currencies, whose financing is significantly based on swap transactions, constitute a significant item in the Bank's financial statements.

The key objective of the Bank is to maintain the currency position of the Bank in the amount which does not generate the regulatory capital requirements related to currency risk. Therefore the currency position limits are conservative and they do not exceed the materiality threshold determined with relation to the Bank's own funds.

Currency risk management includes the following issues:

- managing the open currency position of the Bank, including determination and control over limits for the open currency position and maximum loss limits;
- monitoring FX result;
- estimating a potential loss due to currency risk (Value at Risk) and stress tests analysis;
- managing revenue related to transactions bearing currency risk;
- capital allocation to the risk of currency mismatch between exposures and customers' revenue.

The capped values include: the value of open currency positions and the Value at Risk calculated for 10-day periods.

**e) Capital adequacy risk**

The objective of capital adequacy management is to ensure that the Bank meets capital adequacy requirements quantified in the form of capital adequacy ratios. Capital adequacy is managed using the following main tools:

- setting long-term capital objectives for the Banks as well as preferred capital structure;
- setting and following admonitory thresholds for the solvency in the internal procedures;
- identifying Bank's risks, especially those hardly measurable;
- selection of methods of measuring capital requirements due to individual types of risk;
- delegating capital management and organization of capital planning process, whose main purpose is to fulfill the supervisory requirements and ensuring proper capital for realization of Bank's strategy.

**f) Liquidity risk**

The objective of liquidity risk management is to develop the financial position and contingent liabilities of the Bank in order to ensure permanent ability to repay liabilities taking into account the nature of operations and the needs that may occur as a result of changes in the market environment and customers' behavior. The key objective of liquidity management in the Bank is growing stable sources of financing.

The liquidity risk is measured using liquidity gap adjusted by early repayments of loans and assumption of deposits renewal and termination, stress tests included in the emergency liquidity plan and the analysis of stability and costs of acquisition of liabilities and equity.

The financial liquidity of the Bank is highly affected by funds from credit lines granted by the Santander Group as well as money gathered from private and corporate clients. The credit lines cover all financing needs of the Bank and ensure the primary and secondary liquidity reserve under Resolution No. 386/2008 of the Polish Financial Supervision Authority, also if the Bank obtains funds from other sources.

The Bank does not use derivatives to manage liquidity risk. Due to the lack of trading positions the risk related to illiquidity of financial markets is significantly mitigated.

In 2012 the Bank's exposure to liquidity risk has changed materially. Namely, CIRS transactions were introduced in order to hedge cash flows from credit portfolios denominated in CHF against the currency risk. The structure of financing of the portfolios denominated in CHF underwent a major change, which was done using swap transactions.

In 2013 financial structure of portfolio denominated in CHF has changed materially in order to match financing to characteristics of assets portfolio and to mitigate short-term liquidity gap. For this purpose part of the financing acquired from short-term swap transactions was replaced by long-term balance-sheet financing. This financing was acquired in consequence of *repo* transaction secured by securities and in addition by credit line in CHF.

## 6 Interest income

| **Interest income** | **2013** | **2012** |
|---|---|---|
| On bank accounts and deposits | 23,834,899 | 46,617,782 |
| On loans granted to customers | 1,040,317,447 | 1,222,653,130 |
| *operational loans (stock finance)* | *22,274,862* | *34,252,379* |
| *car loans* | *185,211,973* | *229,841,538* |
| *mortgages* | *172,817,035* | *224,193,156* |
| *durable loans* | *55,054,113* | *95,340,914* |
| *cash loans* | *525,457,362* | *533,470,809* |
| *credit cards* | *75,970,059* | *100,981,566* |
| *other* | *3,532,043* | *4,572,768* |
| On securities available for sale | 59,650,345 | 31,172,472 |
| On derivatives | 77,296,637 | 74,119,520 |
| **Total** | **1,201,099,328** | **1,374,562,904** |

| **Interest income on impaired financial assets** | **2013** | **2012** |
|---|---|---|
| On loans and credits granted to customers | 95,598,185 | 99,487,127 |
| **Total** | **95,598,185** | **99,487,127** |

## 7 Interest expenses

| **Interest expenses** | **2013** | **2012** |
|---|---|---|
| On deposits and loans due to banks | -45,684,376 | -79,935,640 |
| On deposits and loans due to customers | -319,824,405 | -336,119,157 |
| On subordinated debt | -7,806,301 | -10,285,726 |
| On own debt securities | -85,045,479 | -54,686,717 |
| On derivatives | -12,415,234 | 2,487,578 |
| From finance lease contracts | -138,635 | 0 |
| **Total** | **-470914430** | **-478,539,662** |

### 8 Commission income

| Commission income | 2013 | 2012 (Restated) |
|---|---|---|
| Commissions resulting from the distribution of insurance products | 118,844,355 | 76,896,892 |
| Profit share from insurance companies | 25,487,595 | 40,909,828 |
| Commissions on loans granted | 9,704,591 | 2,205,247 |
| Credit card service commissions | 40,643,533 | 37,372,114 |
| Account service commissions | 1,504,139 | 1,905,467 |
| Bank services package | 15,492,083 | 18,794,470 |
| Cash transactions commission | 7,249,921 | 6,983,513 |
| Related party agency commissions | 37,072,637 | 57,796,028 |
| Other commissions | 520,698 | 8,606,688 |
| **Total** | **256,519,552** | **251,470,247** |

### 9 Commission expenses

| Commission expenses | 2013 | 2012 |
|---|---|---|
| Agency commissions | -25,716,226 | -14,160,411 |
| Commissions on accounts and cards service | -6,758,887 | -7,003,801 |
| Commissions on share issue underwriting | -2,336,449 | -1,293,563 |
| Other commissions | -72,369 | 0 |
| **Total** | **-34,883,931** | **-22,457,775** |

### 10 Result on financial operations and FX result

| Result on financial operations and FX result | 2013 | 2012 |
|---|---|---|
| Dividend revenue | 6,362 | 3,850 |
| Result on cash flow hedges | 5,794,940 | -8,897,360 |
| FX result | 7,190,091 | 8,370,146 |
| **Total** | **12,991,393** | **-523,364** |

*Dividend revenue* includes dividends from Visa Europe. The Bank classifies the shares in Visa Europe as financial assets available for sale.

*Result on cash flow hedges* is presented as result on valuation of hedges in the ineffective portion of the cash flow hedge.

*FX result* includes profits and losses on spot and forward transactions and valuation of assets and liabilities denominated in foreign currencies.

### 11 Other operating income

| Other operating income | 2013 | 2012 |
|---|---|---|
| Revenue from release of provisions | 4,352,706 | 4,472,936 |
| Revenue from re-invoices of maintenance services | 2,418,102 | 4,959,621 |
| Revenue from overpayments | 2,273,247 | 5,543,641 |
| Revenue from sale of credit receivables | 33,514,587 | 33,000,000 |
| Revenue from release of litigation provisions | 0 | 26,889,134 |
| Revenue from recovery of bad debts | 14,128,980 | 12,658,848 |
| Revenue from IT services and other support services | 9,462,497 | 12,293,359 |
| Revenue from mailing and marketing actions | 0 | 1,779,864 |
| Other operating income | 3,740,652 | 2,804,560 |
| **Total** | **69,890,770** | **104,401,963** |

Revenues from sales of receivables presented in the above table are the income from the sale of receivables previously written off. The value of these receivables at the time of sale is presented in the following table.

| Value of sold receivables | 2013 | 2012 |
|---|---|---|
| Cash loans | 197,082,877 | 153,315,678 |
| Durable loans | 101,429,547 | 126,898,559 |
| Credit cards | 80,022,057 | 0 |
| **Total** | **378,534,481** | **280,214,237** |

### 12 Bank's operating expenses and depreciation and amortization

| Bank's operating expenses | 2013 | 2012 |
|---|---|---|
| Salaries | -157,029,818 | -146,495,657 |
| Social security and other employee benefits | -29,197,933 | -27,247,449 |
| Marketing expenses | -54,996,503 | -45,858,351 |
| IT expenses | -33,819,339 | -23,607,607 |
| Rentals | -48,968,576 | -48,360,528 |
| Taxes and fees | -15,547,246 | -16,227,589 |
| Postal services | -8,675,099 | -11,560,811 |
| Maintenance costs | -13,091,003 | -11,334,717 |
| Telephone service | -8,856,409 | -9,135,264 |
| Advisory services | -12,074,390 | -5,674,343 |
| Card's service | -4,467,230 | -4,291,999 |
| Business trips costs | -2,729,082 | -2,676,130 |
| Training costs | -2,666,429 | -2,191,113 |
| Service of documentation | -1,582,244 | -1,639,521 |
| Other costs | -19,891,542 | -16,931,247 |
| **Total** | **-413,592,843** | **-373,232,326** |

In 2013 Bank incurred costs from rental of fixed assets held under financial lease agreements amounting to: PLN 195,956
In 2012 and 2011 there were no payments resulting from finance lease contracts.

Salaries include the costs of share-based payments amounting to PLN 1,003,664 in 2013 and PLN 303,557 in 2012.

| **Depreciation and amortization** | **2013** | **2012** |
|---|---|---|
| Amortization charges – intangible assets | -25,358,359 | -24,638,164 |
| Depreciation charges – property, plant and equipment | -19,831,784 | -19,516,218 |
| **Total** | **-45,190,143** | **-44,154,382** |

### 13 Impairment losses on financial assets

| **Net impairment losses** | **2013** | **2012** |
|---|---|---|
| Impairment losses on loans | 12,377,267 | -116,767,481 |
| **Total** | **12,377,267** | **-116,767,481** |

| **Change in provisions in 2013** | **Increase in provisions** | **Decrease in provisions** | **Total** |
|---|---|---|---|
| Operational loans (stock finance) | 11 341 177 | -5 677 086 | 5 664 091 |
| Car loans | 204 054 011 | -208 251 905 | -4 197 894 |
| Mortgages | 247 479 453 | -239 314 793 | 8 164 660 |
| Durable loans | 79 651 299 | -68 710 088 | 10 941 211 |
| Cash loans | 319 649 783 | -345 136 962 | -25 487 179 |
| Credit cards | 66 965 919 | -78 456 126 | -11 490 207 |
| Other | 106 123 | 0 | 106 123 |
| Interbank deposits | 52 773 | 0 | 52 773 |
| Off-balance sheet liabilities | 20 913 509 | -17 044 354 | 3 869 155 |
| **Total** | **950 214 047** | **-962 591 314** | **-12 377 267** |

| **Change in provisions in 2012** | **Increase in provisions** | **Decrease in provisions** | **Total** |
|---|---|---|---|
| Operational loans (stock finance) | 16,848,712 | -3,834,671 | 13,014,041 |
| Car loans | 278,066,931 | -230,748,081 | 47,318,850 |
| Mortgages | 374,146,796 | -208,937,254 | 165,209,542 |
| Durable loans | 52,042,384 | -73,924,569 | -21,882,185 |
| Cash loans | 343,657,477 | -422,896,051 | -79,238,574 |
| Credit cards | 79,877,425 | -93,808,067 | -13,930,642 |
| Other | 49,890,970 | -50,217,217 | -326,247 |
| Off-balance sheet liabilities | 26,534,069 | -19,931,373 | 6,602,696 |
| **Total** | **1,221,064,764** | **-1,104,297,283** | **116,767,481** |

### 14 Other operating expenses

| **Other operating expenses** | **2013** | **2012** |
|---|---|---|
| Costs of debt collection | -5,537,729 | -18,718,644 |
| Loss on the sale and liquidation of fixed and intangible assets | -1,119,107 | -2,008,613 |
| Costs of provisions created | -468,198 | -7,672,157 |
| Costs of created provisions on other liabilities | -2,500,000 | 0 |
| Costs of advertising | -103,097 | -1,159,376 |
| Impairment loss on stocks and shares | -17,666,992 | 0 |
| Impairment loss on fixed assets and intangible assets | -12,394,991 | 0 |
| Impairment loss on other assets on other assets | -2,166,036 | -630,001 |
| Costs of compensations | -254,538 | -457,462 |
| Other operating expenses | -1,245,383 | -1,462,821 |
| **Total** | **-43,633,198** | **-32,109,074** |

Recognized impairment of shares is described in Note 22, and impairment of property, plant and equipment and intangible assets is presented in Note 23 and 24

### 15 Income tax expense

| | **2013** | **2012** |
|---|---|---|
| **Profit before tax** | **544,663,765** | **662,651,050** |
| **Theoretical tax 19%** | **103,486,115** | **125,903,700** |
| **Permanent differences:** | **-8,174,591** | **3,442,680** |
| Permanent differences related to the operating expenses | 740,299 | 881,267 |
| PFRON contribution | 321,018 | 294,330 |
| Change in provisions for non-tax deductible expenses | 1,805,838 | -5,305,885 |
| Non-tax deductible write-offs of loans | 8,056,530 | 4,813,118 |
| Change in impairment allowances on loans as tax permanent difference | -21,053,149 | 4,965,208 |
| Tax relief for new technology | 0 | -2,304,925 |
| Interest from acquired financial liabilities | 2,857,495 | 0 |
| BFG charge | 199,544 | 0 |
| Other permanent differences | -1,102,166 | 99,567 |
| **Total tax** | **95,311,524** | **129,346,380** |

Calculation of deferred tax is presented in Note 26

### 16 Proposed profit distribution

The Management Board will propose to the General Shareholders' Meeting to cover the previous years' loss from the 2013 profit and to pay out the remaining part as dividend.

The profit for 2012 was distributed in the following way: 25% of profit was transferred to the supplementary; 75% of profit was paid out as dividend.

## 17 Cash and balances with the Central Bank

The Bank owned cash in hand which as at 31 December 2013 and 31 December 2012 amounted to PLN 16,417,810 and PLN 16,343,578, respectively.
The Bank was obliged to maintain obligatory reserve in the National Bank of Poland. As at 31 December 2013 and 31 December 2012 the Bank deposited PLN 237,646,299 and PLN 691,200,518, respectively.

## 18 Accounts and deposits in other banks

| **Accounts and deposits in other banks** | **31.12.2013** | **31.12.2012** |
|---|---|---|
| Current accounts | 5,353,952 | 8,842,917 |
| Term deposits | 540,352,029 | 525,728,474 |
| Margin collateral deposits | 0 | 817,663 |
| **Total gross amount** | **545,705,981** | **535 389 054** |
| Impairment loss | -52,773 | 0 |
| **Total** | **545,653,208** | **535,389,054** |

| **Gross receivables from other banks by maturity** | **31.12.2013** | **31.12.2012** |
|---|---|---|
| Current receivables | 5,353,952 | 8,842,917 |
| Non-current receivables with maturity as at the end of the reporting period: | 540,352,029 | 526,546,137 |
| *– up to 1 month* | 250,145,017 | *526,546,137* |
| *– 1–3 months* | 0 | *0* |
| *– 3 months–1 year* | 290,207,012 | *0* |
| **Total** | **545,705,981** | **535,389,054** |

## 19 Financial assets available for sale

| **Financial assets available for sale** | **31.12.2013** | **31.12.2012** |
|---|---|---|
| NBP bills | 64,990,965 | 699,752,200 |
| Treasury bills | 1,239,878,000 | 0 |
| Shares | 1,168,422 | 800,517 |
| **Total** | **1,306,037,387** | **700,552,717** |

As at 31 December 2013 Santander Consumer Bank S.A. held NBP bills as collateral of the guaranteed funds in line with the requirements of the Bank Guarantee Fund, with the total carrying amount of PLN 49,993,050 (as at 31 December 2012 the Bank held NBP bills with the total carrying amount of PLN 49,982,300).
The Bank also held NBP bills, not classified as collateral of the guaranteed funds, with the total carrying amount as at 31 December 2013 and 31 December 2012 of PLN 14,997,915 and PLN 649,769,900, respectively.

In 2013 Bank acquired bonds, which are collateral for *repo* transactions.
These liabilities are presented in note 28 *Liabilities owed to banks*

**Data for 2013**

| Bill type | Purchase date (*) | Maturity | Purchase price | Nominal value | Volume | Market value as at 31 December 2013 |
|---|---|---|---|---|---|---|
| NBP bill | 2013/12/27 | 2014/01/03 | 64,968,410 | 65,000,000 | 6,500 | 64,990,965 |
| Treasury bill | 2013/01/23 | 2015/01/25 | 10,040,000 | 10,000,000 | 10,000 | 10,117,000 |
| Treasury bill | 2013/01/25 | 2015/01/25 | 103,722,379 | 103,268,000 | 103,268 | 104,476,236 |
| Treasury bill | 2013/01/25 | 2018/01/25 | 100,330,000 | 100,000,000 | 100,000 | 100,520,000 |
| Treasury bill | 2013/01/25 | 2017/01/25 | 145,609,000 | 145,000,000 | 145,000 | 146,218,000 |
| Treasury bill | 2013/01/25 | 2015/01/25 | 147,362,948 | 146,732,000 | 146,732 | 148,448,764 |
| Treasury bill | 2013/01/29 | 2017/01/25 | 416,925,600 | 415,000,000 | 415,000 | 418,486,000 |
| Treasury bill | 2013/01/30 | 2018/01/25 | 261,102,400 | 260,000,000 | 260,000 | 261,352,000 |
| Treasury bill | 2013/01/30 | 2018/01/25 | 50,212,500 | 50,000,000 | 50,000 | 50,260,000 |
| **Total** | | | **1,300,273,237** | **1,295,000,000** | | **1,304,868,965** |

(*) value date of transaction

**Data for 2012**

| Bill type | Purchase date (*) | Maturity | Purchase price | Nominal value | Volume | Market value as at 31 December 2012 |
|---|---|---|---|---|---|---|
| NBP bill | 2012/12/28 | 2013/01/04 | 699,421,800 | 700,000,000 | 70,000 | 699,752,200 |
| **Total** | | | **699,421,800** | **700,000,000** | | **699,752,200** |

(*) value date of transaction

The financial assets available for sale include shares in Visa Europe with the value of PLN 1,168,422 and PLN 800,517 as at 31 December 2013 and 31 December 2012, respectively.

### 20 Hedge accounting, hedging derivatives

The Bank uses FX Swaps and CIRS to hedge against the currency risk resulting mainly from mortgages and to a lesser extent from car loans denominated in CHF. The FX Swaps change specific payments in CHF into payments in PLN. The FX Swaps which change the cash flows in CHF to cash flows in PLN have been classified as hedging instruments for the purposes of hedge accounting as a portfolio cash flow hedge.

Positive valuation of hedging derivatives is presented at *Hedging derivatives* in the assets in the statement of financial position, while negative valuation is recognized at *Hedging derivatives* in liabilities in the statement of financial position.

The table below presents basic terms and conditions of the transactions and their fair value in PLN as at 31 December 2013 and 31 December 2012.

**31.12.2013**

| Transaction | Currency purchased | Currency sold | Nominal value | Initial exchange | | Final exchange | | Balance sheet value |
|---|---|---|---|---|---|---|---|---|
| | | | | CHF/PLN exchange rate | Transaction date | CHF/PLN exchange rate | Transaction date | |
| FX Swap | CHF | PLN | 50,000,000 CHF | 3,4205 | 13/12/2013 | 3,4649 | 13/06/2014 | 2,247,383 PLN |
| FX Swap | CHF | PLN | 35,000,000 CHF | 3,4222 | 20/12/2013 | 3,5098 | 22/12/2014 | 1,468,998 PLN |
| FX Swap | CHF | PLN | 10,000,000 CHF | 3,4222 | 20/12/2013 | 3,4436 | 20/03/2014 | 438,260 PLN |
| FX Swap | CHF | PLN | 21,000,000 CHF | 3,4220 | 20/12/2013 | 3,4296 | 21/01/2014 | 917,491 PLN |

| Transaction | Currency purchased | Currency sold | Nominal value | CHF/PLN set Exchange rate | Date of transaction | | Balance sheet value |
|---|---|---|---|---|---|---|---|
| | | | | | Initial measurement | Final measurement | |
| CIRS | CHF | PLN | 50,000,000 CHF | 3,6145 | 29/05/2012 | 03/06/2014 | 10,954,085 PLN |
| CIRS | CHF | PLN | 50,000,000 CHF | 3,6700 | 04/06/2012 | 03/06/2014 | 13,718,543 PLN |
| CIRS | CHF | PLN | 50,000,000 CHF | 3,4990 | 17/07/2012 | 17/07/2015 | 4,217,327 PLN |
| CIRS | CHF | PLN | 15,000,000 CHF | 3,4385 | 31/07/2012 | 31/07/2014 | 592,072 PLN |
| CIRS | CHF | PLN | 35,000,000 CHF | 3,4090 | 30/08/2012 | 31/08/2015 | 185,820 PLN |
| CIRS | CHF | PLN | 35,000,000 CHF | 3,4530 | 31/08/2012 | 31/08/2015 | 1,715,901 PLN |
| CIRS | CHF | PLN | 25,000,000 CHF | 3,4000 | 20/09/2012 | 21/09/2015 | -170,082 PLN |
| CIRS | CHF | PLN | 80,000,000 CHF | 3,4540 | 12/11/2012 | 12/11/2015 | 4,311,818 PLN |

**31.12.2012**

| Transaction | Currency purchased | Currency sold | Nominal value | Initial exchange | | Final exchange | | Balance sheet value |
|---|---|---|---|---|---|---|---|---|
| | | | | CHF/PLN exchange rate | Transaction date | CHF/PLN exchange rate | Transaction date | |
| FX Swap | CHF | PLN | 50,000,000 CHF | 3.5380 | 29/06/2012 | 3.6429 | 31/01/2013 | 12,171,297 PLN |
| FX Swap | CHF | PLN | 59,000,000 CHF | 3.5040 | 10/07/2012 | 3.5925 | 10/01/2013 | 11,949,518 PLN |
| FX Swap | CHF | PLN | 30,000,000 CHF | 3.4820 | 13/07/2012 | 3.5701 | 14/01/2013 | 5,353,992 PLN |
| FX Swap | CHF | PLN | 39,000,000 CHF | 3.4952 | 18/07/2012 | 3.5834 | 18/01/2013 | 7,412,153 PLN |
| FX Swap | CHF | PLN | 39,000,000 CHF | 3.4925 | 04/09/2012 | 3.5766 | 04/03/2013 | 6,398,477 PLN |
| FX Swap | CHF | PLN | 15,000,000 CHF | 3.4100 | 04/12/2012 | 3.4454 | 04/03/2013 | 506,328 PLN |
| FX Swap | CHF | PLN | 53,000,000 CHF | 3.3850 | 13/12/2012 | 3.5020 | 13/12/2013 | 112,287 PLN |
| FX Swap | CHF | PLN | 85,000,000 CHF | 3.3875 | 14/12/2012 | 3.5037 | 16/12/2013 | 249,037 PLN |
| FX Swap | CHF | PLN | 25,000,000 CHF | 3.3830 | 19/12/2012 | 3.3965 | 22/01/2013 | 37,827 PLN |
| FX Swap | CHF | PLN | 40,000,000 CHF | 3.3740 | 20/12/2012 | 3.4920 | 20/12/2013 | -380,493 PLN |
| FX Swap | CHF | PLN | 20,000,000 CHF | 3.3740 | 20/12/2012 | 3.4086 | 20/03/2013 | -172,875 PLN |
| FX Swap | CHF | PLN | 40,000,000 CHF | 3.3720 | 21/12/2012 | 3.3847 | 22/01/2013 | -408,365 PLN |
| FX Swap | CHF | PLN | 58,000,000 CHF | 3.3670 | 28/12/2012 | 3.3793 | 28/01/2013 | -1,048,264 PLN |

| Transaction | Currency purchased | Currency sold | Nominal value | CHF/PLN set Exchange rate | Date of transaction | | Balance sheet value |
|---|---|---|---|---|---|---|---|
| | | | | | Initial measurement | Final measurement | |
| CIRS | CHF | PLN | 50,000,000 CHF | 3.6145 | 29/05/2012 | 03/06/2014 | 8,888,399 PLN |
| CIRS | CHF | PLN | 50,000,000 CHF | 3.6700 | 04/06/2012 | 03/06/2014 | 11,625,270 PLN |
| CIRS | CHF | PLN | 50,000,000 CHF | 3.4990 | 17/07/2012 | 17/07/2015 | 3,753,959 PLN |
| CIRS | CHF | PLN | 15,000,000 CHF | 3.4385 | 31/07/2012 | 31/07/2014 | 445,207 PLN |
| CIRS | CHF | PLN | 35,000,000 CHF | 3.4090 | 30/08/2012 | 31/08/2015 | -20,285 PLN |
| CIRS | CHF | PLN | 35,000,000 CHF | 3.4530 | 31/08/2012 | 31/08/2015 | 1,509,546 PLN |
| CIRS | CHF | PLN | 25,000,000 CHF | 3.4000 | 20/09/2012 | 21/09/2015 | -411,173 PLN |
| CIRS | CHF | PLN | 80,000,000 CHF | 3.4540 | 12/11/2012 | 12/11/2015 | 4,876,908 PLN |
| CIRS | CHF | PLN | 50,000,000 CHF | 3.4100 | 30/11/2012 | 29/11/2013 | 1,366,486 PLN |

Before a hedging transaction is executed, the Bank defines the hedging relationship by indicating the portfolio or assets or liabilities which are to be hedged. In order to ensure high probability of forecasted cash flows from the portfolio of loans in CHF which are hedged, the hedged items are designated based on the methodology used by the Bank to determine the liquidity gaps adjusted to include earlier repayment of loans. Thus, estimated future cash flows are decreased by 10% (haircut). The hedged cash flows mature after the completion of the FX Swap hedging transaction.

The table below presents forecasted cash flows from the portfolio of mortgage and car loans in CHF and the amount allocated as hedging instruments to FX Swap as at 31.12.2013 and 31.12.2012 (information based on the Bank's liquidity gap):

**31.12.2013**

| Forecasted cash flow timing | Cash flow from loan repayment | Amount allocated to hedging transactions |
|---|---|---|
| up to 1 month | 6 815 061 | 0 |
| from 1 to 3 months | 13 464 726 | 12 118 253 |
| from 3 to 6 months | 19 798 725 | 17 818 852 |
| from 6 to 12 months | 38 188 505 | 34 369 654 |
| from 1 year to 2 years | 71 425 694 | 64 283 125 |
| from 2 year to 3 years | 63 640 327 | 57 276 294 |
| from 3 year to 4 years | 58 926 881 | 53 034 193 |
| from 4 year to 5 years | 56 843 530 | 51 159 177 |
| in more than 5 years | 617 243 270 | 165 940 451 |

**31.12.2012**

| Forecasted cash flow timing | Cash flow from loan repayment | Amount allocated to hedging transactions |
|---|---|---|
| up to 1 month | 7,065,584 | 6,386,160 |
| from 1 to 3 months | 13,501,145 | 12,265,905 |
| from 3 to 6 months | 20,162,917 | 18,346,188 |
| from 6 to 12 months | 38,468,449 | 34,963,441 |
| from 1 year to 2 years | 70,753,944 | 64,203,833 |
| from 2 year to 3 years | 64,870,009 | 58,951,920 |
| from 3 year to 4 years | 58,261,773 | 52,837,847 |
| from 4 year to 5 years | 54,180,740 | 49,061,579 |
| in more than 5 years | 710,727,397 | 645,983,126 |

The Bank measured the effectiveness of the hedges with the linear regression analysis, which proved that hedging instruments and risk were matched. Statistical tests used has shown high positive correlation between the hedged risks and hedging instruments, which proved high efficiency of hedging relations as defined in IAS 39.

Change in the fair value of cash flow hedges charged to other comprehensive income is presented below:

| | 2013 | 2012 |
|---|---|---|
| **Opening balance** | -5,591,548 | 28,570 |
| Effective portion of gains/losses on hedging instrument | 419,892 | -5,620,118 |
| **Closing balance** | -5,171,656 | -5,591,548 |

### 21 Loans granted to customers

The policy adopted by the Bank aims at mitigating the concentration risk of receivables as well as monitoring the portfolio in respect to the risk of recoverability of receivables. Santander Consumer Bank S.A. fully complies with the standards concerning concentration of receivables and liabilities defined in the Banking Act (dated on 29 August 1997, Journal of Laws No. 140, item 939). In its credit policy, Santander Consumer Bank S.A. consistently applies the principle of limited involvement in relatively high risk entities, capital groups and market segments and keeps its portfolio highly diversified.

| **Structure of loan port folio** | **31.12.2013** | **31.12.2012** |
|---|---|---|
| Operational loans (stock finance) | 441,008,644 | 476,302,969 |
| Car loans | 1,895,600,556 | 2,240,207,872 |
| Mortgages | 5,172,272,865 | 5,580,320,203 |
| Durable loans | 2,095,911,698 | 350,712,128 |
| Cash loans | 2,869,672,929 | 1,785,040,785 |
| Credit cards | 528,747,694 | 574,556,910 |
| Other credits | 238,672,790 | 85,572,214 |
| **Total loans** | **13,241,887,176** | **11,092,713,081** |
| Impairment allowances (provisions) | -1,766,617,488 | -1,955,069,010 |
| **Total net loans** | **11,475,269,688** | **9,137,644,071** |
| Interest accrued on impaired loans included in gross value of loans | 14,869,253, | 16,181,594, |

All overdue loans are disclosed in the amount adjusted for impairment. The adjustment is calculated considering e.g. timeliness of payments, and loans which are overdue by more than 90 days are classified as impaired.

The gross exposure to credit risk is recognized at the amount that represents the maximum exposure to credit risk in line with IFRS 7.36, i.e. without decrease by any collateral held.

| **The Bank's gross portfolio by maturity** | **31.12.2013** | **31.12.2012** |
|---|---|---|
| Non-current receivables with maturity as at the end of the reporting period: | | |
| *– up to 1 month* | *876,942,049* | *292,007,349* |
| *– 1–3 months* | *701,039,160* | *352,799,763* |
| *– 3 months–1 year* | *2,511,582,603* | *1,575,047,993* |
| *– 1–5 years* | *3,982,069,349* | *2,730,222,643* |
| *– 5–10 years* | *1,191,590,433* | *1,218,200,485* |
| *– 10–20 years* | *1,859,756,489* | *1,977,412,927* |
| *– over 20 years* | *734,838,422* | *974,484,337* |
| *– past due* | *1,384,068,671* | *1,972,537,584* |
| **Total** | **13,241,887,176** | **11,092,713,081** |

**Changes in impairment allowances on loans, interbank deposits and provisions on off-balance sheet liabilities:**

| **2013** | **Impairment allowances on loans** | **Impairments allowances on interbank deposits** | **Provisions on off-balance sheet liabilities** | **Total** |
|---|---|---|---|---|
| **Opening balance** | **1,955,069,010** | **0** | **18,544,440** | **1,973,613,450** |
| Increase in provisions, recognized in profit or loss | 929,247,765 | 52,773 | 20,913,509 | 950,214,047 |
| Decrease in provisions, recognized in profit or loss | -945,546,960 | 0 | -17,044,354 | -962,591,314 |
| Result of business combination | 114,555,052 | 0 | 0 | 114,555,052 |
| Utilization | -286,707,379 | 0 | 0 | -286,707,379 |
| **Closing balance** | **1,766,617,488** | **52,773** | **22,413,595** | **1,789,083,856** |

| **2012** | **Impairment allowances on loans** | **Impairments allowances on interbank deposits** | **Provisions on off-balance sheet liabilities** | **Total** |
|---|---|---|---|---|
| **Opening balance** | **2,112,571,385** | **0** | **11,941,744** | **2,124,513,129** |
| Increase in provisions, recognized in profit or loss | 1,194,530,695 | 0 | 26,534,069 | 1,221,064,764 |
| Decrease in provisions, recognized in profit or loss | -1,084,365,910 | 0 | -19,931,373 | -1,104,297,283 |
| Utilization | -267,667,160 | 0 | 0 | -267,667,160 |
| **Closing balance** | **1,955,069,010** | **0** | **18,544,440** | **1,973,613,450** |

| Portfolio of loans granted to customers, by estimated impairment | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Loans granted to customers (gross)** | **13,241,887,176** | **11,092,713,081** |
| **Not impaired** | **11,690,371,434** | **9,392,226,284** |
| **Impaired** | **1,551,515,742** | **1,700,486,797** |
| – measured individually | 22,358,484 | 18,079,735 |
| – measured collectively | 1,529,157,258 | 1,682,407,062 |
| **Impairment allowances** | **-1,766,617,488** | **-1,955,069,010** |
| **On incurred but not reported losses** | **-343,087,230** | -344,244,356 |
| **For impaired receivables** | **-1,423,530,258** | **-1,610,824,654** |
| – measured individually | -12,074,279 | -8,288,855 |
| – measured collectively | -1,411,455,979 | -1,602,535,799 |
| **Loans granted to customers (net)** | **11,475,269,688** | **9,137,644,071** |

The Bank granted loans for which renegotiation of payment terms took place, which prevented the loans from classification as impaired, according to IFRS 7.36. In 2013 and 2012, the value of renegotiated loans amounted to PLN 105,245,899 and PLN 172,545,135, respectively.

| | | | | | Expired receivables without impairment loss | | | |
|---|---|---|---|---|---|---|---|---|
| **Portfolio structure** | **Gross value of receivables** | **Gross value of receivables impaired** | **Impairment allowances on receivables** | **Gross value of receivables without impairment loss** | **Not due** | **Past due by up to 30 days** | **Past due by 31 to 90 days** | **IBNR allowances** |
| As at 31 December 2013 | | | | | | | | |
| Operational loans (stock finance) | 441,008,644 | 22,358,484 | -12,074,279 | 418,650,160 | 387,095,640 | 31,554,520 | 0 | -27,778,932 |
| Car loans | 1,895,600,556 | 395,407,798 | -372,575,191 | 1,500,192,758 | 1,267,195,595 | 223,299,918 | 9,697,245 | -35,856,794 |
| Mortgages | 5,172,272,865 | 397,524,511 | -328,841,279 | 4,774,748,354 | 4,272,759,480 | 457,614,087 | 44,374,787 | -130,796,158 |
| Durable loans | 2,095,911,698 | 124,808,357 | -121,728,888 | 1,971,103,341 | 1,874,026,365 | 91,973,271 | 5,103,705 | -40,771,124 |
| Cash loans | 2,869,672,929 | 492,347,857 | -474,576,271 | 2,377,325,072 | 2,215,962,080 | 152,476,170 | 8,886,822 | -95,695,916 |
| Credit cards | 528,747,694 | 119,068,735 | -113,734,350 | 409,678,959 | 386,488,914 | 22,073,086 | 1,116,959 | -12,293,636 |
| Other | 238,672,790 | 0 | 0 | 238,672,790 | 238,672,790 | 0 | 0 | -105,330 |
| **Total As at 31 December 2012** | **13,241,887,176** | **1,551,515,742** | **-1,423,530,258** | **11,690,371,434** | **10,642,200,864** | **978,991,052** | **69,179,518** | **-343,087,230** |
| Operational loans (stock finance) | 476,302,969 | 17,755,337 | -7,979,385 | 458,547,632 | 395,240,771 | 63,090,256 | 216,605 | -26,374,391 |
| Car loans | 2,240,207,872 | 380,980,133 | -357,743,776 | 1,859,227,739 | 1,535,681,738 | 307,699,031 | 15,846,970 | -57,216,461 |
| Mortgages | 5,580,320,203 | 339,606,297 | -306,134,752 | 5,240,713,906 | 4,583,429,365 | 596,635,286 | 60,649,255 | -145,546,577 |
| Durable loans | 350,712,128 | 117,995,109 | -114,822,492 | 232,717,019 | 217,667,029 | 14,265,168 | 784,822 | -5,004,564 |
| Cash loans | 1,785,040,785 | 628,100,020 | -612,908,430 | 1,156,940,765 | 1,033,832,977 | 115,208,976 | 7,898,812 | -89,449,977 |
| Credit cards | 574,556,910 | 216,049,901 | -211,235,819 | 358,507,009 | 321,212,178 | 35,649,345 | 1,645,486 | -20,800,255 |
| Other | 85,572,214 | 0 | 0 | 85,572,214 | 85,572,214 | 0 | 0 | -147,869 |
| **Total** | **11,092,713,081** | **1,700,486,797** | **-1,610,824,654** | **9,392,226,284** | **8,172,636,272** | **1,132,548,062** | **87,041,950** | **-344,244,356** |

## 22. Shares and interests in subsidiaries

Interests in subsidiaries as at the date of approval of the financial statements by the Management Board of the Bank and as at 31 December 2013 and as at 31 December 2012 are presented in the following tables. The Bank controls the following entities and treats them as subsidiaries by having 100% of share capital and vote rights.

**31.12.2013**

| | |
|---|---|
| **1. Entity** | **AKB Marketing Services Sp. z o.o.** |
| a) registered office | Marcelińska St. 90, 60-324 Poznań |
| b) relationship | subsidiary |
| c) date of obtaining control | 24.03.2006 |
| d) value of shares at cost in PLN | 273,751 |
| e) % interest in the share capital | 100% |
| f) share in total number of votes at the General Meeting | 100% |
| **2. Entity** | **Santander Consumer Multirent Sp. z o.o.** |
| a) registered office | Strzegomska St. 42c, 53-611 Wrocław |
| b) relationship | Subsidiary |
| c) date of obtaining control | 16.08.2007 |
| d) value of shares at cost in PLN | 26,979,803 |
| e) % interest in the share capital | 100% |
| f) share in total number of votes at the General Meeting's Shareholders | 100% |
| **3. Entity** | **Santander Consumer Finanse S.A.** |
| a) registered office | Strzegomska St. 42c, 53-611 Wrocław |
| b) relationship | subsidiary |
| c) date of obtaining control | 15.05.2013 |
| d) value of shares at cost in PLN | 172,275,200 |
| e) impairment allowance | -17,666,992 |
| f) % interest in the share capital | 100% |
| g) share in total number of votes at the General Meeting's Shareholders | 100% |

**31.12.2012**

| | |
|---|---|
| **1. Entity** | **AKB Marketing Services Sp. z o.o.** |
| a) registered office | Marcelińska St. 90, 60-324 Poznań |
| b) relationship | subsidiary |
| c) date of obtaining control | 24.03.2006 |
| d) value of shares at cost in PLN | 273,751 |
| e) % interest in the share capital | 100% |
| f) share in total number of votes at the General Meeting | 100% |
| **2. Entity** | **Santander Consumer Multirent Sp. z o.o.** |
| a) registered office | Strzegomska St. 42c, 53-611 Wrocław |
| b) relationship | Subsidiary |
| c) date of obtaining control | 16.08.2007 |
| d) value of shares at cost in PLN | 26,979,803 |
| e) % interest in the share capital | 100% |
| f) share in total number of votes at the General Meeting's Shareholders | 100% |

The Bank's subsidiaries are not consolidated by the Bank in line with IAS.10.4 and the consolidation takes place at the level of the Bank's parent entity.

In respect of investments in shares of Santander Consumer Finanse SA the impairment triggers were identified in September 2013 due to the fact that since September 2013 this company carries a much reduced business activity in as a result of the sale of the organized part of enterprise (the transaction described in Note 50).

The impairment test was performed by comparing the carrying amount of investments and the book value of the net assets, which was considered as appropriate representation of the fair value of the company with a low operating activities and net assets primarily in the form of cash.

As a result of the impairment test in the books of the Bank an impairment of investments in shares of Santander Consumer Finanse SA has been recognized in the amount of 17,666,992 PLN.

## 23 Intangible assets

| **Intangible assets – net value** | **31.12.2013** | **31.12.2012** |
|---|---|---|
| Computer and other software | 45,066,182 | 36,636,844 |
| Expenditures for intangible assets | 8,472,671 | 34,564,430 |
| **Total** | **53,538,853** | **71,201,274** |

As at 31 December 2013 and 31 December 2012 the Bank had no intangible assets used based on finance lease.

As at 31 December 2013 and 31 December 2012 the Bank had intangible assets used based on operating lease agreements (see Note 47).

Expenditures for intangible assets include primarily investments in development and implementation of new banking IT systems.

| **Material intangible assets as at 31 December 2013** | **Carrying amount** | **Remaining amortization period (number of months)** |
|---|---|---|
| System Ficres Back End | 11,838,098 | 31 |
| Ficres Back End HP I CL | 6,369,275 | Investment in progress |
| ICBS system license | 5,479,059 | 24 |
| System Cumbre | 3,794,771 | 28 |

| **Material intangible assets as at 31 December 2012** | **Carrying amount** | **Remaining amortization period (number of months)** |
|---|---|---|
| Development of system Ficres Back End | 12,549,987 | Investment in progress |
| License for system ICBS | 8,293,206 | 36 |
| System HP Durable Loans | 5,947,833 | Investment in progress |
| System Ficres Back End Structural | 5,864,082 | 16 |

During the year 2013 the Bank recognized impairment of two significant positions of intangible assets:

a) costs of adaptation of modules Ficres Front and Middle to handle the product 'Durable Loan' in the amount of 5,947,833 in relation to the termination of the development of this module

b) additional license for ICBS system acquired with the SCF Enterprise in the amount of 6,051,422 PLN in relation to the uselessness of this license to the Bank.

These impairment losses are recognized in profit or loss as presented in Note 14.

| DESCRIPTION | Computer software | Expenditures for intangible assets | Total intangible assets |
|---|---|---|---|
| **Gross value as at 1 January 2013** | **146,786,372** | **41,467,569** | **188,253,941** |
| increases: | 45,163,760 | 11,463,786 | 56,627,546 |
| – purchase | 591,481 | 11,463,786 | 12,055,267 |
| – reclassification from expenditures for intangible assets | 31,323,438 | 0 | 31,323,438 |
| - result of business combination | 13,248,841 | 0 | 13,248,841 |
| decreases: | 71,566 | 31,607,712 | 31,679,278 |
| – reclassification from expenditures for intangible assets | 0 | 31,323,438 | 31,323,438 |
| – liquidation | 71,566 | 177,126 | 248,692 |
| – other changes | 0 | 107,148 | 107,148 |
| **Gross value as at 31 December 2013** | **191,878,566** | **21,323,643** | **213,202,209** |
| **Amortization as at 1 January 2013** | **110,149,044** | **0** | **110,149,044** |
| increases: | 30,683,484 | 0 | 30,683,484 |
| – amortization charges | 25,358,359 | 0 | 25,358,359 |
| - result of business combination | 5,325,125 | 0 | 5,325,125 |
| decreases: | 71,566 | 0 | 71,566 |
| – liquidation | 71,566 | 0 | 71,566 |
| **Amortization as at 31 December 2013** | **140,760,962** | **0** | **140,760,962** |
| **Impairment allowances as at 01.01.2013** | **484** | **6,903,139** | **6,903,623** |
| increases: | 6,051,422 | 5,947,833 | 11,999,255 |
| decreases: | 484 | 0 | 484 |
| **Impairment allowances as at 31.12.2013** | **6,051,422** | **12,850,972** | **18,902,394** |
| **Net value as at 01.01.2013** | **36,636,844** | **34,564,430** | **71,201,274** |
| **Net value as at 31.12.2013** | **45,066,182** | **8,472,671** | **53,538,853** |

| DESCRIPTION | Computer software | Expenditures for intangible assets | Total intangible assets |
|---|---|---|---|
| **Gross value as at 1 January 2012** | **120,628,979** | **33,683,803** | **154,312,782** |
| increases: | 26,517,375 | 25,357,255 | 51,874,630 |
| – purchase | 8,925,490 | 25,357,255 | 34,282,745 |
| – reclassification from expenditures for intangible assets | 17,573,489 | 0 | 17,573,489 |
| – reclassification from fixed assets under construction | 18,396 | 0 | 18,396 |
| decreases: | 359,982 | 17,573,489 | 17,933,471 |
| – reclassification from expenditures for intangible assets | 0 | 17,573,489 | 17,573,489 |
| – liquidation | 335,997 | 0 | 335,997 |
| – other changes | 23,985 | 0 | 23,985 |
| **Gross value as at 31 December 2012** | **146,786,372** | **41,467,569** | **188,253,941** |
| **Amortization as at 1 January 2012** | **85,846,877** | **0** | **85,846,877** |
| increases: | 24,638,164 | 0 | 24,638,164 |
| – amortization charges | 24,638,164 | 0 | 24,638,164 |
| decreases: | 335,997 | 0 | 335,997 |
| – liquidation | 335,997 | 0 | 335,997 |
| **Amortization as at 31 December 2012** | **110,149,044** | **0** | **110,149,044** |
| **Impairment allowances as at 01.01.2012** | **68,729** | **7,278,139** | **7,346,868** |
| increases: | 0 | 0 | 0 |
| decreases: | 68,245 | 375,000 | 443,245 |
| **Impairment allowances as at 31.12.2012** | **484** | **6,903,139** | **6,903,623** |
| **Net value as at 01.01.2012** | **34,713,373** | **26,405,664** | **61,119,037** |
| **Net value as at 31.12.2012** | **36,636,844** | **34,564,430** | **71,201,274** |

## 24 Property, plant and equipment

| Property, plant and equipment – net value, PLN | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Leasehold improvements | 42,147,570 | 50,424,774 |
| Technical equipment | 20,027,509 | 18,619,845 |
| Vehicles | 2,850,467 | 2,492,924 |
| Fittings | 1,865,452 | 3,126,897 |
| Fixed assets under construction | 517,153 | 226,555 |
| **Total** | **67,408,151** | **74,890,995** |

As at 31 December 2013 the Bank used fixed assets under finance lease contracts of transportation means amounting to PLN 1,415,247

As at 31 December 2012 the Bank did not used any fixed assets under finance lease contracts.

As at 31 December 2013 and 31 December 2012 the Bank used fixed assets under operating lease contracts - see Note 47.

| DESCRIPTION | Leasehold improvements | Technical equipment | Vehicles | Fittings | Fixed assets under construction | Total |
|---|---|---|---|---|---|---|
| **Gross value as at 01.01.2013** | **79,212,319** | **51,675,778** | **6,215,447** | **10,543,093** | **226,555** | **147,873,192** |
| increases: | 885,063 | 13,341,552 | 4,807,236 | 538,326 | 3,412,345 | 22,984,522 |
| – purchase | 58,499 | 7,945,481 | 399,999 | 248,290 | 3,234,807 | 11,887,076 |
| – reclassification of stock | 0 | 344,278 | 0 | 8,323 | 3,865 | 356,466 |
| – reclassification from fixed assets under construction | 532,449 | 2,430,923 | 0 | 52,278 | 0 | 3,015,650 |
| - result of business combination | 294,115 | 2,620,870 | 4,407,237 | 229,435 | 173,673 | 7,725,330 |
| decreases: | 2,329,187 | 2,843,321 | 3,442,674 | 386,091 | 3,121,747 | 12,123,020 |
| – liquidation | 2,243,689 | 2,294,704 | 331,962 | 274,985 | 0 | 5,145,340 |
| – sale | 85,498 | 548,617 | 3,110,712 | 111,106 | 4,370 | 3,860,303 |
| – reclassification to fixed assets | 0 | 0 | 0 | 0 | 3,015,650 | 3,015,650 |
| – requalification from stock | 0 | 0 | 0 | 0 | 28,782 | 28,782 |
| – other changes | 0 | 0 | 0 | 0 | 72,945 | 72,945 |
| **Gross value as at 31.01.2013** | **77,768,195** | **62,174,009** | **7,580,009** | **10,695,328** | **517,153** | **158,734,694** |
| **Depreciation as at 01.01.2013** | **28,465,736** | **32,930,007** | **3,722,523** | **7,416,196** | **0** | **72,534,462** |
| increases: | 7,843,409 | 10,945,467 | 3,690,711 | 1,694,918 | 0 | 24,174,505 |
| – depreciation charges | 7,789,300 | 9,419,951 | 1,038,420 | 1,584,113 | 0 | 19,831,784 |
| - result of business combination | 54,109 | 1,525,516 | 2,652,291 | 110,805 | 0 | 4,342,721 |
| decreases: | 981,533 | 2,124,710 | 2,683,692 | 281,238 | 0 | 6,071,173 |
| – liquidation | 968,652 | 1,645,461 | 195,440 | 221,927 | 0 | 3,031,480 |
| – sale | 12,881 | 479,249 | 2,488,252 | 59,311 | 0 | 3,039,693 |
| **Depreciation as at 31.12.2013** | **35,327,612** | **41,750,764** | **4,729,542** | **8,829,876** | **0** | **90,637,794** |
| **Impairment loss as at 01.01.2013** | **321,809** | **125,926** | **0** | **0** | **0** | **447,735** |
| increases: | 0 | 395,736 | 0 | 0 | 0 | **395,736** |
| decreases: | 28,796 | 125,926 | 0 | 0 | 0 | **154,722** |
| **Impairment loss as at 31.12.2013** | **293,013** | **395,736** | **0** | **0** | **0** | **688,749** |
| **Net value as at 01.01.2013** | **50,424,774** | **18,619,845** | **2,492,924** | **3,126,897** | **226,555** | **74,890,995** |
| **Net value as at 31.12. 2013** | **42,147,570** | **20,027,509** | **2,850,467** | **1,865,452** | **517,153** | **67,408,151** |

| DESCRIPTION | Leasehold improvements | Technical equipment | Vehicles | Fittings | Fixed assets under construction | Total |
|---|---|---|---|---|---|---|
| **Gross value as at 01.01.2012** | **80,985,310** | **52,409,140** | **10,045,310** | **10,756,039** | **1,732,020** | **155,927,819** |
| increases: | 4,020,656 | 7,323,682 | 962,900 | 352,526 | 5,254,735 | 17,914,499 |
| – purchase | 109,325 | 4,662,261 | 962,900 | 254,366 | 5,033,654 | 11,022,506 |
| – reclassification of stock | 0 | 70,075 | 0 | 282 | 221,081 | 291,438 |
| – reclassification from fixed assets under construction | 3,911,331 | 2,653,062 | 0 | 36,162 | 0 | 6,600,555 |
| – reclassification between items | 0 | -61,716 | 0 | 61,716 | 0 | 0 |
| decreases: | 5,793,647 | 8,057,044 | 4,792,763 | 565,472 | 6,760,200 | 25,969,126 |
| – liquidation | 4,861,239 | 7,174,797 | 159,900 | 373,690 | 0 | 12,569,626 |
| – sale | 932,408 | -144,243 | 4,632,863 | 121,947 | 0 | 5,542,975 |
| – reclassification to fixed assets | 0 | 0 | 0 | 0 | 6,600,555 | 6,600,555 |
| – reclassification to intangible assets | 0 | 0 | 0 | 0 | 18,396 | 18,396 |
| – requalification from stock | 0 | 0 | 0 | 0 | 7,233 | 7,233 |
| – other changes | 0 | 1,026,490 | 0 | 69,835 | 134,016 | 1,230,341 |
| **Gross value as at 31.01.2012** | **79,212,319** | **51,675,778** | **6,215,447** | **10,543,093** | **226,555** | **147,873,192** |
| **Depreciation as at 01.01.2012** | **22,904,019** | **32,421,703** | **6,040,810** | **6,132,367** | **0** | **67,498,899** |
| increases: | 7,925,407 | 8,330,529 | 1,550,135 | 1,710,145 | 0 | 19,516,216 |
| – depreciation charges | 7,925,405 | 8,384,110 | 1,550,135 | 1,656,568 | 0 | 19,516,218 |
| – reclassification between items | 0 | -53,581 | 0 | 53,581 | 0 | 0 |
| – other | 2 | 0 | 0 | -4 | 0 | -2 |
| decreases: | 2,363,690 | 7,822,225 | 3,868,422 | 426,316 | 0 | 14,480,653 |
| – liquidation | 2,016,971 | 7,029,210 | 42,639 | 271,513 | 0 | 9,360,333 |
| – sale | 346,719 | -233,475 | 3,825,783 | 84,963 | 0 | 4,023,990 |
| – other changes | 0 | 1,026,490 | 0 | 69,840 | 0 | 1,096,330 |
| **Depreciation as at 31.12.2012** | **28,465,736** | **32,930,007** | **3,722,523** | **7,416,196** | **0** | **72,534,462** |
| **Impairment loss as at 01.01.2012** | **321,809** | **0** | **0** | **0** | **0** | **321,809** |
| increases: | 0 | 125,926 | 0 | 0 | 0 | **125,926** |
| decreases: | 0 | 0 | 0 | 0 | 0 | **0** |
| **Impairment loss as at 31.12.2012** | **321,809** | **125,926** | **0** | **0** | **0** | **447,735** |
| **Net value as at 01.01.2012** | **57,759,482** | **19,987,437** | **4,004,500** | **4,623,672** | **1,732,020** | **88,107,111** |
| **Net value as at 31.12. 2012** | **50,424,774** | **18,619,845** | **2,492,924** | **3,126,897** | **226,555** | **74,890,995** |

### 25 Other assets

| Other assets | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Various debtors | 3,735,461 | 3,798,542 |
| Accounts receivable for agency agreements with related entities | 38,743 | 6,962,833 |
| Accounts receivable for settlements with partners | 20,848,106 | 3,569,233 |
| Prepayments resulted from incentive plan | 1,296,960 | 2,061,114 |
| Insurance receivables | 983,135 | 4,569,423 |
| Bails and deposits | 1,142,745 | 1,002,199 |
| Other assets | 901,998 | 941,171 |
| **Total** | **28,947,148** | **22,904,515** |
| Impairment allowances on receivables | -5,251,572 | -1,084,553 |
| **Total** | **23,695,576** | **21,819,962** |

### 26 Deferred tax assets

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Deductible temporary differences** | | |
| – deferred commissions | -72,165,193 | -28,169,214 |
| – impairment losses on loans | -156,641,632 | -154,828,211 |
| – impairment losses on other assets | -4,634,827 | -1,391,367 |
| – accrued social security expenses paid in the following year | -417 | -10,109 |
| – accrued interest on liabilities | -43,395,765 | -34,011,669 |
| – accruals | -22,462,765 | -31,874,447 |
| – permanent differences resulting from valuation of acquired assets and liabilities of AIG Bank Polska | -361,979 | -6,754,299 |
| – differences between balance sheet and tax amortization and depreciation | -343,589 | -257,424 |
| – tax relief for new technology | 0 | -2,304,925 |
| - temporary differences relating to financial instruments recognized in the revaluation reserve | -2,451,627 | -1,989,552 |
| - other | 0 | -1,194,896 |
| **Total deductible temporary differences** | **-302,457,794** | **-262,786,113** |
| **Taxable temporary differences** | | |
| – accrued interest on loans and other accrued income | 23,609,264 | 14,931,091 |
| – temporary difference due to financial instruments charged to profit or loss | -1,016,265 | 3,072,087 |
| – temporary difference due to acquired entity | 12,686,704 | 0 |
| - other | 1,276,634 | 1,678,505 |
| **Total taxable temporary differences** | **36,556,337** | **19,681,683** |
| **Deferred tax assets** | **265,901,457** | **243,104,430** |
| - including charged directly to revaluation reserve – financial instruments | -2,451,627 | -1,194,896 |
| - including charged directly to revaluation reserve - other | -2,852,050 | 0 |

All deferred tax assets were recognized.

### 27 Prepayments

Prepayments are determined in the amount of expenses related to future reporting periods. Prepayments are recognized based on the elapsed time and the settlement method depends on the nature of the expenses. Prepayments are recognized at nominal value.

| **Prepayments** | **31.12.2013** | **31.12.2012** |
|---|---|---|
| Advance payments | 4,270,262 | 10,171,476 |
| Settlements related to insurance commissions accrued | 220,345 | 813,589 |
| Share in insurance companies' profit | 34,456,631 | 32,281,149 |
| Other accrued revenue | 10,365,911 | 11,272,568 |
| **Total** | **49,313,149** | **54,538,782** |

*Other accrued revenue* includes primarily accrued revenue due to payments made by Customers which are settled when the payment is made.

### 28 Liabilities due to banks

| **Structure of liabilities due to banks** | **31.12.2013** | **31.12.2012** |
|---|---|---|
| Liabilities with agreed maturity: | 2,541,497,526 | 875,876,034 |
| *– loans* | *1,179,102,839* | *447,163,923* |
| *– deposits* | *320,677,058* | *428,712,111* |
| *- margin collateral deposits* | *37,257,037* | *0* |
| *- liabilities due to repo transactions* | *1,004,460,592* | *0* |
| Other liabilities | 0 | 8,860 |
| Total | **2,541,497,526** | **875,884,894** |

| **Structure of liabilities by maturity** | **31.12.2013** | **31.12.2012** |
|---|---|---|
| Liabilities with agreed maturity: | 2,541,497,526 | 875,876,034 |
| *– up to 1 month* | *139,119,508* | *158,328,188* |
| *– 1–3 months* | *238,551,769* | *80,038,312* |
| *– 3 months–1 year* | *500,153,425* | *575,923,561* |
| *– 1–5 years* | *1,663,672,824* | *61,585,973* |
| **Total** | **2,541,497,526** | **875,876,034** |

Liabilities due to financial institutions arising from loans and deposits include the following types of funding:

– short-term loans (up to 1 year) from Santander Benelux, denominated in CHF. Loans/deposits are fixed interest instruments negotiated each time at loan agreement conclusion or floating interest instruments, where interest amounts to WIBOR/LIBOR rate increased by a fixed margin agreed at the moment of contracting the credit. All short-term loans may be taken up to the short-term line limit equal to EUR 975,000,000 and EUR 1,475,000,000 as at 31 December 2013 and 31 December 2012;

- PLN deposits from interbank market. The nominal value of deposits as at 31 December 2013 amounted to PLN 318,000,000 and USD 350,000. The nominal value of deposits as at 31 December 2012 amounted to PLN 340,000,000 and USD 250,000;
- CHF long-term loans from interbank market. The nominal value of loans as at 31 December 2013 amounted to CHF 200,000,000;
- Long-term security-based loans. The nominal value of loans as at 31 December 2013 amounted to CHF 292,841,078.

**Utilization of credit lines:**

| | 31.12.2013 | | 31.12.2012 | |
|---|---|---|---|---|
| | Available credit line in PLN | Utilization in PLN | Available credit line in PLN | Utilization in PLN |
| Santander Benelux S.A. | 4,043,520,000 | 0 | 6,030,095,000 | 338,680,000 |
| **Total** | **4,043,520,000** | **0** | **6,030,095,000** | **338,680,000** |

## 29 Liabilities due to customers

| Structure of liabilities due to customers | 31.12.2013 | 31.12.2012 (restated) |
|---|---|---|
| Deposits | 6,937,264,142 | 6,738,819,907 |
| - retail | *5,031,020,676* | *5,287,980,057* |
| - corporate | *1,797,781,122* | *1,309,473,720* |
| - public sector | *108,462,344* | *141,366,130* |
| Current accounts | 723,765 | 5,578,238 |
| Repayments and overpayments of loans | 56,001,641 | 68,098,853 |
| **Total** | **6,993,989,548** | **6,812,496,998** |

| Structure of liabilities (net of interest) by maturity | 31.12.2013 | 31.12.2012 (restated) |
|---|---|---|
| Liabilities with agreed maturity: | 6,993,989,548 | 6,812,496,998 |
| *- without specified maturity* | *142,061,864* | *153,070,788* |
| *– up to 1 month* | *1,510,024,962* | *892,729,330* |
| *– 1–3 months* | *1,173,234,034* | *1,112,523,656* |
| *– 3 months–1 year* | *2,000,145,915* | *3,985,811,960* |
| *– 1–5 years* | *2,168,441,556* | *668,280,047* |
| *- 5-10 years* | *81,217* | *81,217* |
| **Total** | **6,993,989,548** | **6,812,496,998** |

## 30 Liabilities arising from issuance of debt securities

| **Structure of liabilities arising from issuance of debt securities** | **31.12.2013** | **31.12.2012** |
|---|---|---|
| Certificates of deposit | 381,372,087 | 251,975,586 |
| Bonds | 1,606,998,375 | 858,969,655 |
| **Total** | **1,988,370,462** | **1,110,945,241** |

The incidents of the bank's delinquency in repayment of principal, interests and redemption of own debt securities have not occurred.

| **Structure of liabilities at nominal value by maturity** | **31.12.2013** | **31.12.2012** |
|---|---|---|
| Liabilities arising from issuance of debt securities at nominal value, maturing: | | |
| *- commission and discount without specified maturity* | *-2,198,348* | *-808,529* |
| *– up to 1 month* | *2,342,790* | *0* |
| *– 1–3 months* | *188,858,381* | *12,620,483* |
| *– 3 months–1 year* | *661,467,639* | *193,533,287* |
| *– 1–5 years* | *1,137,900,000* | *905,600,000* |
| **Total** | **1,988,370,462** | **1,110,945,241** |

| Liabilities arising from issuance of debt securities by issue as at 31 December 2013 | | | | | |
|---|---|---|---|---|---|
| **Security** | **Number** | **Issue currency** | **Nominal value in PLN** | **Maturity** | **Market** |
| Floating rate bond | SCBB00110150 | PLN | 15,000,000 | 04/02/2015 | not quoted |
| Floating rate bond | SCBB00120050 | PLN | 5,000,000 | 04/02/2015 | not quoted |
| Floating rate bond | SCB00002 | PLN | 10,000,000 | 29/04/2016 | not quoted |
| Floating rate bond | SCBB00100050 | PLN | 5,000,000 | 19/12/2014 | not quoted |
| Floating rate bond | SCBB00090140 | PLN | 14,000,000 | 19/12/2014 | not quoted |
| Floating rate bond | SCB00008 | PLN | 110,000,000 | 30/08/2017 | not quoted |
| Floating rate bond | SCB00010 | PLN | 20,000,000 | 30/08/2017 | not quoted |
| Floating rate bond | SCBX00021500 | PLN | 150,000,000 | 13/04/2015 | not quoted |
| Floating rate bond | SCBX00013000 | PLN | 300,000,000 | 04/11/2014 | not quoted |
| Floating rate bond | SCBP00271466 | PLN | 146,600,000 | 14/11/2014 | not quoted |
| Floating rate bond | SCB00012 | PLN | 204,000,000 | 04/10/2017 | not quoted |
| Floating rate certificate of deposit | SCBP00260170 | PLN | 144,000,000 | 20/10/2014 | not quoted |
| Floating rate bond | SCBP00360217 | PLN | 21,700,000 | 12/02/2016 | not quoted |
| Floating rate bond | SCB00001 | PLN | 60,000,000 | 29/04/2016 | not quoted |
| Floating rate bond | SCBP00350592 | PLN | 59,200,000 | 12/02/2015 | not quoted |
| Floating rate certificate of deposit | SCBP00340050 | PLN | 50,000,000 | 12/02/2016 | not quoted |
| Floating rate bond | SCB00005 | PLN | 100,000,000 | 08/08/2016 | not quoted |
| Floating rate bond | SCB00006 | PLN | 100,000,000 | 07/08/2017 | not quoted |
| Floating rate certificate of deposit | SCBP00300111 | PLN | 106,000,000 | 15/12/2015 | not quoted |
| Floating rate bond | SCBP00320280 | PLN | 28,000,000 | 29/01/2015 | not quoted |
| Floating rate bond | SCBP00280400 | PLN | 40,000,000 | 19/12/2014 | not quoted |
| Floating rate bond | SCB00012 | PLN | 11,000,000 | 04/10/2017 | not quoted |
| Floating rate bond | SCBP00330500 | PLN | 50,000,000 | 29/01/2016 | not quoted |
| Floating rate certificate of deposit | SCBP00310038 | PLN | 38,000,000 | 29/01/2016 | not quoted |
| Zero-coupon certificate of deposit | SCB00011 | PLN | 40,000,000 | 18/03/2014 | not quoted |
| Zero-coupon bond | SCB00004 | PLN | 50,000,000 | 03/02/2014 | not quoted |
| Zero-coupon bond | SCB00007 | PLN | 50,000,000 | 20/02/2014 | not quoted |
| Zero-coupon bond | SCB00009 | PLN | 40,000,000 | 11/03/2014 | not quoted |
| Fixed rate bond | SCB00003 | PLN | 3,000,000 | 29/07/2014 | not quoted |
| | | **Total** | **1,970,500,000** | | |

| Liabilities arising from issuance of debt securities by issue as at 31 December 2012 | | | | | |
|---|---|---|---|---|---|
| **Security** | **Number** | **Issue currency** | **Nominal value in PLN** | **Maturity** | **Market** |
| Floating rate certificate of deposit | SCBP00260170 | PLN | 144,000,000 | 20/10/2014 | not quoted |
| Floating rate bond | SCBP00271466 | PLN | 146,600,000 | 14/11/2014 | not quoted |
| Floating rate bond | SCBB00090140 | PLN | 14,000,000 | 19/12/2014 | not quoted |
| Floating rate bond | SCBB00100050 | PLN | 5,000,000 | 19/12/2014 | not quoted |
| Floating rate bond | SCBP00280400 | PLN | 40,000,000 | 19/12/2014 | not quoted |
| Floating rate certificate of deposit | SCBP00290111 | PLN | 106,000,000 | 15/12/2015 | not quoted |
| Floating rate bond | SCBB00020100 | PLN | 10,000,000 | 21/02/2013 | not quoted |
| Floating rate bond | SCBP00011600 | PLN | 160,000,000 | 30/09/2013 | not quoted |
| Floating rate bond | SCBP00150250 | PLN | 25,000,000 | 05/12/2013 | not quoted |
| Floating rate bond | SCBX00013000 | PLN | 300,000,000 | 04/11/2014 | not quoted |
| Floating rate bond | SCBX00021500 | PLN | 150,000,000 | 13/04/2015 | not quoted |
| | | **Total** | **1,100,600,000** | | |

| Change in liabilities due to issuing of bonds | 2013 | 2012 |
|---|---|---|
| **Opening balance** | **1,110,945,241** | **956,653,213** |
| Increases (issues) | 1,064,900,000 | 886,600,000 |
| decreases (redemptions) | -195,000,000 | -736,000,000 |
| Other changes | 7,525,221 | 3,692,028 |
| **Closing balance** | **1,988,370,462** | **1,110,945,241** |

### 31 Other liabilities

| Other liabilities | 31.12.2013 | 31.12.2012 (restated) |
|---|---|---|
| Provision on off-balance liabilities | 22,413,595 | 18,544,440 |
| Liability due to insurance companies | 17,256,440 | 7,660,816 |
| Liabilities related to prepayments | 13,241,057 | 13,241,113 |
| Various creditors | 5,329,439 | 4,991,370 |
| Public and legal settlements | 10,959,443 | 10,473,008 |
| Current income tax liabilities | 59,490,542 | 48,471,316 |
| **Total** | **128,690,516** | **103,382,063** |

Change in the balance of provision on off-balance liabilities has been presented in Note 21 *Loans granted to customers*.

### 32 Accrued expenses and deferred income

| Accrued expenses and deferred income | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Salaries and bonuses | 26,855,160 | 26,110,284 |
| Costs of other employee benefits | 13,923,345 | 11,373,055 |
| Commission costs | 94,408,168 | 37,002,228 |
| Marketing expenses | 30,686,745 | 20,307,558 |
| IT expenses | 5,470,892 | 4,578,236 |
| Collection costs | 2,822,340 | 3,856,878 |
| Advisory costs | 13,225,996 | 3,299,910 |
| Maintenance costs | 5,057,041 | 2,101,006 |
| Postal services costs | 1,905,340 | 2,074,497 |
| Costs of telephone service | 1,651,211 | 759,305 |
| Business trip costs | 290,327 | 375,881 |
| Service of documentation | 235,615 | 182,415 |
| Other expenses | 5,010,868 | 5,078,753 |
| Interest received in advance | 12,344,660 | 4,188,319 |
| Incomes received in advance due to insurance contracts distribution | 62,581,003 | 32,693,891 |
| Other deferred income | 3,161,171 | 864,829 |
| **Total** | **279,629,882** | **154,847,045** |

The position: *Salaries and bonuses* includes primarily deferred expenses related to remuneration under civil law agreements, bonuses and awards, overtime payments and share-based payments.
The provision resulted from share-based programs as at 31 December 2013 and 31 December 2012 amounted to PLN 1,974,463 and PLN 3,118,590, respectively.

The provision for retirement benefits recognized included in the position: *Costs other employee benefits* as at 31 December 2013 and 31 December 2012 amounted to PLN 3,526,182 and PLN 2,129,099, respectively.

### 33 Restructuring and other provisions

As at 31 December 2013, this position included the restructuring provision of PLN 19,103,412 and other provisions of PLN 8,140,355.

The restructuring provision of PLN 19,103,412 is related to the business restructuring plan of the Santander Consumer Finance (SCF) Group in Poland adopted by the Group in 2010. The plan was introduced after the SCF Group took control over AIG Bank Polska S.A as well as subsequent restructuring actions which have taken place in 2013 (e.g. restructuring of business transferred from Santander Consumer Finanse S.A.). Key assumptions of the restructuring plan include:

- movement of branches located in Lublin to Wrocław including dismissal and recruitment costs as well as costs of leaving premises occupied;
- liquidation of some bank branches (including those transferred form Santander Consumer Finanse S.A.);
- employment restructuring in the Bank (including group redundancies);
- integration of the IT infrastructure.

The activities resulted in costs incurred by the Bank in 2010–2013.
In 2010-2012 the Bank incurred costs and expenditures related to the restructuring plan and the merger of PLN 91,547,383.
The provision recognized as at the end of the reporting period of PLN 19,103,412 refers to:

- staff restructuring at the Bank (PLN 3,085,757),

- liquidation of the Bank's branches (PLN 13,932,704),
- leaving of the location in Lublin (PLN 2,084,951)

It is forecasted, that cash flows connected to the restructuring provision are probable to occur in significant part in the years 2014-2018.

The provision recognized as at the end of the reporting period in the amount of PLN 20,168,686 refers to:

- staff restructuring at the Bank (PLN 3,264,023),
- liquidation of the Bank's branches (PLN 16,267,971),
- relocation of the head offices of Santander Consumer Bank S.A. (PLN 636,692).

In 2012, the Bank created a provision of PLN 7,672,157 on potential customers' claims related to the risk of recognition of certain clauses occurring in part of the loan agreement forms as violating the interests of consumers

In 2013 provision was increased to the level of PLN 8,140,355. Estimated values and timing of claims resulting in cash outflows are highly uncertain.

| **Change in provisions** | **2013** | **2012** |
|---|---|---|
| **Change in restructuring provision** | | |
| Opening balance | 20,168,686 | 37,349,927 |
| Increases (creation) | 2,258,872 | 3,168,581 |
| Increases (result of business combination) | 4,846,188 | 0 |
| Decreases (release) | 150,000 | 252,558 |
| Decreases (utilization) | 8,020,334 | 20,097,264 |
| Closing balance | 19,103,412 | 20,168,686 |
| | , | , |
| **Change in other provisions** | , | , |
| Opening balance | 7,672,157 | 26,889,134 |
| Increases (creation) | 468,198 | 7,672,157 |
| Decreases (release) | 0 | 26,889,134 |
| Decreases (utilization) | 0 | 0 |
| Closing balance | 8,140,355 | 7,672,157 |

### 34 Subordinated debt

As at 31 December 2013 and 31 December 2012 the Bank took two subordinated loans in the total amount of PLN 150,000,000.

1) in the amount of PLN 100,000,000, based on the agreement from 14 December 2006 concluded with Santander Benelux S.A./NV Rue de La Loi, 227, B-1040 Brussels. Based on Article 137 of the Banking Act and on resolutions of the PFSA, the loan was classified to supplementing funds of the Bank (approval of BSC of 29 December 2006). Pursuant to the loan agreement, the Bank was obliged to make a single repayment of the loan on 14 December 2016. In addition, regardless of other contractual provisions, the Bank is entitled to repay the loan on 14 December 2012 subject to the approval of the Polish Financial Supervision Authority. The lender is not entitled to demand early repayment of the loan. If the loan is repaid on 14 December 2012 or later, the Bank shall not incur any costs related to the early repayment. The loan has a floating interest rate of 6M WIBOR increased by margin of 0.8%.

2) in the amount of PLN 50,000,000, based on the agreement of 13 January 2009 concluded with Santander Benelux S.A./NV Avenue des Nerviens 85, B-1040 Brussels. Based on Article 137 of the Banking Law and on resolutions of the Polish Financial Supervision Authority, the loan was classified to supplementing funds of the Bank. Pursuant to the loan agreement, the Bank is obliged to make a single repayment of the loan on 15 January 2019. The Bank has right of early termination of the subordinated loan in the amount of 50 MPLN. Realization of the Bank's right is

possible in the first quarter of 2014 only after the approval of the Polish Financial Supervision Authority. The lender is not entitled to demand early repayment of the loan. If the loan is repaid on 15 January 2015 or later, the Bank shall not incur any costs related to the early repayment. The loan has a floating interest rate of 6M WIBOR increased by margin of 3.79%.

### 35 Share capital and share premium

| | 2013 | 2012 |
|---|---|---|
| Shares issued as at 1 January | 5,200,000 | 5,200,000 |
| Shares issued as at 31 December | 5,200,000 | 5,200,000 |
| **Share capital** | **520,000,000** | **520,000,000** |
| **Share premium** | **768,047,473** | **768,047,473** |

| Series/issue | Class of shares | Number of shares | Value of series/issue at nominal value | Form of capital injection | Date of registration |
|---|---|---|---|---|---|
| A | preference shares | 322,000 | 32,200,000 | cash | 2001-09-07 |
| B | preference shares | 178,000 | 17,800,000 | cash | 2003-01-31 |
| C1 | preference shares | 540,001 | 54,000,100 | cash | 2005-07-28 |
| C2 | non-preference shares | 59,999 | 5,999,900 | cash | 2005-07-28 |
| D | non-preference shares | 600,000 | 60,000,000 | cash | 2006-01-02 |
| E | non-preference shares | 500,000 | 50,000,000 | cash | 2006-08-11 |
| F | non-preference shares | 775,000 | 77,500,000 | cash | 2006-10-26 |
| G | non-preference shares | 225,000 | 22,500,000 | cash | 2008-05-28 |
| H | non-preference shares | 200,000 | 20,000,000 | cash | 2008-10-14 |
| I | non-preference shares | 112,000 | 11,200,000 | cash | 2009-06-22 |
| J | non-preference shares | 128,000 | 12,800,000 | cash | 2009-09-09 |
| K | non-preference shares | 1,560,000 | 156,000,000 | contribution in kind | 2010-07-07 |
| **Total number of shares** | | **5,200,000** | | | |
| **Total share capital** | | | **520,000,000** | | |
| **Nominal value per share: 100.00** | | | | | |

Share capital is presented at nominal value of issued and registered shares. As at 31 December 2013, the Bank's share capital amounted to PLN 520,000,000 and was divided into 5,200,000 shares of equal nominal value of PLN 100.00 each. Shares of the Bank are ordinary registered shares with various degree of preference. As at 31 December 2013, the Bank held no own shares.

Series A, B and C1 are preference shares, which means each of them is entitled to two votes during the Bank's General Shareholders' Meeting.

### 36 Other reserves

| Other reserves | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Other supplementary capital | 493,842,908 | 361,369,709 |
| Revaluation reserve | -10,451,672 | -5,094,031 |
| **Total** | **483,391,236** | **356,275,678** |

| Other supplementary capital | 2013 | 2012 |
|---|---|---|
| **Opening balance** | **361,369,709** | **33,188,777** |
| Increases due to transfer of net profit | 132,473,199 | 328,180,932 |
| **Closing balance** | **493,842,908** | **361,369,709** |

Other supplementary capital comprises the portion of the Bank's statutory supplementary capital which was created by means other than share premium.

The balance is made up of profits generated in prior periods.

The increases recognized in 2013 were related to the transfer of part of the net profit for previous year to the supplementary capital.

| Revaluation reserve | 2013 | 2012 |
|---|---|---|
| **Opening balance** | **-5,094,031** | **177,858** |
| Changes due to: | | |
| – valuation of financial assets available for sale | -7,132,757 | 435,616 |
| – recognition of the effective portion of cash flow hedging instruments' revaluation | 518,385 | -6,938,417 |
| –deferred tax | 1,256,731 | 1,230,912 |
| **Closing balance** | **-10,451,672** | **-5,094,031** |

The revaluation reserve refers to the valuation of assets available for sale and derivatives designated as hedging instruments in the cash flow hedge accounting.

The changes in the value of the revaluation reserve in 2013 and 2012 resulted from the changes in the valuation of those instruments as well as concluded new transactions and closing of transactions.

### 37 Retained earnings and dividends

| | 31.12.2013 | 31.12.2012 (restated) |
|---|---|---|
| **Retained earnings** | **382,480,546** | **768,433,936** |

| | 31.12.2013 | 31.12.2012 (restated) |
|---|---|---|
| **Opening balance before the change in accounting policies** | **768,433,936** | **593,204,122** |
| Adjustments related to the change in accounting policies | 0 | -29,893,924 |
| **Opening balance after the change in accounting policies** | **768,433,936** | **563,310,198** |
| Net profit attributable to shareholders | 449,352,241 | 533,304,670 |
| Dividend payments | -662,442,788 | 0 |
| Result of business combination | -40,389,644 | 0 |
| Transfer of profit to supplementary capital | -132,473,199 | -328,180,932 |
| **Closing balance** | **382,480,546** | **768,433,936** |

On 28 June 2013 and 26 July 2013 the Bank's shareholders were paid dividend of PLN 397,419,598 (PLN 76,43 per 1 share) from the profit of 2012 and PLN 265,023,190 (PLN 50,97 per 1 share) respectively, in relation to the profit recognized in 2010 from the merger of the Bank with AIG Bank Polska S.A. In 2012, the dividend was not paid out.

The Bank's Management Board proposes to cover previous years losses from the current net profit. The remaining part of the net profit is proposed to be paid out as dividend for shareholders. The dividend has to be approved by the shareholders at the General Shareholders' Meeting and was not included in the liabilities in the current financial statements. Proposed dividend would be paid out to all shareholders of Bank. The payment of the dividend will not have any tax consequences for the Bank.

### 38 Contingent liabilities

The Bank's contingent liabilities include obligations to grant loans. These obligations consist of approved but unused credit lines and mortgage loans as well as unused credit card limits. The Bank also provided guarantees to borrowers using operating loans.

| **Off-balance sheet financial liabilities** | 31.12.2013 | 31.12.2012 |
|---|---|---|
| Open but unused credit lines | 244,044,017 | 212,966,657 |
| Credit card limits | 172,295,906 | 129,229,577 |
| Granted guarantees | 223,186,800 | 5,421,857 |
| Other | 0 | 80,000 |

In 2013 Bank granted guarantee of credit receivables repayment amounting to PLN 215,000,000 to Santander Consumer Multirent sp. z o.o.

The information about liabilities due to credit lines has been presented in Note 28 of these financial statements.

The Bank has been provided by Santander Consumer Finance S.A. with a guarantee of the issuance of debt securities. The guarantee amounted to PLN 2,000,000,000 as at 31 December 2013 and 31 December 2012.

In 2013 Bank was granted with guarantee of credit receivables payoff amounting to 160,000,000

### 39 Assets pledged as collateral

The Bank has no assets pledged as collateral for liabilities or contingent liabilities, except for treasury bills covering the Bank Guarantee Fund and bonds pledged as collateral due to repo transactions (Note 19).

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

| | **2013** | **2012** |
|---|---|---|
| **Remuneration of the Management Board** | | |
| – basis remuneration | 5,485,766 | 5,801,525 |
| – bonus paid | 2,104,547 | 3,153,369 |
| – shares | 146,799 | 234,026 |
| – employee benefits | 70,742 | 66,006 |
| – holiday equivalent | 26,268 | 214,635 |
| – severance pay | 0 | 41,690 |
| – sick leave | 3,387 | 3,840 |
| – other | 926,084 | 1,729,143 |
| **Total remuneration** | **8,763,593** | **11,244,234** |
| **Social Security health care allowance** | **0** | **22,398** |
| **Total** | **8,763,593** | **11,266,632** |
| **Charges** | **352,263** | **292,400** |
| | | |
| **Remuneration of the Supervisory Board** | **443,404** | **447,160** |

*Shares* include the costs of share-based payments under the long-term incentive plan.

| | **31.12.2013** | **31.12.2012** |
|---|---|---|
| Receivables due to loans granted to Members of the Management Board | 633,018 | 641,678 |

### 41 Additional explanations to the statement of cash flows

The Bank classified the following financial assets with maturity up to three months to cash and cash equivalents for the purpose of the statement of cash flows:

| | **31.12.2013** | **31.12.2012** |
|---|---|---|
| Cash and balances with the Central Bank | 254,064,109,00 | 707,544,096,00 |
| Checking accounts | 5,353,952,00 | 8,842,917,00 |
| Term deposits and margin deposits (without interest) | 250,000,000,00 | 525,817,640,00 |
| **Total** | **509,418,061,00** | **1,242,204,653,00** |

For the purpose of statement of cash flows, the following business activity classification was applied:

- operating activity – including the core business activity related to providing services by the Bank, including activities aimed at profit generation and not classified as investment or financial ones. Change in other assets was included under "other adjustments" of the cash flows from operating activity;

- investing activity – including activities related to acquisition and disposal of non-current assets, and in particular financial assets not classified as held for trade, shares in controlled entities, as well as property, plant and equipment and intangible assets;
- financing activity – including activities related to obtaining funds in the form of capital or liabilities, as well as servicing the funding sources.

Following the acquisition of Santander Consumer Finanse S.A. the Bank has acquired cash in the amount of PLN 9,682,915 in 2013.

Additional explanations for items of statement of cash flows are presented below:

| **Profit/(loss) on investing activity** | **2013** | **2012** |
|---|---|---|
| Value of fixed assets and intangible assets sold or liquidated | 3,111,596 | 4,728,274 |
| Revenue from sale of fixed and intangible | -1,674,470 | -2,693,447 |
| **(Profit)/loss on investing activity** | **1,437,126** | **2,034,827** |

| **Tax paid** | **2013** | **2012** |
|---|---|---|
| Current tax prepayments | -60,721,067 | -31,936,861 |
| Previous year tax clearance | -47,742,277 | -27,453,900 |
| Adjustments to income tax for previous years | 0 | -118,922 |
| **Tax paid** | **-108,463,344** | **-59,509,683** |

| **Change in liabilities from banks** | **2013** | **2012** |
|---|---|---|
| Balance sheet change in receivables from banks not constituting cash | -289,570,761 | 304,724,802 |
| **Change in liabilities from banks** | **-289,570,761** | **304,724,802** |

| **Change in liabilities from credits and loans granted to clients** | **2013** | **2012** |
|---|---|---|
| Balance sheet change in receivables from credits and loans granted to clients | -2,337,625,617 | 2,508,981,594 |
| Result of business combination | 1,833,482,732 | 0 |
| **Change in liabilities from credits and loans granted to clients** | **-504,142,885** | **2,508,981,594** |

| **Change in liabilities towards banks** | **2013** | **2012** |
|---|---|---|
| Balance sheet change in liabilities due to banks | 1,665,612,632 | -3,914,605,352 |
| Result of business combination | -1,879,000,000 | 0 |
| **Change in liabilities towards banks** | **-213,387,368** | **-3,914,605,352** |

| **Change in other liabilities** | **2013** | **2012** |
|---|---|---|
| Balance sheet change in other liabilities | 25,308,453 | 17,529,590 |
| Result of business combination | -61,102,051 | 0 |
| Change in other liabilities due to income tax payments | 108,463,344 | 59,509,683 |
| **Change in other liabilities** | **72,669,746** | **77,039,273** |

| **Change in prepayments and accruals** | **2013** | **2012 (Restated)** |
|---|---|---|
| Balance sheet change in deferred tax assets | -22,797,027 | 47,774,880 |
| Result of business combination | 32,756,377 | 0 |
| Balance sheet change in prepayments | 5,225,632 | -10,349,770 |
| Balance sheet change in accruals | 124,782,837 | -15,710,704 |
| **Change in other assets** | **139,967,819** | **21,714,406** |

| **Change in other assets** | **2013** | **2012** |
|---|---|---|
| Balance sheet change in other assets | -1,875,613 | 7,294,919 |
| Result of business combination | 12,484,061 | 0 |
| Adjustments resulting from sale of impaired credit receivables | -33,514,587 | -33,000,000 |
| Adjustments resulting from receipt of property, plant and equipment from the warehouse | -327,683 | -284,205 |
| **Change in other assets** | **-23,233,822** | **-25,989,286** |

| **Valuation of derivatives through profit and loss** | **2013** | **2012** |
|---|---|---|
| Balance sheet change in hedging derivatives | 33,617,620 | -71,643,905 |
| Valuation of derivatives through revaluation reserve | -5,725,546 | -5,679,489 |
| **Valuation of derivatives through profit and loss** | **27,892,074** | **-77,323,394** |

| **Other amendments** | **2013** | **2012** |
|---|---|---|
| Balance sheet change in impairment of intangible assets | 11,998,771 | -443,245 |
| Balance sheet change in impairment of property, plant and equipment | 241,015 | 125,926 |
| Other balance sheet changes in fixed and intangible assets | 180,090 | 0 |
| Balance sheet change in impairment of stocks and shares | 17,666,992 | 0 |
| Other | 0 | 23,979 |
| **Other amendments** | **30,086,868** | **-293,340** |

## 42 Related party transactions

Santander Consumer Bank S.A. is the parent to AKB Marketing Services Sp. z o.o. and Santander Consumer Mutirent Sp. z o.o., Santander Consumer Finanse S.A. and Banco Santander Central Hispano S.A. is the ultimate parent. The direct parent for Santander Consumer Bank S.A. is Santander Consumer Finance S.A.

The transactions between the Bank and related parties were standard transactions carried out in ordinary operating activities and were on arm's-length conditions. They include mainly loans, expenditure to implement and service IT systems and other IT services. Value of the transactions with related parties, balances of individual items of the statement of financial position as at the end of the reporting period and related expenses and revenue for the financial year are presented in tables below.
The Bank bought intangible assets from ISBAN Ingenieria de Software Bancario, S.L., and the value of those transactions in 2013 and 2012 was equal to PLN 8,341,034 and PLN 11,353,807 and PLN respectively. Bank did not impair any receivables from related parties except statistical IBNR impairment for receivables due to loans with no impairment identified.

**2013**

| Related party transactions | Revenue | Expenses | Receivables | Liabilities |
|---|---|---|---|---|
| **Santander Consumer Finance S.A. (Spain)** | **12,337,738** | **16,660,462** | **540,352,029** | **1,004,460,591** |
| (parent) | | | | |
| deposits | 0 | 0 | 540,000,000 | 0 |
| liabilities due to repo transactions | 0 | 0 | 0 | 990,271,389 |
| interest | 12,337,738 | 14,324,013 | 352,029 | 14,189,202 |
| securities issue guarantees | 0 | 2,336,449 | 0 | 0 |
| **Santander Consumer Multirent Sp. z o.o**. | **3,833,528** | **5,725,901** | **88,685,342** | **16,436** |
| (subsidiary) | | | | |
| loans | 0 | 0 | 88,000,000 | 0 |
| Interest | 2,410,937 | 50,656 | 119,684 | 0 |
| promotion campaigns | 14,850 | 0 | 0 | 0 |
| BIK services | 22,932 | 0 | 0 | 0 |
| rent | 37,667 | 28,280 | 0 | 0 |
| advisory services | 661,484 | 0 | 123,984 | 0 |
| car lease | 0 | 5,029,675 | 0 | 16,436 |
| network traffic management | 22,792 | 0 | 0 | 0 |
| license fee | 541,630 | 0 | 441,674 | 0 |
| disposal of fixed assets | 118,188 | 0 | 0 | 0 |
| car insurance | 0 | 351,610 | 0 | 0 |
| SCB fleet management | 0 | 265,680 | 0 | 0 |
| Other | 3,048 | 0 | 0 | 0 |
| **AKB Marketing Services Sp. z o.o.** | **0** | **1,175,947** | **0** | **28,250,216** |
| (subsidiary) | | | | |
| deposits | 0 | 0 | 0 | 28,100,000 |
| Interest | 0 | 997,395 | 0 | 150,216 |
| license fee | 0 | 178,552 | 0 | 0 |

| | | | | |
|---|---|---|---|---|
| **Bank Zachodni WBK S.A.** | **58 694 420** | **23 947 479** | **32 551 975** | **707 689 765** |
| (entity from Santander Group) | | | | |
| clearing accounts | 0 | 0 | 250,736 | 0 |
| deposits | 0 | 0 | 0 | 30,554,200 |
| loans | 0 | 0 | 0 | 676,320,000 |
| Interest | 332,863 | 4,509,575 | 0 | 585,175 |
| derivatives | 58,084,670 | 18,355,821 | 32,301,239 | 170,082 |
| currency exchange | 276,887 | 0 | 0 | 0 |
| fees and commissions for managed accounts | 0 | 2,693 | 0 | 0 |
| credit card services | 0 | 151,335 | 0 | 60,308 |
| rental of server space | 0 | 817,355 | 0 | 0 |
| advisory services | 0 | 110,700 | 0 | 0 |
| **ISBAN Ingenieria de Software Bancario, S.L. (Spain)** | **0** | **6,721,327** | **0** | **0** |
| (entity from Santander Group) | | | | |
| IT services | 0 | 6,721,327 | 0 | 0 |
| **Produban Servicios Informáticos Generales, S.L. (Spain)** | **0** | **2,896,243** | **0** | **0** |
| (entity from Santander Group) | | | | |
| IT services | 0 | 2,817,722 | 0 | 0 |
| clearing services | 0 | 78,521 | 0 | 0 |
| **Santander Benelux S.A. (Belgium)** | **0** | **25,803,040** | **0** | **655,162,518** |
| (entity from Santander Group) | | | | |
| loans | 0 | 0 | 0 | 500,000,000 |
| subordinated loan | 0 | 0 | 0 | 150,000,000 |
| interest | 0 | 25,803,040 | 0 | 5,162,518 |
| **Santander Consumer Finanse S.A.** | **55,216,208** | **9,780,650** | **106,580** | **169,776,313** |
| (Subsidiary) | | | | |
| deposits | 0 | 0 | 0 | 169,000,000 |
| checking accounts | 0 | 0 | 0 | 716,919 |
| interest | 681,605 | 2,533,721 | 0 | 55,142 |
| commissions and fees on financial operations | 664,877 | 0 | 0 | 0 |
| marketing campaigns | 225,051 | 138,137 | 103,235 | 0 |
| rent | 706,299 | 4,303 | 3,345 | 0 |
| car rent | 13,515 | 25,817 | 0 | 0 |
| Rent of posts | 598,178 | 0 | 0 | 0 |
| license fees | 1,967,518 | 0 | 0 | 0 |
| Microsoft license | 0 | 251,554 | 0 | 0 |

| | | | | |
|---|---|---|---|---|
| K2000 sub-license | 0 | 344,400 | 0 | 0 |
| IT systems (rent) | 2,954,147 | 0 | 0 | 0 |
| agency agreement | 44,781,374 | 5,874,884 | 0 | 0 |
| advisory services | 2,578,956 | 352,568 | 0 | 0 |
| debt collection | 0 | 76,687 | 0 | 0 |
| disposal of fixed assets | 17,218 | 0 | 0 | 0 |
| purchase of fixed assets | 0 | 5,190 | 0 | 0 |
| IT services | 0 | 109,302 | 0 | 0 |
| other | 27,470 | 64,087 | 0 | 4,252 |
| **GESBAN Servicios Administrativos Globales S.L Sp. z o.o. (Poland)** | **28,621** | **0** | **0** | **0** |
| (entity from Santander Group) | | | | |
| rent of posts | 28 404 | 0 | 0 | 0 |
| reinvoicing | 217 | 0 | 0 | 0 |
| **Santander Global Facilities S.L.** | **0** | **268 830** | **0** | **0** |
| (entity from Santander Group) | | | | |
| advisory services | 0 | 268,830 | 0 | 0 |
| **Santander Operaciones Retail S.A. (Spain)** | **0** | **292,740** | **0** | **0** |
| (entity from Santander Group) | | | | |
| IT services | 0 | 292,740 | 0 | 0 |
| **Aquanima Ibérica de Compras Corporativas S.L. (Spain)** | **0** | **210,117** | **0** | **0** |
| (entity from Santander Group) | | | | |
| commission on tender for communication services | 0 | 210,117 | 0 | 0 |
| **Banco Santander Central Hispano S.A. (Spain)** | **4,132** | **2,147,792** | **0** | **0** |
| (ultimate parent company) | | | | |
| employment costs | 0 | 2,147,792 | 0 | 0 |
| other | 4,132 | 0 | 0 | 0 |

**2012**

| Related party transactions | Revenue | Expenses | Receivables | Liabilities |
|---|---|---|---|---|
| **Santander Consumer Finance S.A. (Spain)** | **28,539,219** | **1,293,562** | **525,728,474** | **0** |
| (parent) | | | | |
| deposits | 0 | 0 | 525,000,000 | 0 |
| interest | 28,539,219 | 0 | 728,474 | 0 |
| securities issue guarantees | 0 | 1,293,562 | 0 | 0 |

| | | | | |
|---|---|---|---|---|
| **Santander Consumer Multirent Sp. z o.o.** | **5,354,180** | **4,431,019** | **85,955,138** | **118,211** |
| (subsidiary) | | | | |
| loans | 0 | 0 | 85,523,250 | 0 |
| Interest | 4,270,165 | 16,484 | 145,272 | 0 |
| promotion campaigns | 7,891 | 0 | -23,616 | 0 |
| rent | 97,647 | 311,080 | 1,763 | 0 |
| advisory services | 101,300 | 0 | 0 | 0 |
| license fees | 829,431 | 0 | 307,629 | 0 |
| car lease | 0 | 4,101,508 | 0 | 118,211 |
| office equipment | 1,018 | 0 | 0 | 0 |
| network traffic management | 21,979 | 0 | 0 | 0 |
| BIK services | 12,614 | 0 | 0 | 0 |
| other | 12,135 | 1,947 | 840 | 0 |
| **AKB Marketing Services Sp. z o.o.** | **0** | **1,841,293** | **0** | **27,410,493** |
| (subsidiary) | | | | |
| deposits | 0 | 0 | 0 | 27,147,409 |
| Interest | 0 | 1,305,638 | 0 | 263,084 |
| license fee | 0 | 535,655 | 0 | 0 |
| **Bank Zachodni WBK S.A.** | **65,764,209** | **12,333,110** | **75,250,221** | **82,988,513** |
| (entity from Santander Group) | | | | |
| clearing accounts | 0 | 0 | 3,719,476 | 0 |
| deposits | 0 | 0 | 0 | 80,774,900 |
| Interest | 148,558 | 2,706,198 | 0 | 325,527 |
| derivatives | 65,615,651 | 8,771,907 | 71,530,745 | 1,888,086 |
| fees and commissions for managed accounts | 0 | 2,879 | 0 | 0 |
| credit card services | 0 | 182,469 | 0 | 0 |
| rental of server space | 0 | 669,657 | 0 | 0 |
| **ISBAN Ingenieria de Software Bancario, S.L. (Spain)** | **0** | **3,721,928** | **0** | **83,163** |
| (entity from Santander Group) | | | | |
| IT services | 0 | 3,721,928 | 0 | 83,163 |
| **Produban Servicios Informáticos Generales, S.L. (Spain)** | **0** | **2,078,165** | **0** | **0** |
| (entity from Santander Group) | | | | |
| IT services | 0 | 2,078,165 | 0 | 0 |

| | | | | |
|---|---|---|---|---|
| **Santander Benelux S.A. (Belgium)** | **0** | **64,006,302** | **0** | **497,114,950** |
| (entity from Santander Group) | | | | |
| loans | 0 | 0 | 0 | 338,680,000 |
| subordinated loan | 0 | 0 | 0 | 150,000,000 |
| interest | 0 | 64,006,302 | 0 | 8,434,950 |
| **Santander Consumer Finanse S.A.** | **72,037,500** | **3,978,715** | **6,993,128** | **53,583,512** |
| (entity from Santander Group) | | | | |
| deposits | 0 | 0 | 0 | 48,000,000 |
| checking accounts | 0 | 0 | 0 | 5,577,641 |
| interest | 0 | 2,555,420 | 0 | 5,871 |
| commissions and fees on financial operations | 100,923 | 0 | 11,210 | 0 |
| K2000 sub-license | 0 | 516,600 | 0 | 0 |
| use of trademark | 0 | 45,364 | 0 | 0 |
| advisory services | 4,470,306 | 229,709 | 0 | 0 |
| recovery of debts | 0 | 90,204 | 0 | 0 |
| Microsoft license | 0 | 263,756 | 0 | 0 |
| rent | 739,536 | 0 | 6,534 | 0 |
| rent of the structural network | 3,401,563 | 0 | 0 | 0 |
| license | 3,350,309 | 0 | 0 | 0 |
| office equipment | 1,112 | 0 | 0 | 0 |
| sale of office equipment | 602,902 | 0 | 0 | 0 |
| rent of posts | 473,839 | 0 | 2,227 | 0 |
| marketing actions | 780,646 | 176,370 | 10,324 | 0 |
| car rent | 172,986 | 0 | 0 | 0 |
| agency agreement | 57,796,028 | 101,292 | 6,962,833 | 0 |
| transfer of documents | 144,300 | 0 | 0 | 0 |
| other | 3,050 | 0 | 0 | 0 |
| **GESBAN Servicios Administrativos Globales S.L. Sp. z o.o. (Poland)** | **26,390** | **0** | **2** | **0** |
| (entity from Santander Group) | | | | |
| rent of posts | 26,390 | 0 | 2 | 0 |
| **Santander Consumer Bank AG (Germany)** | **0** | **77,820** | **0** | **0** |
| (entity from Santander Group) | | | | |
| business trip | 0 | 77,820 | 0 | 0 |
| **Santander Operaciones Retail S.A. (Spain)** | **0** | **675,940** | **0** | **0** |
| (entity from Santander Group) | | | | |
| IT services | 0 | 675,940 | 0 | 0 |

| | | | | |
|---|---|---|---|---|
| **Santander Consumer Bank A.S. (Norway)** | **0** | **44,308** | **0** | **0** |
| (entity from Santander Group) | | | | |
| business trip | 0 | 44,308 | 0 | 0 |
| **BZ WBK Nieruchomości Kłecko S.A.** | **0** | **450** | **0** | **0** |
| (entity from Santander Group) | | | | |
| business trips | 0 | 450 | 0 | 0 |
| **Aquanima Ibérica de Compras Corporativas S.L. (Spain)** | **0** | **260,193** | **0** | **0** |
| (entity from Santander Group) | | | | |
| commission on purchase of computers | 0 | 260,193 | 0 | 0 |
| **Banco Santander Central Hispano S.A. (Spain)** | **0** | **229,822** | **0** | **0** |
| (ultimate parent company) | | | | |
| employment costs | 0 | 229,822 | 0 | 0 |
| **Żagiel S.A.** | **57,567** | **482,304** | **0** | **445,871** |
| (entity from Santander Group) | | | | |
| deposits | 0 | 0 | 0 | 440,000 |
| interest | 0 | 60,980 | 0 | 5,871 |
| sale of property, plant and equipment | 57,567 | 0 | 0 | 0 |
| financial mediation | 0 | 421,324 | 0 | 0 |

Transactions with the Board of Directors and the Supervisory Board are presented in Note 40.

## 43 Credit risk

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| **Exposures with triggers of impairment, recognized impairment and impairment loss** | **1,551,478,372** | **1,700,464,418** |
| **Exposures with triggers of impairment, but no impairment loss recognized, including:** | **37,370** | **22,379** |
| – exposures with collaterals included in discounted future cash flows | 0 | 0 |
| – past-due repayment of principal and interests | 37,370 | 22,379 |
| **Exposures with no impairment triggers /events resulting in a loss** | **11,690,371,434** | **9,392,226,284** |

Data concerning value of impaired financial assets assessed individually or collectively as well as data concerning the overdue structure of the portfolio categorized by the period of their being overdue are presented In Note 21.

The main business objective of the Bank in terms of the credit policy is to carry out the Strategy of the Bank and the Risk Management Strategy, which assumes maintaining the same level of risk, so that there is the right balance between the income of the Bank and the expenses related to the materialization of the risk and to ensure the safety of the Bank's deposits.
The detailed objective is to reach the credit risk ratios assumed in the budget.
The Bank carries out the aforementioned objectives by:

- implementing procedures which ensure loan granting is in line with the safety principles, which will guarantee repayment and management of outstanding;
- adjusting the price and marketing policy of the Bank in order to maintain the assumed sales and profitable allocation of funds in the credit portfolio;
- ensuring that information provided to Applicants and Customers is clear, unambiguous and comprehensible;
- following the principles of professionalism, reliability, due diligence and best knowledge in relationships with Applicants and Customers.

When performing and defining the aforementioned objectives, the Bank follows the rules of acceptable credit risk (risk appetite) defined in the Risk Management Strategy and determined by the Management Board and the Supervisory Board.
Credit policy compliance monitoring is carried out on an ongoing basis and reports are prepared on daily and monthly basis. The Management Board and the Supervisory Board are provided with information and reports by competent Bank units using management reporting systems, which allows for appropriate management of the Bank's operations. Appropriate information is provided before Meetings of the Management Board.
In launching new credit products and modifying the existing ones or related approval principles, the Bank strives to accurately assess the impact of the changes on the credit risk based on historical data and expertise. If the Bank is unable to assess the impact on the risk it applies limited sample test methods.

The Bank grants loans to the following entities:

- households (car loans, cash loans and credit cards);
- enterprises (cars loans, operating loans);

The aforementioned entities are registered in Poland, their permanent or temporary residence address is in Poland or they have a permanent or temporary residence permit. The Bank may provide credit financing to entities generating revenue abroad in cases stipulated in credit instructions.
The Bank offers business loans for car dealers, the Bank's business partners (revolving and short-term) and financial partners (working capital loan and investment loan).

The Bank offers loans denominated in PLN only. In the past, the Bank used to extend FX denominated loans (CHF, USD, EUR), hence now it manages a credit portfolio with such exposures.
The Bank offers long-, mid- and short-term loans. The maximum tenors are specified in the credit instructions.

Risk management system includes:

- portfolio diversification;
- centralized decision process;
- internal debt concentration limits;
- acceptance and monitoring of collateral;
- internal review of receivables;
- strict rules for the recognition of provisions;
- monitoring of risk level indicators;
- monitoring of repayments, debt recovery and debt restructuring;
- stress testing.

The Bank defined the following concentration limits:

- the total exposure of the Bank to its related parties cannot exceed 25% of its equity;
- the total exposure of the Bank in a different domestic bank, credit institution, foreign bank or a group of related entities comprising at least one domestic bank, credit institution or foreign bank cannot exceed 50% of the Bank's equity and cannot exceed EUR 150 million, calculated in PLN at the average exchange rate published by the National Bank of Poland, valid on the last reporting day
- the total exposure of the Bank to all related parties form the group of capital or organizational related parties, comprising at least one domestic bank, credit institution or foreign bank cannot exceed 25% of the Bank's equity.

| **Allowed limits** | **2013** | **2012** |
|---|---|---|
| Limits concerning large exposures to another domestic bank, credit institution, foreign bank or group of related parties comprising at least one domestic bank, credit institution or foreign bank (50% or EUR 150 million, whichever is lower) | 649,380,000 | 639,195,000 |
| Limits concerning large exposures to related party/parties (25%) | 434,377,566 | 420,363,432 |

At 31 December 2013 and 31 December 2012 none of above-mentioned limits were exceeded. Maximal exposure due to a group of related parties was respectively PLN 34,815,167 and PLN 51,652,192 (sum of balance and off-balance exposures).

The other concentration limits concern:

1) involvement in Bank's products;
2) regional division;
3) distribution channel;
4) share of car loans in new production;
5) client's/group of closely related clients involvement;
6) involvement in clients mentioned in Article 79a of the Banking Law.

The following table presents the distribution of involvement in particular regions. As at 31 December 2013 and 31 December 2012, there was no significant concentration in any of the regions. The table presents gross values of loans granted to clients.

| **Region** | **31.12.2013** | **%** | **31.12.2012** | **%** |
|---|---|---|---|---|
| Central | 2,563,212,117 | 19.36% | 2,127,053,475 | 19.18% |
| South-West | 1,563,445,014 | 11.81% | 1,252,450,798 | 11.29% |
| South | 2,317,951,946 | 17.50% | 2,179,514,505 | 19.65% |
| North | 2,171,995,532 | 16.40% | 1,774,125,510 | 15.99% |
| North-West | 2,617,306,375 | 19.77% | 2,129,328,227 | 19.20% |
| East | 1,491,610,771 | 11.26% | 1,112,989,735 | 10.03% |
| No data | 516,365,421 | 3.90% | 517,250,831 | 4.66% |
| **Total** | **13,241,887,176** | **100.00%** | **11,092,713,081** | **100,00%** |

Operating limits include:

1) Level of overdue exposures – early delays;
2) Potential maximum level of lost loans;
3) Average level of collateral recovery;
4) Average probability of non-fulfillment of the obligation by debtors.

The loans (except for operating loans) are collateralized with:

- partial transfer of ownership of a vehicle;
- transfer of ownership to a vehicle with a condition precedent and depositing of the vehicle history card;
- insurance (in particular: assignment of real property insurance, naming the Bank as the first beneficiary in a life insurance and/or employment insurance or temporary inability to work, bridging insurance – insurance against non-payment of the loan until the mortgage lien was established, assignment of a comprehensive insurance of a transferred vehicle);
- mortgage lien on real property;
- blank promissory note;
- bill-of-exchange guarantee;
- civil law guarantee;
- transfer of receivables due to payments to the construction of a facility / single-family house;
- authorization to debit the borrower checking account;
- blockade on the term deposit account;
- other (rarely used), mentioned in credit instructions or accepted by the Management Board.

For operating loans, collateral includes:

- transfer of ownership of a variable car stock, in particular a car stock financed by the Bank;
- transfer of ownership of a variable car stock with a rental or lease option with transfer of receivables arising from the rental or lease agreements;
- registered pledge on a variable car stock;
- in case of financing/refinancing cars with vehicle history cards, depositing with the Bank vehicle history cards of cars whose purchase is financed/refinanced by the Bank;
- assignment of insurance of a car stock included into the ownership transfer agreement or an agreement regarding establishment of a registered pledge;
- assignment of a comprehensive motor insurance of cars registered as owned by the debtor or their customers, whose purchase is financed/refinanced by a loan granted by the Bank;
- blank promissory note;
- bill-of-exchange guarantee or civil law guarantee, in particular by the owners or members of the management board of the borrower as well as their spouses (joint marital property);
- real estate mortgage lien and transfer of rights arising from the insurance policy;
- blockade of receivables due to disbursement of installment loans for business partners,
- blockade on the term deposit account.

| **Value of collaterals granted by the Bank** | **31.12.2013** | **31.12.2012** |
|---|---|---|
| Mortgage collateral | 10,929,905,046 | 11,667,126,970 |
| Car loans collateral | 2,043,413,417 | 2,556,997,610 |
| Operational loans collateral | 36,034,454 | 36,732,174 |
| **Total** | **13,009,352,917** | **14,260,856,754** |

## 44 Operational risk

Operational risk is a probability of loss resulting from poor performance or low reliability of internal processes, people and systems, or from external events, including legal risk.

Regulations on operational risk adopted in Santander Consumer Bank S.A. are based on:

- the Banking Act of 29 August 1997;
- the resolution of the PFSA Resolution No. 76 of 10 March 2010 and No. 383 of 17 December 2008;
- the Recommendation M of the PFSA of 8 January 2013
- corporate policies of the Santander Group concerning operational risk and business continuity policy, including:
    a) Management Framework for Technological and Operational Risk, July 2008;
    b) Corporate Policy Manual for Technological and Operational Risk, March 2010;
    c) Business Continuity Policy for Santander Group, January 2008.

At the date of preparation of this financial statement the Bank used standard method for calculation the capital adequacy ratio for operating risk, accordingly to the PFSA Resolution No. 76 dated 10 March 2010. On 1 December 2013 due to fulfilment of requirements indicated in §16 of attachment nr 14 of objective resolution The Bank's Management Board made a decision to change method of capital adequacy calculation from BIA to standard method. Due to change of method the Bank's business activities were divided into two business lines and products have been assigned as follows:

1. Retail Banking:
    - Credit cards;
    - Installment loans;
    - Cash loans;
    - Mortgage loans;
    - Car loans for retail clients;
    - Deposits from retail clients.

2. Commercial banking:
    - Corporate loans;
    - Car loans for corporate clients;
    - Deposits from corporate clients.

The operational risk management and control system in Santander Consumer Bank S.A. covers all organizational units of the Bank and its subsidiaries. In relation to operational risk, Bank separated its risk management and risk control functions. This approach allows appropriate combination and development of quality- and quantity-based assessment methods for operational risk in process of controlling this risk, and ensures independent measurement and reporting of operational risk. At the same time, supervision of operational risk lies with the operational risk management function, in particular through the use of means and methods of its mitigation, rejection or transfer.

The Management Board is responsible for supervision of operational risk management in Santander Consumer Bank S.A.
The Operational Risk Management Department Head is in charge of operational risk management in Santander Consumer Bank S.A. His responsibilities include: development of policy, procedures and methodologies, as well as preparation of reports for the Management Board of the Bank and of the Santander Group. Operational Risk Coordinators are appointed for specific banking activity areas (business units). Their tasks include an on-going review of operational risk events observed in their units and submitting information about the risk measures.

Because of the product and organization characteristics as well as the level of operational losses incurred, the Bank considers the following business areas as those generating operational risk:

1. counteracting external fraud;
2. products and the risk of their impact the relations with supervisory bodies and clients;
3. IT systems and their influence on the Bank's functioning;
4. outsourcers' activity, namely tasks performed by them for of the Bank.

The basic tools for measuring the operational risk level in the Bank include:

- operational events database;
- self-assessment of business areas;
- self-assessment of risks in business sub-processes;
- key operational risk indicators (KRI).

In order to limit the operational risk exposure, the Bank applies recovery proceedings, mitigation plans and risk transfer via insurance.

### 45 Management of assets and liabilities

Market risk management and liquidity risk management are performed on the management and operational level. Risk management policy and reporting systems are consistent with Santander Group's practices and recommendations of the Banking Supervision. The Management Board is responsible for introduction and execution of the policies and procedures. The following organizational units of the Bank take part in the process or risk management:

- Management Board;
- Assets and Liabilities Management Committee (ALCO);
- Financial Management Division (Treasury);
- Market Risk Department.

The Financial Management Division performs operating activities connected with risk management. In particular, the Treasury Department manages current liquidity of the Bank within the granted limits. Tasks connected with control and monitoring of the risk level are separated and performed by the Market Risk Department and ALCO. Strategic decisions concerning market and liquidity risks are made by the Management Board, based on the recommendation of ALCO.

The Bank does not conduct trading activities. The financial risk of the Bank stems solely from its banking activities and is comprised of:

- liquidity risk;
- interest rate risk;
- currency risk.

Risk is managed using the monitoring system, limits and stress tests. Limits are approved by the Management Board based on the recommendation of ALCO. The key elements of the risk management system include:

- VAR (Value-at-Risk) limit for currency risk and interest rate risk;
- stress tests for interest rate, currency and liquidity risks.

**Value-at-Risk Methodology (VaR)**

VaR (Value at Risk) represents the potential loss that should not be exceeded assuming a certain level of confidence (probability) and the holding period. The Bank calculates VaR levels for portfolios of interest rate and currency position. VaR for interest rate is calculated assuming 99% confidence level and a one-month holding period. VaR for currency position is calculated assuming 99% confidence level and a 10-day holding period.

**Interest rate risk**

Interest rate risk is measured based on reports on revaluation schedule gaps and VAR. Stress test are also performed. The Bank applies a highly conservative approach to the management of interest rate risk, which consists in aligning the remeasurement structure of liabilities to the current remeasurement structure of assets. The Bank does not use derivatives in the process of interest rate risk management. Interest rate risk expressed as VAR was as follows (the potential impact on the financial result is presented in million PLN resulting from the observed price volatility in the financial markets with the confidence level of 0.99):

| **VAR (Value-at-Risk) for the interest rate** | **2013** | **2012** |
|---|---|---|
| VaR , 1 month horizon – value at 31 December | 6.30 | 7.70 |
| VaR , 1 month horizon – minimal value throughout the year | 4.80 | 3.60 |
| VaR , 1 month horizon – average value in the year | 7.33 | 6.10 |
| VaR, 1 month horizon – maximal value throughout the year | 9.90 | 8.20 |
| Top limit | 25.00 | 25.00 |

Interest rate gap as at 31.12.2013:

- Upside 100 basis points scenario

| | 1M | 3M | 6M | 12M | 2 years |
|---|---|---|---|---|---|
| **Assets:** | **3,988,914,798** | **2,345,333,984** | **4,382,172,375** | **1,384,186,423** | **1,296,524,967** |
| Securities and interbank market | 1,782,628,952 | 0 | 290,000,000 | 0 | 0 |
| Loans granted | 2,206,285,846 | 2,345,333,984 | 4,092,172,375 | 1,384,186,423 | 1,296,524,967 |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Other assets | 0 | 0 | 0 | 0 | 0 |
| **Liabilities:** | **2,969,635,226** | **3,207,492,507** | **2,335,354,772** | **988,720,641** | **1,953,285,815** |
| Interbank market | 1,302,583,845 | 1,270,271,389 | 100,000,000 | 0 | 0 |
| Issuance of shares | 116,000,000 | 719,900,000 | 1,131,600,000 | 3,000,000 | 0 |
| Deposits excluding bank's deposits | 1,551,051,381 | 1,217,321,118 | 1,103,754,772 | 985,720,641 | 1,953,285,815 |
| Equity and other liabilities | 0 | 0 | 0 | 0 | 0 |
| **Off-balance items** | **0** | **-270,528,000** | **270,528,000** | **0** | **0** |
| **Gap** | 1,019,279,572 | -1,132,686,523 | 2,317,345,603 | 395,465,782 | -656,760,848 |
| **Accumulated gap** | 1,019,279,572 | -113,406,951 | 2,203,938,652 | 2,599,404,434 | 1,942,643,586 |

| | 3 years | 4 years | 5 years | >5 years | Non-interest | Total |
|---|---|---|---|---|---|---|
| **Assets:** | **403,548,574** | **206,748,406** | **35,492,286** | **28,221,969** | **192,367,256** | **14,263,511,038** |
| Securities and interbank market | 0 | 0 | 0 | 0 | 5,353,952 | 2,077,982,904 |
| Loans granted | 403,548,574 | 206,748,406 | 35,492,286 | 28,221,969 | 1,580,201,929 | 13,578,716,759 |
| Provisions | 0 | 0 | 0 | 0 | -1,766,670,261 | -1,766,670,261 |
| Other assets | 0 | 0 | 0 | 0 | 373,481,636 | 373,481,636 |
| **Liabilities:** | **50,756,025** | **423,813** | **0** | **0** | **2,757,842,239** | **14,263,511,038** |
| Interbank market | 0 | 0 | 0 | 0 | 0 | 2,672,855,234 |
| Issuance of shares | 0 | 0 | 0 | 0 | 0 | 1,970,500,000 |
| Deposits excluding bank's deposits | 50,756,025 | 423,813 | 0 | 0 | 0 | 6,862,313,565 |
| Equity and other liabilities | 0 | 0 | 0 | 0 | 2,757,842,239 | 2,757,842,239 |
| **Off-balance items** | **0** | **0** | **0** | **0** | 0 | 0 |
| **Gap** | 352,792,549 | 206,324,593 | 35,492,286 | 28,221,969 | -2,565,474,983 | 0 |
| **Accumulated gap** | 2,295,436,135 | 2,501,760,728 | 2,537,253,014 | 2,565,474,983 | 0 | 0 |

- Downside 100 basis points scenario

| | 1M | 3M | 6M | 12M | 2 years |
|---|---|---|---|---|---|
| **Assets:** | **7,462,736,857** | **1,814,948,919** | **3,705,633,141** | **440,907,284** | **386,408,138** |
| Securities and interbank market | 1,782,628,953 | 0 | 290,000,000 | 0 | 0 |
| Loans granted | 5,680,107,904 | 1,814,948,919 | 3,415,633,141 | 440,907,284 | 386,408,138 |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Other assets | 0 | 0 | 0 | 0 | 0 |
| **Liabilities:** | **2,969,635,226** | **3,207,492,507** | **2,335,354,772** | **988,720,641** | **1,953,285,815** |
| Interbank market | 1,302,583,845 | 1,270,271,389 | 100,000,000 | 0 | 0 |
| Issuance of shares | 116,000,000 | 719,900,000 | 1,131,600,000 | 3,000,000 | 0 |
| Deposits excluding bank's deposits | 1,551,051,381 | 1,217,321,118 | 1,103,754,772 | 985,720,641 | 1,953,285,815 |
| Equity and other liabilities | 0 | 0 | 0 | 0 | 0 |
| **Off-balance items** | **0** | **-270,528,000** | **270,528,000** | **0** | **0** |
| **Gap** | 4,493,101,631 | -1,663,071,588 | 1,640,806,369 | -547,813,357 | -1,566,877,677 |
| **Accumulated gap** | 4,493,101,631 | 2,830,030,043 | 4,470,836,412 | 3,923,023,055 | 2,356,145,378 |

| | 3 years | 4 years | 5 years | >5 years | Non-interest | Total |
|---|---|---|---|---|---|---|
| **Assets:** | **138,949,229** | **66,971,712** | **26,405,688** | **28,182,815** | **192,367,255** | **14,263,511,038** |
| Securities and interbank market | 0 | 0 | 0 | 0 | 5,353,952 | 2,077,982,905 |
| Loans granted | 138,949,229 | 66,971,712 | 26,405,688 | 28,182,815 | 1,580,201,929 | 13,578,716,759 |
| Provisions | 0 | 0 | 0 | 0 | -1,766,670,261 | -1,766,670,261 |
| Other assets | 0 | 0 | 0 | 0 | 373,481,635 | 373,481,635 |
| **Liabilities:** | **50,756,025** | **423,813** | **0** | **0** | **2,757,842,239** | **14,263,511,038** |
| Interbank market | 0 | 0 | 0 | 0 | 0 | 2,672,855,234 |
| Issuance of shares | 0 | 0 | 0 | 0 | 0 | 1,970,500,000 |
| Deposits excluding bank's deposits | 50,756,025 | 423,813 | 0 | 0 | 0 | 6,862,313,565 |
| Equity and other liabilities | 0 | 0 | 0 | 0 | 2,757,842,239 | 2,757,842,239 |
| **Off-balance items** | **0** | **0** | **0** | **0** | 0 | 0 |
| **Gap** | 88,193,204 | 66,547,899 | 26,405,688 | 28,182,815 | -2,565,474,984 | 0 |
| **Accumulated gap** | 2,444,338,582 | 2,510,886,481 | 2,537,292,169 | 2,565,474,984 | 0 | 0 |

Interest rate gap as at 31.12.2012:

- Upside 100 basis points scenario

| | 1M | 3M | 6M | 12M | 2 years |
|---|---|---|---|---|---|
| **Assets:** | **3,801,552,995** | **1,763,215,119** | **4,009,780,592** | **715,586,680** | **670,429,949** |
| Securities and interbank market | 1,917,018,158 | 0 | 0 | 0 | 0 |
| Loans granted | 1,884,534,837 | 1,763,215,119 | 4,009,780,592 | 715,586,680 | 670,429,949 |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Other assets | 0 | 0 | 0 | 0 | 0 |
| **Liabilities:** | **1,317,119,284** | **1,544,922,394** | **2,600,230,237** | **2,696,671,800** | **614,468,690** |
| Interbank market | 386,130,442 | 140,000,000 | 488,680,000 | 0 | 0 |
| Issuance of shares | 0 | 229,000,000 | 871,600,000 | 0 | 0 |
| Deposits excluding bank's deposits | 930,988,842 | 1,175,922,394 | 1,239,950,237 | 2,696,671,800 | 614,468,690 |
| Equity and other liabilities | 0 | 0 | 0 | 0 | 0 |
| **Off-balance items** | 0 | -270,944,000 | 270,944,000 | 0 | 0 |
| **Gap** | 2,484,433,711 | -52,651,275 | 1,680,494,355 | -1,981,085,120 | 55,961,259 |
| **Accumulated gap** | 2,484,433,711 | 2,431,782,436 | 4,112,276,791 | 2,131,191,671 | 2,187,152,930 |

| | 3 years | 4 years | 5 years | >5 years | Non-interest | Total |
|---|---|---|---|---|---|---|
| **Assets:** | **260,611,007** | **128,004,347** | **58,345,573** | **46,772,077** | **196,297,286** | **11,650,595,625** |
| Securities and interbank market | 0 | 0 | 0 | 0 | 9,532,712 | 1,926,550,870 |
| Loans granted | 260,611,007 | 128,004,347 | 58,345,573 | 46,772,077 | 1,689,004,514 | 11,226,284,695 |
| Provisions | 0 | 0 | 0 | 0 | -1,955,069,010 | -1,955,069,070 |
| Other assets | 0 | 0 | 0 | 0 | 452,829,070 | 452,829,068 |
| **Liabilities:** | **1,244,956** | **0** | **0** | **0** | **2,875,938,264** | **11,650,595,625** |
| Interbank market | 0 | 0 | 0 | 0 | 0 | 1,014,810,442 |
| Issuance of shares | 0 | 0 | 0 | 0 | 0 | 1,100,600,000 |
| Deposits excluding bank's deposits | 1,244,956 | 0 | 0 | 0 | 0 | 6,659,246,919 |
| Equity and other liabilities | 0 | 0 | 0 | 0 | 2,875,938,264 | 2,875,938,264 |
| **Off-balance items** | 0 | 0 | 0 | 0 | 0 | 0 |
| **Gap** | 259,366,051 | 128,004,347 | 58,345,573 | 46,772,077 | -2,679,640,978 | 0 |
| **Accumulated gap** | 2,446,518,981 | 2,574,523,328 | 2,632,868,901 | 2,679,640,978 | 0 | 0 |

- Downside 100 basis points scenario

| | 1M | 3M | 6M | 12M | 2 years |
|---|---|---|---|---|---|
| **Assets:** | **4,764,054,180** | **1,620,959,482** | **3,824,523,189** | **446,962,873** | **396,640,497** |
| Securities and interbank market | 1,917,018,158 | 0 | 0 | 0 | 0 |
| Loans granted | 2,847,036,022 | 1,620,959,482 | 3,824,523,189 | 446,962,873 | 396,640,497 |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Other assets | 0 | 0 | 0 | 0 | 0 |
| **Liabilities:** | **1,317,119,284** | **1,544,922,394** | **2,600,230,237** | **2,696,671,800** | **614,468,690** |
| Interbank market | 386,130,442 | 140,000,000 | 488,680,000 | 0 | 0 |
| Issuance of shares | 0 | 229,000,000 | 871,600,000 | 0 | 0 |
| Deposits excluding bank's deposits | 930,988,842 | 1,175,922,394 | 1,239,950,237 | 2,696,671,800 | 614,468,690 |
| Equity and other liabilities | 0 | 0 | 0 | 0 | 0 |
| **Off-balance items** | 0 | -270,944,000 | 270,944,000 | 0 | 0 |
| **Gap** | 3,446,934,896 | -194,906,912 | 1,495,236,952 | -2,249,708,927 | -217,828,193 |
| **Accumulated gap** | 3,446,934,896 | 3,252,027,984 | 4,747,264,936 | 2,497,556,009 | 2,279,727,816 |

| | 3 years | 4 years | 5 years | >5 years | Non-interest | Total |
|---|---|---|---|---|---|---|
| **Assets:** | **183,017,908** | **114,795,888** | **56,578,182** | **46,766,140** | **196,297,286** | **11,650,595,625** |
| Securities and interbank market | 0 | 0 | 0 | 0 | 9,532,712 | 1,926,550,870 |
| Loans granted | 183,017,908 | 114,795,888 | 56,578,182 | 46,766,140 | 1,689,004,514 | 11,226,284,695 |
| Provisions | 0 | 0 | 0 | 0 | -1,955,069,010 | -1,955,069,010 |
| Other assets | 0 | 0 | 0 | 0 | 452,829,070 | 452,829,070 |
| **Liabilities:** | **1,244,956** | **0** | **0** | **0** | **2,875,938,264** | **11,650,595,625** |
| Interbank market | 0 | 0 | 0 | 0 | 0 | 1,014,810,442 |
| Issuance of shares | 0 | 0 | 0 | 0 | 0 | 1,100,600,000 |
| Deposits excluding bank's deposits | 1,244,956 | 0 | 0 | 0 | 0 | 6,659,246,919 |
| Equity and other liabilities | 0 | 0 | 0 | 0 | 2,875,938,264 | 2,875,938,264 |
| **Off-balance items** | 0 | 0 | 0 | 0 | 0 | 0 |
| **Gap** | 181,772,952 | 114,795,888 | 56,578,182 | 46,766,140 | -2,679,640,978 | 0 |
| **Accumulated gap** | 2,461,500,768 | 2,576,296,656 | 2,632,874,838 | 2,679,640,978 | 0 | 0 |

**Currency risk**

The Bank is exposed to currency risk as a consequence of granting loans denominated in foreign currencies. Currency risk is managed through daily monitoring and minimizing the Bank's current FX position. The position is closed through matching of assets and liabilities, by FX spots.

Starting from 2011 the Bank hedges the portfolio of CHF loans against the currency risk using derivatives.

The currency risk is measured based on daily reports on the Bank's total position as well as VAR reports. The Bank's currency position as at 31 December 2013 and 31 December 2012 as presented below:

**Open currency position and utilization of limit as at 31 December 2013:**

| | Currency structure in PLN (converted to PLN with average NBP rate) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Accounts at other banks | Loans granted to clients | Available-for-sale financial assets | Hedging derivatives | Liabilities due to banks | Liabilities due to clients | Other liabilities | Off-balance positions | Long position | Short position |
| CHF | 145,775 | 3,231,791,697 | 0 | -25,161 | 1,681,319,478 | 14,407,191 | 0 | -1,539,135,240 | 0 | 2,949,597 |
| USD | 9,888 | 80,846 | 1,168,381 | 0 | 1,054,319 | 66 | 0 | 0 | 204,731 | 0 |
| EUR | 2,248,312 | 1,046,445 | 41 | 0 | 7,710,867 | 4,865 | 110,154 | 4,354,560 | 0 | 176,527 |
| **Total:** | **2,403,975** | **3,232,918,988** | **1,168,422** | **-25,161** | **1,690,084,664** | **14,412,122** | **110,154** | **-1,534,780,680** | **204,731** | **3,126,124** |
| | | | | | | | | **Total position:** | **0** | **3,126,124** |

| | |
|---|---|
| Own funds | 1,737,510,265 |
| 2% of own funds | 34,750,205 |
| Capital requirements | 0 |
| Limit utilization | 0.18% |

**Open currency position and utilization of limit as at 31 December 2012 (restated):**

| | Currency structure in PLN (converted to PLN with average NBP rate) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Accounts at other banks | Loans granted to clients | Available-for-sale financial assets | Hedging derivatives | Liabilities due to banks | Liabilities due to clients | Other liabilities | Off-balance positions | Long position | Short position |
| CHF | 2,713,668 | 3,551,972,272 | 0 | -47,718 | 344,794,416 | 0 | 18,832,503 | -3,193,752,400 | 0 | 2,741,096 |
| USD | 21,214 | 92,598 | 800,476 | 0 | 775,186 | 0 | 870 | 0 | 138,232 | 0 |
| EUR | 3,405,449 | 1,740,276 | 41 | 0 | 5,356,221 | 2,821 | 68,065 | 0 | 0 | 281,341 |
| **Total:** | **6,140,331** | **3,553,805,146** | **800,517** | **-47,718** | **350,925,823** | **2,821** | **18,901,438** | **-3,193,752,400** | **138,232** | **3,022,437** |
| | | | | | | | | **Total position:** | **0** | **3,022,437** |

| | |
|---|---|
| Equity | 1,654,971,676 |
| 2% of Equity | 33,099,434 |
| Capital requirements | 0 |
| Limit utilization | 0.18% |

Foreign currency risk expressed by VaR was as follows (the potential impact on the financial result in thousand PLN arising from the observed price volatility in the financial markets at a confidence level 0.99):

| **Value at Risk for currency risk** | **2013** | **2012** |
|---|---|---|
| VaR, 10 days horizon - value as at 31 December | 112.50 | 190.00 |
| Top limit value | 500.00 | 500.00 |

**Liquidity risk**

The main purpose of liquidity management is for the Bank to be able to pay its current and future liabilities. The specific strategy of the Bank assumes obtaining maximum support from Santander Group in gaining short-term and long-term liabilities. In order to receive funding and decrease operational risk in this area, the Bank has signed loan agreements with entities from Santander Group.

In 2012 the Bank increased the diversification of the sources of funds with deposits offered to retail and corporate customers.

The Bank's assets are subject to special analyses and stress tests, including in particular the statistics of early repayment and cases of extending credit agreements as well as statistics of credit portfolio quality and the stability of a deposit portfolio.

The Bank monitors its liquidity in PLN and foreign currencies through:

- maturity gap analysis for assets and liabilities (liquidity gap analysis);
- analysis of realized cash flows (realization of liquidity gap).

Based on the documentation of maturity gap analyses, liquidity thresholds are set and monitored on an on-going basis. The objective of the reports is to mitigate the liquidity risk. Liquidity ratios are calculated based on the balance at the end of each business day.

Liquidity measures of the Bank for supervision purposes amounted as follows:

| **Liquidity measurement** | **31.12.2013** | **31.12.2012** |
|---|---|---|
| M1 | 3,163,265,201 | 6,489,735,231 |
| M2 | 3.71 | 7,29 |
| M3 | 7.83 | 10,04 |
| M4 | 1.09 | 1,05 |

Liquidity gap as at 31.12.2013:

| | 1M | 3M | 6M | 12M | 2 years |
|---|---|---|---|---|---|
| **Assets:** | **1,679,570,927** | **1,058,977,711** | **1,399,817,198** | **1,611,506,950** | **2,335,931,993** |
| Securities and interbank market | 557,982,904 | 0 | 290,000,000 | 0 | 260,000,000 |
| Loans granted | 1,105,170,212 | 1,058,977,711 | 1,109,817,198 | 1,611,506,950 | 2,075,931,993 |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Other assets | 16,417,811 | 0 | 0 | 0 | 0 |
| **Liabilities:** | **1,302,193,003** | **1,053,522,455** | **457,640,592** | **2,047,665,123** | **1,727,272,488** |
| Interbank market | 136,263,845 | 220,000,000 | 0 | 500,000,000 | 0 |
| Issuance of shares | 0 | 180,000,000 | 0 | 652,600,000 | 363,200,000 |
| Deposits excluding bank's deposits | 1,165,929,158 | 653,522,455 | 457,640,592 | 895,065,123 | 1,364,072,488 |
| Equity and other liabilities | 0 | 0 | 0 | 0 | 0 |
| **Off-balance items** | **0** | **0** | **0** | **0** | **0** |
| **Gap** | 377,377,924 | 5,455,256 | 942,176,606 | -436,158,173 | 608,659,505 |
| **Accumulated gap** | 377,377,924 | 382,833,180 | 1,325,009,786 | 888,851,613 | 1,497,511,118 |

| | 3 years | 4 years | 5 years | >5 years | Non-interest | Total |
|---|---|---|---|---|---|---|
| **Assets:** | **968,524,329** | **1,229,939,510** | **788,773,100** | **3,019,873,827** | **170,595,493** | **14,263,511,038** |
| Securities and interbank market | 0 | 560,000,000 | 410,000,000 | 0 | 0 | 2,077,982,904 |
| Loans granted | 968,524,329 | 669,939,510 | 378,773,100 | 3,019,873,827 | 1,580,201,929 | 13,578,716,759 |
| Provisions | 0 | 0 | 0 | 0 | -1,766,670,261 | -1,766,670,261 |
| Other assets | 0 | 0 | 0 | 0 | 357,063,825 | 373,481,636 |
| **Liabilities:** | **1,971,609,854** | **1,348,410,742** | **533,950,101** | **1,063,404,440** | **2,757,842,240** | **14,263,511,038** |
| Interbank market | 1,106,468,580 | 330,124,899 | 329,997,910 | 50,000,000 | 0 | 2,672,855,234 |
| Issuance of shares | 329,700,000 | 445,000,000 | 0 | 0 | 0 | 1,970,500,000 |
| Deposits excluding bank's deposits | 535,441,274 | 573,285,843 | 203,952,191 | 1,013,404,440 | 0 | 6,862,313,564 |
| Equity and other liabilities | 0 | 0 | 0 | 0 | 2,757,842,240 | 2,757,842,240 |
| **Off-balance items** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Gap** | -1,003,085,525 | -118,471,232 | 254,822,999 | 1,956,469,387 | -2,587,246,747 | 0 |
| **Accumulated gap** | 494,425,593 | 375,954,361 | 630,777,360 | 2,587,246,747 | 0 | 0 |

Liquidity gap as at 31.12.2012:

| | 1M | 3M | 6M | 12M | 2 years |
|---|---|---|---|---|---|
| **Assets:** | **2,811,622,812** | **628,245,336** | **567,024,213** | **951,024,610** | **1,247,499,398** |
| Securities and interbank market | 1,926,550,871 | 0 | 0 | 0 | 0 |
| Loans granted | 868,728,363 | 628,245,336 | 567,024,213 | 951,024,610 | 1,247,499,398 |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Other assets | 16,343,578 | 0 | 0 | 0 | 0 |
| **Liabilities:** | **1,128,680,479** | **1,202,633,307** | **1,576,351,889** | **3,083,162,369** | **1,376,323,322** |
| Interbank market | 236,130,442 | 80,000,000 | 388,680,000 | 100,000,000 | 60,000,000 |
| Issuance of shares | 0 | 10,000,000 | 0 | 185,000,000 | 649,600,000 |
| Deposits excluding bank's deposits | 892,550,037 | 1,112,633,307 | 1,187,671,889 | 2,798,162,369 | 666,723,322 |
| Equity and other liabilities | 0 | 0 | 0 | 0 | 0 |
| **Off-balance items** | **0** | **0** | **0** | **0** | **0** |
| **Gap** | 1,682,942,333 | -574,387,971 | -1,009,327,676 | -2,132,137,759 | -128,823,924 |
| **Accumulated gap** | 1,682,942,333 | 1,108,554,362 | 99,226,686 | -2,032,911,073 | -2,161,734,997 |

| | 3 years | 4 years | 5 years | >5 years | Non-interest | Total |
|---|---|---|---|---|---|---|
| **Assets:** | **727,176,045** | **516,186,340** | **409,913,316** | **3,621,482,561** | **170,420,994** | **11,650,595,625** |
| Securities and interbank market | 0 | 0 | 0 | 0 | 0 | 1,926,550,871 |
| Loans granted | 727,176,045 | 516,186,340 | 409,913,316 | 3,621,482,561 | 1,689,004,514 | 11,226,284,696 |
| Provisions | 0 | 0 | 0 | 0 | -1,955,069,010 | -1,955,069,010 |
| Other assets | 0 | 0 | 0 | 0 | 436,485,490 | 452,829,068 |
| **Liabilities:** | **257,505,994** | **100,000,000** | **0** | **50,000,000** | **2,875,938,265** | **11,650,595,625** |
| Interbank market | 0 | 100,000,000 | 0 | 50,000,000 | 0 | 1,014,810,442 |
| Issuance of shares | 256,000,000 | 0 | 0 | 0 | 0 | 1,100,600,000 |
| Deposits excluding bank's deposits | 1,505,994 | 0 | 0 | 0 | 0 | 6,659,246,918 |
| Equity and other liabilities | 0 | 0 | 0 | 0 | 2,875,938,265 | 2,875,938,265 |
| **Off-balance items** | 0 | 0 | 0 | 0 | 0 | 0 |
| **Gap** | 469,670,051 | 416,186,340 | 409,913,316 | 3,571,482,561 | -2,705,517,271 | 0 |
| **Accumulated gap** | -1,692,064,946 | -1,275,878,606 | -865,965,290 | 2,705,517,271 | 0 | 0 |

An emergency procedure for obtaining funds has been developed and implemented, along with other activities aimed at eliminating the liquidity risk.

## 46 Capital management

Santander Consumer Bank SA has own funds which are adequate to the scope of its business activity.
Pursuant to Article 127 of the Banking Law, the Bank's own funds consist of:

- core funds;
- supplementary funds in the amount not exceeding the core funds.

Pursuant to Article 127 of the Banking Law, the Bank classifies subordinated debt in the amount of PLN 150,000,000 as supplementary funds, based on the approval of the Polish Financial Supervision Authority (Note 34). Considering the subordinated loan in supplementary funds as at 31.12.2013 and 31.12.2012, the Bank deducted this loan by PLN 40,000,000 and PLN 20,000,000 respectively, according to Article 127. Paragraph 3, Point 2, of the Banking Act.

The Bank's capital exposure to financial institutions is described in Note 22. In line with clause 3.1 of the Resolution No. 325/2011 of the Polish Financial Supervision Authority from 20 December 2011, the Bank reduces its core and supplementary funds by 50% considering Article 6.1 thereof.

The capital adequacy of the Bank is evaluated in line with Resolution No. 76/2010 of the Polish Financial Supervision Authority from 10 March 2010 (as amended). The Bank calculates and monitors capital requirements for the following risks under Pillar 1:

- credit risk capital requirement;
- market risk capital requirement;
- capital requirement due to concentration of exposure and large exposure limit risks;
- operational risk capital requirement.
- capital requirement due to settlement risk, delivery and contractors credit risk,
- capital requirement due to risk of exceeding the threshold of capital concentration.

As at 31 December 2013 and 31 December 2012 the Bank was complied with the capital adequacy requirements.

| | 31.12.2013 | 31.12.2012 (restated) |
|---|---|---|
| **Core funds** | **1,640,347,133** | **1,538,107,079** |
| - share capital | 520,000,000 | 520,000,000 |
| - supplementary capital | 1,261,890,381 | 1,129,417,182 |
| - losses from prior periods | -66,871,695 | -26,482,052 |
| - unrealized profits on financial instruments classified as available for sale | -7,505,923 | 0 |
| - adjustment positions: | -67,165,630 | -84,828,051 |
| *- intangible assets* | *-53,538,853* | *-71,201,274* |
| *- capital exposure in financial institutions* | *-13,626,777* | *-13,626,777* |
| **Supplementary funds** | **97,163,132** | **116,864,597** |
| - subordinated debt | 110,000,000 | 130,000,000 |
| - unrealized profits on financial instruments classified as available for sale | 789,909 | 491,374 |
| - adjustment positions: | -13,626,777 | -13,626,777 |
| *- capital exposure in financial institutions* | *-13,626,777* | *-13,626,777* |
| **Total own funds used for ratio calculations** | **1,737,510,265** | **1,654,971,676** |

| | 31.12.2013 | 31.12.2012 (restated) |
|---|---|---|
| **Capital requirements** | **968,240,412** | **872,428,468** |
| - due to credit risk | 810,309,410 | 670,027,077 |
| - due to operating risk | 157,931,002 | 202,401,391 |

| | 31.12.2013 | 31.12.2012 (restated) |
|---|---|---|
| **Capital adequacy ratio** | 14,36% | 15,18% |

The Bank is obliged to keep the capital adequacy ratio not lower than 8%, according to the Banking Law. Moreover, according to the recommendation of the European Banking Authority about Temporary Capital Buffer, credit institutions are obliged to keep the buffer at least 9% (Tier 1 ratio). In the letter from 24 January 2012 of the Polish Financial Supervision Authority (PFSA) expected from Polish banks to keep the minimal capital adequacy ratio of at least 12%, while Tier 1 – at least 9%.

According to the letter from PFSA from 10 December 2013, the PFSA recommended to pay out dividends amounting up to 100% only when all of the following criteria are met:

- bank is not a subject of any rectification proceedings
- capital adequacy ratio above 12%,
- Tier 1 ratio above 9%,
- expected capital adequacy ratio at the end of 2014 in stress test scenario (reference scenario) to be above 12%,
- expected Tier 1 ratio at the end of 2014 in stress test scenario (reference scenario) to be above 9%,
- general BION mark not lower than 2.5.
- BION mark concerning capital level not lower than 2.5,

As at 31 December 2013 Santander Consumer Bank meets all of the criteria above. The Management Board proposes to cover the previous year's loss from the 2013 profit and to pay out the remaining part as dividend.

## 47 Operating lease

Bank has concluded an agreement to rent office space for the Bank's head office at. Strzegomska St. 42c in Wrocław. Additionally, the Bank is a party in other active agreements to rent office space in Wrocław - Strzegomska St. 2-4 and Słubicka St. 18.

Additionally, the Bank is a party in other rental agreements:

- 188 agreements to rent bank branches,
- 2 agreements to rent warehouses,
- 11 agreements to rent mobile structure offices,
- 5 agreements to rent durable loans structure offices,
- 13 agreements to rent durable loans sell points.

Most rental agreements for premises were concluded for a definite period from 3 to 5 years. Rental agreements for offices of mobile entities were concluded for an indefinite period with period of notice of 1 to 3 months.

The amount of future liabilities in the coming year and following years as at 31 December for agreements concluded for an indefinite period of time is presented below:

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| – up to 1 year | 41,526,777 | 43,460,051 |
| – 1–5 years | 52,286,329 | 52,267,128 |
| – over 5 years | 706,038 | 2,055,171 |

As at 31 December 2013, the Bank was a party of 19 sub-lease agreements of office space. As at 31 December 2012, this amount was equal to 51. In these cases the amount of future receivables due to Bank in the coming year and following years as at 31 December is presented below:

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| – up to 1 year | 640,860 | 2,358,000 |
| – 1–5 years | 271,212 | 915,996 |

As at 31 December 2012 the Bank was a party of 2 lease agreements for mobile phones. These lease agreements were no more valid as at 31 December 2013. In these cases the amount of future receivables due to the Bank in the coming year and following years as at 31 December is presented below:

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| – up to 1 year | 0 | 158 |
| – 1–5 years | 0 | 39 |

As at 31 December 2013 the Bank was a party in 286 operating lease agreements for cars (as at 31 December 2012 it was equal to 118). The amount of future liabilities in the coming year and following years as at 31 December for operating lease agreements for cars is presented below:

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| – up to 1 year | 3,912,218 | 1,711,305 |
| – 1–5 years | 3,044,940 | 2,474,116 |

In 2013 the Bank was a party in 1 lease agreement for a car owned by the Bank. The period of this agreement was equal to 5 months. Moreover, four agreements signed in 2012 were in force in 2013. As at 31.12.2013 there were no car lease agreements in force. In these cases, the future receivables due to the Bank as at 31 December were as presented below:

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| – up to 1 year | 0 | 4,511 |

As at 31 December 2012 the Bank used software licenses based on a short-term operating lease concluded with a subsidiary. The agreement finished in 2013. The amount of future liabilities in the coming year as at 31 December 2013 is presented below:

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| – up to 1 year | 0 | 178,552 |

As at 31 December 2013 the Bank used computer devices under operating lease and rental agreements with unrelated parties. In these cases, the amount of future liabilities in the coming year and following years as at 31 December is presented below:

| | 31.12.2013 | 31.12.2012 |
|---|---|---|
| – up to 1 year | 0 | 158,639 |
| – 1–5 years | 0 | 0 |

As at 31 December 2012 the Bank let for use computer devices to Santander Consumer Finance S.A. under IT systems lease agreement from 30.12.2011 for undefined period. In 2013 the Bank invoiced the company for PLN 765,336 (gross amount). The agreement finished in 2013.

## 48 Fair value of financial instruments

The Bank applies the three-level structure for fair value measurement of financial instruments with the following levels:

- Level 1 – the fair value is based on stock prices (unadjusted) offered for the same assets or liabilities in active markets;
- Level 2 – the fair value is determined based on the market values, but not a direct market quotation (e.g. by direct or indirect reference to similar instruments in the market);
- Level 3 – the fair value is determined based on various valuation techniques which are not based on any observable market data.

**a) Financial instruments not measured at fair value in the statement of financial position**

**As at 31.12.2013**

| **ASSETS** | **Carrying amount** | **Estimated fair value** |
|---|---|---|
| Cash and balances with the Central Bank | 254,064,109 | 254,064,109 |
| Accounts and deposits in other banks | 545,653,208 | 545,653,208 |
| Loans granted to customers | 11,475,269,688 | 11,259,455,822 |
| *Operational loans (stock finance)* | *401,155,433* | *401,155,433* |
| *Car loans* | *1,487,168,571* | *1,526,853,670* |
| *Mortgage loans* | *4,712,635,428* | *4,461,246,364* |
| *Durable loans* | *1,933,411,686* | *1,934,758,529* |
| *Cash loans* | *2,299,400,742* | *2,294,707,750* |
| *Credit cards* | *402,719,708* | *402,719,708* |
| *Other loans* | *238,778,120* | *238,014,368* |

| **LIABILITIES** | **Carrying amount** | **Estimated fair value** |
|---|---|---|
| Liabilities due to banks (excluding subordinated debt) | 2,541,497,526 | 2,658,772,921 |
| Liabilities due to customers | 6,993,989,548 | 6,855,841,110 |
| Subordinated debt | 150,000,000 | 149,377,192 |
| Liabilities arising from issuance of debt securities | 1,988,370,462 | 1,988,715,434 |

**As at 31.12.2012**

| **ASSETS** | **Carrying amount** | **Estimated fair value** |
|---|---|---|
| Cash and balances with the Central Bank | 707,544,096 | 707,544,096 |
| Accounts and deposits in other banks | 535,389,054 | 535,389,054 |
| Loans granted to customers | 9,137,644,071 | 9,017,945,346 |
| *Operational loans (stock finance)* | *441,949,193* | *442,010,843* |
| *Car loans* | *1,825,247,635* | *1,893,479,099* |
| *Mortgage loans* | *5,128,638,874* | *4,859,218,723* |
| *Durable loans* | *230,885,072* | *267,740,929* |
| *Cash loans* | *1,082,682,378* | *1,127,254,833* |
| *Credit cards* | *342,520,836* | *342,520,836* |
| *Other loans* | *85,720,083* | *85,720,083* |

| LIABILITIES | Carrying amount | Estimated fair value |
|---|---|---|
| Liabilities due to banks (excluding subordinated debt) | 875,884,894 | 877,489,613 |
| Liabilities due to customers | 6,812,496,998 | 6,842,703,762 |
| Subordinated debt | 150,000,000 | 139,511,671 |
| Liabilities arising from issuance of debt securities | 1,110,945,241 | 1,111,145,351 |

The Bank holds financial instruments, which are not measured at fair value according to the adopted IFRS. These instruments include: receivables from banks, loans granted to customers, liabilities to banks and customers as well as subordinated debt. According to IFRS, the Bank should disclose estimated fair value of these instruments. The market value reflects best fair value of financial instruments. For products and transactions whose market value is unavailable, fair value must be estimated by internal models based on discounted cash flows. Cash flows for the instruments are defined in line with their individual characteristics, while discount factors include changes over time, regarding both market interest rates and margins.

All financial instruments presented above are at level 3 in hierarchy of valuation of financial instruments. In the presented periods, the Bank made no transfers between levels.

Values as at the end of 2012 and 2013 were determined using the same model. Changes in relation to the financial statement as at 31 December 2012 are the result of improvement and clarification of modelling method of forecasted cash flows and discount rates.

**Receivables from banks**

The Bank holds only cash in bank and short-term deposits and therefore the fair value of the receivables does not differ materially from their carrying amount due to the mature of current accounts.

**Loans granted to customers**

The fair value of loans granted to customers with defined maturities was estimated by discounting the related cash flows using appropriate discount rates.

Cash flows are based on the contractual cash flows, taking into account early repayments (based on historical data), as well as incurred and future credit losses (based on the credit risk models).

Discount rates are based on current market interest rates of appropriate loan products.

**Liabilities due to banks, customers, subordinated debt and liabilities arising from issuance of debt securities**

The fair value of financial liabilities measured at amortized cost was estimated through discounting related cash flows within terms and conditions resulting from the contracts, with application of appropriate market rates and credit risk margins regarding credit risk.

**b) Financial instruments measured at fair value in the statement of financial position]**

**Valuation to fair value, data as at 31.12.2013**

| ASSETS | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| Financial assets available for sale | 1,306,037,387 | 0 | 0 |
| Hedging derivatives | 0 | 40,767,698 | 0 |

| LIABILITIES | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| Hedging derivatives | 0 | 170,082 | 0 |

**Valuation to fair value, data as at 31.12.2012**

| ASSETS | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| Financial assets available for sale | 700,552,717 | 0 | 0 |
| Hedging derivatives | 0 | 76,656,690 | 0 |

| LIABILITIES | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| Hedging derivatives | 0 | 2,441,454 | 0 |

As at 31 December 2013 and 31 December 2012, the Bank held only instruments at level 1 (financial assets available for sale – NBP bills, treasury bills and equity instruments) and derivatives at Level 2 (hedging derivatives) in its portfolio of financial instruments measured at fair value.
Bonds are valued on the basis of quotations of BondSpot S.A. fixing. Visa shares are valued based on quotations on the New York Stock Exchange. Valuations are made on the basis of quotations from the last working day of the month; the data are available between 14:00 and 15:00 that day.
In presented periods, there were no movements between the levels 1, 2 and 3.

## 49 Auditor's remuneration

| Auditor's remuneration for the financial year (gross amount) | 2013 | 2012 |
|---|---|---|
| Statutory audit of the annual financial statements | 590,400 | 442,800 |
| Other services | 3,690 | 2,011 |
| **Total** | **594,090** | **444,811** |

## 50 Business combination

The Polish Financial Supervision Authority authorized the merger of Bank Zachodni WBK and Kredyt Bank on 4 December 2012. The combination of the institutions resulted in a significant increase in the share of Santander Group in the Polish market. Therefore, one of the conditions of the transaction, agreed on with the Polish Financial Supervision Authority, was to reorganize the structure and activity of Santander Group in Poland. As a result of the agreed actions, the reorganization of Santander Consumer Group in Poland was performed as described below.

### a) Purchase of shares of Santander Consumer Finanse S.A.

On 15 May 2013 the Bank took control over Santander Consumer Finanse S.A. (hereinafter referred to "the SCF") by acquiring 140,001 shares (70% of the share capital) for the price of PLN 120,594,000 from its parent company, Santander Consumer Finance S.A. with its registered office in Madrid. On 28 June 2013 Bank acquired the remaining 59,999 shares of the SCF (30% of the share capital) for the price of PLN 51,682,000 from AIG Consumer Finance Group. As a result of the transactions, the Bank took control over the SCF by acquisition of 100% shares for the total price of PLN 172,276,000. Investment in the SCF was recognized in the financial statements at cost reduced by impairment loss on the investment.
The subsequent impairment loss on the investment was described in Note 22 of the financial statements.

### b) Transfer of organized part of enterprise from the SCF to the Bank

On 1 September 2013 organized part of enterprise of Santander Consumer Finanse (hereinafter referred to "SCF Enterprise") was transferred from the SCF to the Bank. The transaction was considered as giving in payment (datio in solutum) from the legal perspective, what means that the SCF transferred ownership of SCF Enterprise in exchange for repayment of liabilities due to the Bank.

The transaction was classified as a business combination under common control. Such a transaction model was not regulated by any of IFRS standards. According to regulations of paragraphs IAS 8.10-12 in the absence of standards or interpretation directly applicable to a transaction, the Bank uses its judgment while choosing accounting policy adequate to settle transaction. Requirements and recommendations described in standards, interpretations, conceptual frameworks of IFRS, local Polish accounting policies and publications were taken into consideration. The assessment of economic substance of transaction was performed. According to analysis carried out, the Bank decided to settle transaction using book value method described below:
Choosing settlement method for the transactions, the following matters were considered:

a) Nature of the transaction (restructuring of the group, not factual acquisition of enterprise on the market),
b) No intentions to gain economic profits from transaction (primary objective was to meet the expectations of the regulator regarding structure of the group).

For the purpose of transaction settlement according to book value method, the purchase price of the enterprise was determined as PLN 157,600,000, i.e. amount equal to the liabilities of the SCF due to the Bank. Transfer of SCF Enterprise took place in exchange for these liabilities.
Net book value of SCF Enterprise's assets acquired by the Bank amounted to PLN 165,362,000.

According to book value method, valuation of assets to fair value was not performed. The assets acquired were recognized in the Bank's balance sheet at book value from the SCF accounts as at the date of the transaction.
The surplus of the book value of net assets acquired over the purchase price amounted to PLN 7,920,000 and was recognized as an increase in the Bank's equity (in retained earnings).
Additionally, in the same position the following items were recognized:
• decrease of the Bank's equity by PLN 42,631 thousand due to compensation of deferred commissions between the Bank and SCF Enterprise before 1 September 2013 in the valuation of the Bank's assets and the enterprise acquired;
• decrease of the Bank's equity by PLN 5,679 thousand as a result of the adjustment of accounting policies of SCF Enterprise in the area of revenues from the distribution of insurance products to the Bank's accounting policies (as described in Note 4.c. *Accounting estimates*).
The total effect of the above adjustments on the Bank's equity in the amount of PLN 40,390 thousand was presented in the Statement of changes in equity for the year 2013 in the position: *result of the business combination.*

**Assets and liabilities of SCF Enterprise as at 1 September 2013:**

| | Book value |
|---|---:|
| **Assets** | |
| Cash | 9,682,915 |
| Loans | 2,033,556,444 |
| Intangible assets | 7,923,716 |
| Fixed assets | 3,382,609 |
| Other assets | 50,918,844 |
| **Total assets** | **2,105,464,528** |
| **Liabilities** | |
| Liabilities due to financial sector | 1,879,000,000 |
| Other liabilities | 61,102,051 |
| **Total liabilities** | **1,940,102,051** |
| **Net assets** | **165,362,477** |

| | |
|---|---|
| Cash spent on purchase of Enterprise | - |
| Cash taken from SCF Enterprise | 9 682 915 |
| **Net cash-flow due to acquisition:** | **9 682 915** |

The Bank was not involved in any business combinations in 2012.

### 51 Changes in accounting policies

#### a) Income from distribution of insurance products

In 2013, the Bank has changed its accounting policies for recognition of revenues from distribution of the following insurance products:

a) life insurance;
b) GAP insurance, covering the difference between insurance compensation and the amount due from car loan or lease agreement;
c) unemployment or temporary disability insurance;

Offered to clients together with loan contracts. The change was as a consequence of the next analysis of accounting policies for insurance commissions considering communication from the PFSA.

Policy applied in previous periods:
The revenues directly related to the distribution were recognized as upfront commission income when providing the service, while the remaining revenues (considered as revenue related to the loan agreement) were recognized as deferred commissions in the valuation of loan receivables and then deferred over the insurance period.

Policy applied from 1 January 2013 is described in Note 4.c. *Accounting estimates*.

Effect of changes in accounting principles was presented as a separate item in the statement of changes in equity.

#### b) Liabilities due to clients resulting from overpayments

In 2013, the Bank changed the presentation of liabilities from clients' overpayments of loan agreements.
In previous periods, part of these liabilities was presented in the statement of financial position in *Other liabilities*.
Starting from 2013, the Bank presents these liabilities only in *Liabilities to customers.*
The Bank believes that this presentation is more appropriate due to the nature of the obligation and, therefore, this change increases the information value of the financial statements.

#### c) Income from the sale and liquidation of tangible and intangible assets

In 2013, the Bank changed the presentation of the result from the sale and liquidation of tangible and intangible assets in the statement of comprehensive income.
In previous years, the Bank presented the revenue from the sale and liquidation of tangible and intangible assets in *Other operating income* and the value of sold fixed assets and intangible assets in *Other operating expenses*.
Starting from 2013, the Bank presents the result of the sale and liquidation of tangible and intangible assets as a gain or loss respectively in *Other operating income* or *Other operating costs.*
The Bank believes that this presentation is more appropriate given the nature of the data presented and, therefore, this change increases the information value of the financial statements.

Changes in accounting policies were introduced in 2013 retrospectively with proper adjustments of comparative periods data presented below:

As at 01.01.2012:

| **ASSETS** | **01.01.2012** | **Correction a)** | **Correction b)** | **Correction c)** | **01.01.2012** **(restated)** |
|---|---|---|---|---|---|
| Cash and balances with the Central Bank | 115,289,671 | | | | 115,289,671 |
| Accounts and deposits in other banks | 570,689,311 | | | | 570,689,311 |
| Financial assets available for sale | 437,967,993 | | | | 437,967,993 |
| Hedging derivatives | 3,303,786 | | | | 3,303,786 |
| Loans granted to customers | 11,646,625,665 | | | | 11,646,625,665 |
| Shares and interests in subsidiaries | 27,253,554 | | | | 27,253,554 |
| Intangible assets | 61,119,037 | | | | 61,119,037 |
| Property plant and equipment | 88,107,111 | | | | 88,107,111 |
| Other assets | 29,114,881 | | | | 29,114,881 |
| Deferred tax assets | 283,867,154 | 7,012,155 | | | 290,879,309 |
| Prepayments | 44,189,012 | | | | 44,189,012 |
| **TOTAL ASSETS** | **13,307,527,175** | **7,012,155** | **0** | **0** | **13,314,539,330** |

| **EQUITY AND LIABILITIES** | **01.01.2012** | **Correction a)** | **Correction b)** | **Correction c)** | **01.01.2012** **(restated)** |
|---|---|---|---|---|---|
| **LIABILITIES** | | | | | |
| Liabilities due to banks | 4,790,490,246 | | | | 4,790,490,246 |
| Hedging derivatives | 732,455 | | | | 732,455 |
| Liabilities due to customers | 5,202,990,446 | | 8,299,380 | | 5,211,289,826 |
| Liabilities arising from issuance of debt securities | 956,653,213 | | | | 956,653,213 |
| Other liabilities including: | 94,151,854 | | -8,299,380 | | 85,852,474 |
| *- income tax liabilities* | *27,640,409* | | | | *27,640,409* |
| Accrued expenses and deferred income | 133,651,670 | 36,906,079 | | | 170,557,749 |
| Restructuring and other provisions | 64,239,061 | | | | 64,239,061 |
| Subordinated debt | 150,000,000 | | | | 150,000,000 |
| **TOTAL LIABILITIES** | **11,392,908,945** | **36,906,079** | **0** | **0** | **11,429,815,024** |
| **EQUITY** | | | | | |
| Share capital | 520,000,000 | | | | 520,000,000 |
| Share premium | 768,047,473 | | | | 768,047,473 |
| Other reserves | 33,366,635 | | | | 33,366,635 |
| Retained earnings | 593,204,122 | -29,893,924 | | | 563,310,198 |
| **TOTAL EQUITY** | **1,914,618,230** | | | | **1,884,724,306** |
| **TOTAL EQUITY AND LIABILITIES** | **13,307,527,175** | **7,012,155** | **0** | **0** | **13,314,539,330** |

As at 31.12.2012:

| **ASSETS** | **31.12.2012** | **Correction a)** | **Correction b)** | **Correction c)** | **31.12.2012** **(restated)** |
|---|---|---|---|---|---|
| Cash and balances with the Central Bank | 707,544,096 | | | | 707,544,096 |
| Accounts and deposits in other banks | 535,389,054 | | | | 535,389,054 |
| Financial assets available for sale | 700,552,717 | | | | 700,552,717 |
| Hedging derivatives | 76,656,690 | | | | 76,656,690 |
| Loans granted to customers | 9,137,644,071 | | | | 9,137,644,071 |
| Shares and interests in subsidiaries | 27,253,554 | | | | 27,253,554 |
| Intangible assets | 71,201,274 | | | | 71,201,274 |
| Property plant and equipment | 74,890,995 | | | | 74,890,995 |
| Other assets | 21,819,962 | | | | 21,819,962 |
| Deferred tax assets | 236,892,591 | 6,211,839 | | | 243,104,430 |
| Prepayments | 54,538,782 | | | | 54,538,782 |
| **TOTAL ASSETS** | **11,644,383,786** | **6,211,839** | **0** | **0** | **11,650,595,625** |

| **EQUITY AND LIABILITIES** | **31.12.2012** | **Correction a)** | **Correction b)** | **Correction c)** | **31.12.2012** **(restated)** |
|---|---|---|---|---|---|
| **LIABILITIES** | | | | | |
| Liabilities due to banks | 875,884,894 | | | | 875,884,894 |
| Hedging derivatives | 2,441,454 | | | | 2,441,454 |
| Liabilities due to customers | 6,802,723,465 | | 9,773,533 | | 6,812,496,998 |
| Liabilities arising from issuance of debt securities | 1,110,945,241 | | | | 1,110,945,241 |
| Other liabilities including: | 113,155,596 | | -9,773,533 | | 103,382,063 |
| *- income tax liabilities* | *48,471,316* | | | | *48,471,316* |
| Accrued expenses and deferred income | 122,153,154 | 32,693,891 | | | 154,847,045 |
| Restructuring and other provisions | 27,840,843 | | | | 27,840,843 |
| Subordinated debt | 150,000,000 | | | | 150,000,000 |
| **TOTAL LIABILITIES** | **9,205,144,647** | **32,693,891** | **0** | **0** | **9,237,838,538** |
| **EQUITY** | | | | | |
| Share capital | 520,000,000 | | | | 520,000,000 |
| Share premium | 768,047,473 | | | | 768,047,473 |
| Other reserves | 356,275,678 | | | | 356,275,678 |
| Retained earnings | 794,915,988 | -26,482,052 | | | 768,433,936 |
| **TOTAL EQUITY** | **2,439,239,139** | | | | **2,412,757,087** |
| **TOTAL EQUITY AND LIABILITIES** | **11,644,383,786** | **6,211,839** | **0** | **0** | **11,650,595,625** |

Statement of comprehensive income for the year ended 31 December 2012:

| Item | 2012 | Correction a) | Correction b) | Correction c) | 2012 (restated) |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| Interest income | 1,374,562,904 | | | | 1,374,562,904 |
| Interest expenses | -478,539,662 | | | | -478,539,662 |
| **Net interest income** | **896,023,242** | | | | **896,023,242** |
| Commission income | 247,258,059 | 4,212,188 | | | 251,470,247 |
| Commission expenses | -22,457,775 | | | | -22,457,775 |
| **Net commission income** | **224,800,284** | | | | **229,012,472** |
| Result on financial and FX transactions | -523,364 | | | | -523,364 |
| **Result on banking activities** | **1,120,300,162** | | | | **1,124,512,350** |
| Other operating income | 107,095,410 | | | -2,693,447 | 104,401,963 |
| Bank's operating expenses | -373,232,326 | | | | -373,232,326 |
| Depreciation and amortization | -44,154,382 | | | | -44,154,382 |
| Impairment losses on financial assets | -116,767,481 | | | | -116,767,481 |
| Other operating expenses | -34,802,521 | | | 2,693,447 | -32,109,074 |
| **Result on operating activities** | **658,438,862** | | | | **662,651,050** |
| **Profit before tax** | **658,438,862** | | | | **662,651,050** |
| Income tax expense | -128,546,064 | -800,316 | | | -129,346,380 |
| **Net profit** | **529,892,798** | **3,411,872** | **0** | **0** | **533,304,670** |
| **Other comprehensive income** | | | | | |
| Valuation of financial assets available for sale | 435,616 | | | | 435,616 |
| Effective portion of cash flow hedging instruments' revaluation | -6,938,417 | | | | -6,938,417 |
| Deferred tax | 1,230,912 | | | | 1,230,912 |
| **Total other comprehensive income** | **-5,271,889** | | | | **-5,271,889** |
| **Total comprehensive income** | **524,620,909** | **3,411,872** | **0** | **0** | **528,032,781** |

### 52 Events after balance sheet date

There were not significant events after 31 December 2013 and till the date of preparation of the financial statements.

Wrocław, 3 March 2014

| | | |
|---|---|---|
| ...................................... | ...................................... | |
| Arkadiusz Wiktor Przybył | Piotr Żabski | |
| President of the Management Board | Vice-President of the Management Board | |
| ...................................... | ...................................... | ...................................... |
| Mariusz Klepacz | Przemysław Kończal | Oleksandr Krupchenko |
| Member of the Management Board | Member of the Management Board | Member of the Management Board |
| ...................................... | ...................................... | ...................................... |
| Rafał Szmuc | Sebastian Ślanda | Artur Wawrzyniak |
| Member of the Management Board | Member of the Management Board | Member of the Management Board |

......................................

Aleksander Rak

Chief Accountant

# SANTANDER CONSUMER BANK S.A.

## LONG-FORM AUDITORS' REPORT
## ON THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2013

# I. GENERAL NOTES

## 1. Background

Santander Consumer Bank S.A. (hereinafter 'the Bank') was incorporated on the basis of a Notarial Deed dated 25 August 1997. The Bank's registered office is located in Wrocław at Strzegomska Street 42c.

The Bank was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000040562 on 7 September 2001.

The Bank was issued with tax identification number (NIP) 5272046102 on 27 February 2003 and statistical number (REGON) 012736938 on 18 February 2003.

The Bank belongs to the Capital Group of Santander Consumer Finance S.A. Details of transactions with affiliated entities and the list of companies in which the Bank holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Note 42 of the summary of significant accounting policies and other explanatory notes ("the additional notes and explanations") to the audited financial statements for the year ended 31 December 2013.

The principal activities of the Bank are as follows:

- taking of deposits payable on demand at a specified maturity, and operation of such deposit accounts
- operation of other bank accounts
- granting of loans
- granting and confirmation of bank guarantees, and issue and confirmation of letters of credits
- issuance of bank securities
- performance of bank monetary settlements
- granting of cash advances,
- operations involving cheques and bills of exchange,
- issuance of payment cards and performance of operations involving use of such cards,
- forward transactions,
- purchasing and selling of debts,
- safekeeping of assets and securities, and provision of safe deposit facilities,
- extension and confirmation of endorsements,
- performance of commissioned securities issue operations,
- intermediation in money transfers and foreign exchange settlements,

As at 31 December 2013 the Bank's issued share capital amounted to 520,000 thousand zlotys. Equity as at that date amounted to 2,153,919 thousand zlotys.

*(in thousand zlotys)*

In accordance with the Bank's share register as at 31 December 2013, the ownership structure of the Bank's issued share capital was as follows:

| | Number of shares | Number of votes | Par value of shares | % of issued share capital |
|---|---|---|---|---|
| Santander Consumer Finance S.A. | 5.200.000 | 6.240.001 | 520.000.000 | 100% |

On 20 November 2013 Santander Consumer Finance S.A with its registered office in Madrid has purchased from AIG Consumer Finance Group Inc. with its registered office in Wilmington a total of 1,560,000 ordinary registered shares constituting 30 per cent of the share capital of the Bank. As a result of the above, Santander Consumer Finance S.A. has become the sole shareholder of the Bank.

There were no movements in the Bank's share capital in the reporting period.

As at 3 March 2014, the Bank's Management Board was composed of:

| | |
|---|---|
| Arkadiusz Wiktor Przybył | - President |
| Piotr Krzysztof Żabski | - Vice President |
| Artur Zbigniew Wawrzyniak | - Member |
| Przemysław Kończal | - Member |
| Sebastian Ślanda | - Member |
| Mariusz Klepacz | - Member |
| Rafał Szmuc | - Member |
| Oleksandr Krupchenko | - Member |

There were the following changes in the Bank's Management Board during the reporting period as well as from the balance sheet date to the date of this report:

- On 6 August 2013, Mr Jose Luis Sanchez Diaz resigned as a Member of the Management Board,
- On 30 August 2013, Mr Ramon Billordo resigned as a Member of the Management Board,
- On 24 September 2013, Mr Piotr Krzysztof Żabski was appointed by the Supervisory Board as a Vice President of the Management Board,
- On 24 September 2013, Mr Oleksandr Krupchenko was appointed by the Supervisory Board as a Member of the Management Board,
- On 24 September 2013, Mr Rafał Szmuc was appointed by the Supervisory Board as a Member of the Management Board,
- On 24 September 2013, Mr Mariusz Klepacz was appointed by the Supervisory Board as a Member of the Management Board,

## 2. Financial Statements

On 20 June 2006, the General Shareholders' Meeting decided on preparation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

### 2.1 Auditors' opinion and audit of financial statements

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. (formerly: Ernst & Young Audit sp. z o.o.) with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. (formerly: Ernst & Young Audit sp. z o.o.) was appointed by General Shareholders' Meeting on 10 December 2013 to audit the Bank's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. (formerly: Ernst & Young Audit sp. z o.o.) and the key certified auditor meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649 with subsequent amendments).

Under the contract executed on 28 October 2013 with the Bank's Management Board, we have audited the financial statements for the year ended 31 December 2013.

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the financial statements taken as a whole.

Based on our audit, we issued an unmodified auditors' opinion dated 3 March 2014, stating the following:

**"To the General Shareholders' Meeting of Santander Consumer Bank S.A.**

1. We have audited the attached financial statements for the year ended 31 December 2013 of Santander Consumer Bank S.A. ('the Bank') located in Wrocław at Strzegomska Street 42c, containing the statement of comprehensive income for the period from 1 January 2013 to 31 December 2013, the statement of financial position as at 31 December 2013, the statement of changes in equity and the statement of cash flow for the period from 1 January 2013 to 31 December 2013, the summary of significant accounting policies and other explanatory notes ('the attached financial statements').

2. The truth and fairness[1] of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Bank's Management Board. In addition, the Bank's Management Board and Members of the Supervisory Board are required to ensure that the attached financial statements and the Directors' Report for the period from 1 January 2013 to 31 December 2013 meet the requirements of the Accounting Act dated 29 September 1994 (2013 Journal of Laws No. 330, item 613 with subsequent amendments – 'the Accounting Act'). Our responsibility was

[1] Translation of the following expression in Polish: '*rzetelność i jasność*'

to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Bank and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.

3. We conducted our audit of the attached financial statements in accordance with:
   - chapter 7 of the Accounting Act,
   - national auditing standards issued by the National Council of Statutory Auditors,

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.

4. In our opinion, the attached financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Bank's operations for the period from 1 January 2013 to 31 December 2013, as well as its financial position[3] as at 31 December 2013;
   - have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and based on properly maintained accounting records;
   - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Bank's Articles of Association.

5. We have read the 'Directors' Report and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with art. 49 par. 2 of the Accounting Act."

   We conducted the audit of the Bank's financial statements during the period from 21 October 2013 to 8 November 2013 and 13 January to 3 March 2014. We were present at the Bank's head office from 21 October 2013 to 31 October 2013 and from 20 January 2014 to 25 January 2014.

### 2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness[4] of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary

[2] Translation of the following expression in Polish: '*rzetelnie i jasno*'
[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'
[4] Translation of the following expression in Polish: "*rzetelność i jasność*"

*(in thousand zlotys)*

explanations. The Management Board also provided a letter of representations dated 3 March 2014, confirming that:

- the information included in the books of account was complete,
- all contingent liabilities had been disclosed in the financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the financial statements,

and confirmed that the information provided to us was true and fair to the best of the Management Board's knowledge and belief, and included all events that could have had an effect on the financial statements.

At the same time declare that during the audit of the financial statements, there were no limitations of scope.

### 2.3 Financial statements for prior financial year

The Bank's financial statements for the year ended 31 December 2012 were audited by Arkadiusz Krasowski, key certified auditor no. 10018, acting on behalf of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. (formerly: Ernst & Young Audit sp. z o.o.) with its registered office in Warsaw, at Rondo ONZ 1, Reg. no. 130. The key certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2012. The Bank's financial statements for the year ended 31 December 2012 were approved by the General Shareholders' Meeting on 25 March 2013, and the shareholders allocate to appropriate the 2012 net profit as follows:

| | |
|---|---|
| Dividends for the shareholders | 397.420 |
| Reserve capital | 132.473 |
| | ======= |
| | 529.893 |

The financial statements for the financial year ended 31 December 2012, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors' Report, were filed on 10 April 2013 with the National Court Register.

The closing balances as at 31 December 2012 were correctly brought forward in the accounts as the opening balances at 1 January 2013.

## 3. Analytical Review

### 3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Bank for the years 2012 - 2013. The ratios were calculated on the basis of financial information relating to 2013 and restated comparable financial information relating to 2012 included in the financial statements for the year ended 31 December 2013.

*(in thousand zlotys)*

| | 2013 | 2012 (restated data) |
|---|---|---|
| **Total assets** | 14,263,511 | 11,650,596 |
| **Shareholders' equity** | 2,153,919 | 2,412,757 |
| **Net profit** | 449,352 | 533,305 |
| **Gross profit** | 544,664 | 662,651 |
| **Capital adequacy ratio according to NBP methodology** | 14.36% | 15.18% |
| **Profitability ratio** | 118.7% | 158.8% |
| Gross profit / General administrative expense * | | |
| **Costs to income ratio** | 47.6% | 37.1% |
| General administrative expense * / Result on banking activities | | |
| **Return on equity (ROE)** | 19.7% | 24.8% |
| Net profit / Average shareholders' equity | | |
| **Return on equity (ROA)** | 3.5% | 4.3% |
| Net profit / Average assets | | |
| **Rate of inflation:** | | |
| Yearly average | 0.90% | 3.70% |
| December to December | 0.70% | 2.40% |

* General administrative expense consists of Bank's operating expenses and depreciation and amortization.

## 3.2 Comments

The following trends may be observed based on the above financial ratios:

- The capital adequacy ratio according to NBP methodology decreased to 14.36% as of 31 December 2013 in comparison to 15.18% as of 31 December 2012.
- The profitability ratio decreased to 118.7% in 2013 in comparison to 158.8% in 2012;

- The cost to income ratio increased to 47.6% in 2013 in comparison to 37.1% in 2012;
- The return on equity ratio decreased to 19.7% in 2013 in comparison to 24.8% in 2012;
- The return on assets ratio decreased to 3.5% in 2013 in comparison to 4.3% in 2012.

### 3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Bank is unable to continue as a going concern for at least twelve months subsequent to 31 December 2013 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 1 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2013, the Management Board has stated that the financial statements were prepared on the assumption that the Bank will continue as a going concern for a period of at least twelve months subsequent to 31 December 2013 and that there are no circumstances that would indicate a threat to its continued activity.

### 3.4 Application of regulations mitigating banking risk

As at 31 December 2013, the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland and Resolutions of the Polish Financial Supervision Authority ('KNF') envisaged banking regulatory norms in relation to, among others, the following items:

- credit risk concentration,
- concentration of investments in shares,
- liquidity measurement,
- level of obligatory reserve, and
- capital adequacy.

During our audit we have not identified any material discrepancies indicating that during the period from 1 January 2013 to 31 December 2013 the Bank did not comply with these regulations. Furthermore, we have also received written representation from the Management Board of the Bank, that the banking regulatory norms were not breached during the reporting period.

### 3.5. Correctness of calculation of capital adequacy ratio

During our audit we have not identified any significant irregularities in the audited financial statements in relation to the calculation of the capital adequacy ratio as of 31 December 2013 in accordance with the Resolution no. 76/2010 of the Polish Financial Supervision Authority ('KNF') dated 10 March 2010 on the scope and the detailed regulations of the capital requirements calculation against particular risks (Official Journal of the Financial Supervision Authority No 2 dated 9 April 2010 with further amendments).

## II. DETAILED REPORT

### 1. Accounting System

In the financial year ended 31 December 2013, the Bank's accounts were kept using Cumbre, ICBS and FK computer systems at the Bank's head office. The Bank has up-to-date documentation, as required under Article 10 of the Accounting Act dated 29 September 1994 (2013 Journal of Laws No. 330, item 613 with subsequent amendments – 'the Accounting Act'), including a chart of accounts approved by the Bank's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

### 2. Assets, Liabilities and Equity, Profit and Loss Account

Details of the Bank's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2013.

Verification of assets and liabilities was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2013.

### 3. Additional Notes and Explanations to the Financial Statements

The additional notes and explanations to the financial statements for the year ended 31 December 2013 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the European Union.

### 4. Directors' Report

We have read the Directors' report on the Bank's activities in the period from 1 January 2013 to 31 December 2013 ('Directors' Report') and concluded that the information derived from the financial statements reconciles with the audited financial statements. The information included in the Directors' Report corresponds with Art. 49 para 2 of the Accounting Act.

## 5. Materiality Level

When determining the materiality level, professional judgement was applied taking into account the specific characteristics relating to the Bank. This included consideration of both value and qualitative aspects.

## 6. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board confirming that no laws, regulations or provisions of the Bank's Articles of Association, having material impact on the financial statements, were breached during the financial year.

on behalf of
Ernst & Young Audyt Polska
spółka z ograniczoną
odpowiedzialnością sp.k.
(formerly: Ernst & Young
Audit sp. z o.o.)
Rondo ONZ 1, 00-124 Warsaw
Reg. No. 130

Key Certified Auditor

Arkadiusz Krasowski
Certified Auditor
No. 10018

Warsaw, 3 March 2014

**SANTANDER CONSUMER BANK S.A.**

**Wrocław, ul. Strzegomska 42c**

# REPORT OF THE MANAGEMENT BOARD ON ACTIVITY OF SANTANDER CONSUMER BANK S.A. FOR THE FINANCIAL YEAR 2013

## I. Introduction

Santander Consumer Bank S.A. is one of the main financial institutions in Poland with many years of experience in the *consumer finance* sector. It provides for needs of households through providing innovative bank products and services. It is the Bank's ambition to constantly increase the quality of the offered services and increasing satisfaction of clients. In its activity the Bank pursues achievement of stable and secure development of the business, built on the basis of comprehensive procedures and economic analysis. The strength is based on in-depth knowledge of the market, effective and optimal usage of possessed resources and various distribution channels. The Bank uses modern knowledge and wide experience of one of the largest financial groups in the world – Santander Group.

## II. Structure of ownership and management of the Bank

Santander Consumer Finance S.A. with its registered seat in Madrid is the sole shareholder of Santander Consumer Bank S.A. holding 5.200.000 (five million two hundred thousand) shares, including 1 040 001 preference registered shares of series A, B, C1 and 4 159 999 ordinary registered shares of series C2, D, E, F, G, H, I, J, K accounting for 100 % of the share capital of the Bank and representing 100% of votes at the Bank's General Meeting.
In 2013 Santander Consumer Finance S.A. with its registered seat in Madrid purchased minority stake of shares (30%) held by AIG Consumer Finance Group, Inc. with its registered seat in Wilmington, becoming the sole shareholder of Santander Consumer Bank S.A.

The Management Board of Santander Consumer Bank S.A. as of 31st December 2013 fulfilled its duties in the following composition:

- Arkadiusz Wiktor Przybył – President of the Management Board,
- Piotr Żabski – Vice President of the Management Board,
- Mariusz Klepacz – Member of the Management Board,
- Przemysław Kończal – Member of the Management Board,
- Oleksandr Krupchenko – Member of the Management Board,
- Rafał Szmuc – Member of the Management Board,
- Sebastian Ślanda – Member of the Management Board,
- Artur Wawrzyniak – Member of the Management Board.

The following changes in the composition of the Bank's Management Board occurred during 2013:

- on 21.05.2013 resignation of Piotr Żabski from the function of the President of the Management Board, filed on 28.06.2012, became effective,
- on 21.05.2013, in relation to the consent of the Polish Financial Supervision Authority, appointment of Mr. Arkadiusz Wiktor Przybył to fulfill the function of the President of the Management Board, became effective,
- on 18.08.2013 Jose Luis Sanchez Diaz filed his resignation from the function of the Member of the Bank's Management Board,
- on 31.08.2013 Ramon Billordo filed his resignation from the function of the Member of the Bank's Management Board,
- on 24.09.2013 the Supervisory Board appointed Mr. Piotr Żabski to fulfill the function of the Vice President of the Management Board,
- on 24.09.2013 the Supervisory Board appointed Mr. Rafał Szmuc to fulfill the function of the Member of the Management Board,
- on 24.09.2013 the Supervisory Board appointed Mr. Mariusz Klepacz to fulfill the function of the Member of the Management Board,
- on 24.09.2013 the Supervisory Board appointed Mr. Oleksandr Krupchenko to fulfill the function of the Member of the Management Board.

The Supervisory Board of Santander Consumer Bank S.A. as of 31st December 2013 fulfilled its duties in the following composition:

- Jacek Mościcki – Chairman of the Supervisory Board,
- Bruno Montalvo Wilmot – Deputy Chairman of the Supervisory Board,
- Ernesto Zulueta Benito – Member of the Supervisory Board,
- David Turiel Lopez – Member of the Supervisory Board,
- Francisco Javier Anton San Pablo – Member of the Supervisory Board,
- Maria del Rosario Vacas Roldán – Member of the Supervisory Board,
- Sergiusz Najar - Member of the Supervisory Board.

The following changes in the composition of the Bank's Supervisory Board occurred during 2013:

- on 16.01.2013 Mr. Eduardo Garcia Arroyo filed his resignation from the function of the Member of the Bank's Supervisory Board,
- on 17.01.2013 Extraordinary General Meeting of Santander Consumer Bank S.A. appointed Mrs. Maria del Rosario Vacas Roldán to fulfill the function of a Member of the Bank's Supervisory Board,
- on 20.11.2013 Mr. Dovid Shraga Warshawsky filed his resignation from the function of the Member of the Bank's Supervisory Board.

## III. Profile of the Bank's activity

In 2013 the Supervisory Board approved the 2013-2016 Strategy developed by the Bank's Management Board, assuming realization of key objectives set in the Strategy applicable in the previous period. The Bank's activity is based on a verified business model including multi-product and multi-channel activity addressed to a differentiated data base of clients, as well as ongoing and systematic cross-selling and up-selling. The Bank's offer includes also financing of cars via leasing through the subsidiary Santander Consumer Multirent Sp. z o.o., where Santander Consumer Bank S.A. is the sole shareholders.

### A. Credit activity

In 2013 Santander Consumer Bank S.A. had the following products in its offer:

- car loans,
- loans for dealers and importers of cars for financing of new and used cars for further re-sale,
- HP loans,
- cash loans,
- credit cards.

**Car loans**

Santander Consumer Bank S.A. has been a leader of the car loans market for many years now. The Bank finances purchase of cars through car loans and car-backed loans for:

- new cars,
- used cars,
- small fleets.

Both natural persons and entrepreneurs may be borrowers.

The Bank intensely builds its position on the car loans market both through individual contact with particular car dealers and through cooperation with importers of particular brands.

**Loans for dealers and importers**

The Bank grants loans and bank guarantees to dealers and importers of cars in order to stimulate sale of retail car loans by these entities. In particular those are:

- short-term loans for financing purchase of cars in order to re-sell them to clients,
- 3- and 4-year investment loans for purchase of demo cars or fleets,
- guarantees of payments for the purchased cars.

**HP loans**

Loans for purchase of goods and services are addressed to new Clients who have not used the Bank's offer before, as well as to Clients who currently repay other liabilities towards the Bank or used the Bank's product in the past The product is available throughout the whole country, with sale partners who have signed cooperation agreements with the Bank. This product is the main source of attracting new clients using, at further stages of cooperation also other Bank's products. In 2013 the Bank became the leader on the HP loans market.

**Cash loans**

The market environment in the cash loan segment has been very competitive. As one of the leaders in the segment the Bank competes with both banks and other quasi-bank institutions.

At present the cash loans offer for Clients include the following products:

- cash loans,
- consolidation loans.

The offer includes two types of cash loans, depending on existence of the credit history of the Client in the Bank's data bases. Cash loans for known clients, i.e. Clients with credit records at the Bank and cash loans for unknown clients. The consolidation loans offer is addressed to own Clients with credit capacity for consolidation of internal or external debt. Clients showing repayment difficulties are offered consolidation loans for restructuring purposes.

**Credit cards**

Santander Consumer Bank S.A., in the scope of sale of credit cards, is among the top 15 largest credit card issuers in Poland.

The following products are at present in the Bank's offer:

- in the network of Bank Branches and Partner Branches - Visa Comfort, Visa Comfort Plus, TurboKARTA;
- at Customer Service Points in the sale partner's network (co-branded cards) - Visa SATURN, Visa Media Markt.

The target group of credit cards holders includes retail clients from the own data base, contributed with clients gained from HP loans, as well as new clients from outside the Bank's own data base. Since 2011 the Bank has been selling cards issued together with the Bank's business partners. Their share in the card portfolio consistently grows.

The Bank manages the credit cards portfolio, undertaking actions aiming at achieving the best effectiveness ratios within key business areas (card activation, transactionality rate, building up the balance and retention actions).

**Mortgage loans**

Mortgage loans constitute a material share in the Bank's assets portfolio (at the end of 2013 the share was 39% of the general portfolio). The Bank has not offered this product since 2009; however, a significant exposure is still present in the statement of financial position. A material part of this portfolio (61%) is denominated to foreign currencies (mainly in Swiss Francs).

**B. Sources of funding**

**Deposits**

The Bank has offered term deposits for retail clients and enterprises for more than ten years (previously as Bank Podlaski SA and AIG Bank Polska SA). From the value perspective, products for retail clients are dominant and they comprise mainly fixed interest rate term deposits with compounding at the end of the term – deposits taken from private individuals and term deposits with interest rate determined on the basis of interbank market rates – deposits taken from corporate clients.

**Own bonds**

In 2013 Santander Consumer Bank S.A. continued actions aiming at diversification of the funding sources, issuing bonds and deposit certificates within the program of issuing debt securities guaranteed by the parent entity, Santander Consumer Finance SA. Long-term securities issued in 2013 have a variable interest rate based on Wibor 6M/3M rate, while short-term securities have a fixed interest rate.

All debt securities were issued within the issuance program, guaranteed by the parent entity, Santander Consumer Finance SA.

### C. Sale network

In 2013 the Bank realized sale of its products through the following distribution channels:

- a network of its own branches and partner branches (sale of cash loans, credit cards and retail deposit),
- mobile structure of car loans sale,
- mobile structure of corporate deposits sale,
- remote channels i.e. call center, Internet (sale of cash loans, credit cards and HP loans)
- a network of external partner networks cooperating with the Bank, i.e. in the scope of car loans (dealers of new and used cars), HP loans and credit cards (sales networks, shops).

As of 31st December 2013 the Bank had:

- 174 own branches,
- 82 partner branches,
- 1 304 car loans sale partners,
- 16 443 HP loans sale partners.

## IV. Assessment of the financial situation.

The financial situation in 2013 was assessed in comparison with data for the previous year.
Main effectiveness ratios as at the end of 2013 and the previous year were as follows:

- profitability of assets (ROA)[1] – 3.5% in 2013, 4.3% in 2012 ,
- profitability of capitals (ROE)[2] – 19.7% in 2013, 24.8% in 2012,
- cost to income (C/I)[3] – 48.6% in 2013, 36.6% in 2012.

The Bank's financial result for 2013 was closed with net profit of PLN 449.4 mm, what, as compared to the previous financial year, is a decrease by PLN 84 million (i.e. 15.7%).
Key factors having impact on the level of the above effectiveness ratios and the Bank's financial result included in particular:

a) growth of the credit portfolio,
b) reduction of percentage rates by the Monetary Policy Council,
c) higher level of costs of the Bank's operations;
d) lower level of financial assets impairment write-offs.

*Detailed description of the above factors is included in the further part of this chapter.*

In 2013 the result on banking activity was PLN 964.8 mm and composed of the following:

- interest result: PLN 730.2 mm,
- commission result: PLN 221.6 mm,
- result on financial operations and exchange position: PLN 13.0 mm.

As compared to the previous year, this result was PLN 159.7 mm lower (i.e. by -14.2%). The most important reasons were:

[1] Profitability of assets is calculated as the net result for the year to the average total assets as at the end and beginning of the period when the profit was elaborated;
[2] Profitability of capitals is calculated as a relation of the net result for the year to average capital as at the end and beginning of the period when the profit was elaborated;
[3] The ratio is calculated as a ratio of operating expenses and other operating expenses to gross result on banking activity with other operating income.

a) in 2013, as a result of the decision of the Monetary Policy Council, there was a significant decrease of percentage rates (in particular lombard rate of the National Bank of Poland) in the first half of the year, which contributed to deterioration of products profitability, in particular of cash loans and credit cards;
b) in the current financial year there was lower level of revenues from amortization of the fair value of the portfolio recognized as a result of the merger with AIG Bank Polska S.A.

The above factors, having negative impact on the result on banking activity, are factors beyond control of the Bank (reduction of percentage rates) and result from transactions of previous years (fair value amortization) and are not directly related to the Bank's current operations.
The Bank expects in the coming year a reverse of the negative trend of reducing percentage rates, which should translate into growth of the net interest income within the next years. Moreover, in the future the Bank does not expect further material drop in revenues related to amortization of the fair value of AIG's portfolio. Additionally, thanks to acquisition of the credit portfolio from the company Santander Consumer Finanse S.A. at the end of August 2013, as well as thanks to growth of the new loans volumes (in particular better sale of cash loans, HP loans and to a smaller extent sale of credit cards) the net credit portfolio grew by PLN 2 337.6 mm and its structure improved (growing share of high-margin products especially cash loans). It should also be pointed out that, while the credit portfolio grew, there was a positive result in 2013 under *financial assets impairment write-offs* in the statement on comprehensive income in the amount of PLN 12.4 mm (PLN -116.8 mm in 2012), which allowed, at increased scale of the business, maintaining the existing level of risk of credit activity.

Costs of the Bank's activity amounted to PLN 413.6 mm and were higher as compared to the previous year when they amounted to PLN 373.2 mm, by PLN 40.4 mm (i.e. by 10.8%). The following were the main costs in 2013:
- costs of remuneration,
- marketing expenses,
- cost of rents,
- costs of IT services,
- costs related to the Bank Guarantee Fund.

Growth of the costs of the Bank's activity results mainly from acquisition of the organized part of enterprise of Santander Consumer Finanse S.A., what allowed the Bank to develop, as well as to strengthen its market position. At the same time, the Bank continues the cost reduction policy through taking advantage of the synergy effect. Significant role in the process will be played by objectives set in the areas of integration and development of IT systems and related financial outlays. In the coming years, that should translate into material reduction of the cost-to-income ratio.

## V. Development plan

The Bank's main strategic objective is to develop a modern safe Bank with homogeneous structure and management culture, based on experience of the Santander Group. Sale objectives assume maintaining a strong position on the market of *consumer finance*.
The Bank is planning to conduct further material investments in the IT systems improving operational processes, and to improve the cost effectiveness of its activity.
According to the commitment of the Santander Group made towards the Polish Financial Supervision Authority, in 2014 Santander Consumer Bank S.A. is to become a subsidiary of Bank Zachodni WBK S.A. It is assumed that Santander Consumer Bank S.A. will continue to realize its current strategy of activity and changes in the structure of the Bank's ownership will have limited impact on the currently applicable business model and conducted operations.

## VI. Financial instruments and financial risk

The objective of risk management is to support business activity through optimization of costs borne by the Bank as a result of materialization of particular types of risks.
The main types of risk that have impact on the Bank's financial results cover credit risk, interest rate risk, liquidity risk and FX risk. The Bank verifies and agrees on the rules of managing each type of risk. The said principles have been briefly presented below.

**Credit risk**

Credit risk is managed in two areas of activity: ex ante understood as the credit decision and ex post as repayments and collaterals monitoring, restructuring actions, debt collection and, alternatively, irregular portfolio sale in the event collection of receivables is no longer economically justifiable due to the relation of costs of such collection proceedings to the possible recoveries. In particular, within the frame of credit risk management the following groups of actions are undertaken at the Bank:

- assessment and verification of credit applications,
- monitoring and reporting of credit risk indicators,
- monitoring of repayments, debt collection and restructuring processes,
- administration of collaterals,
- receivables portfolio dealing,
- specifying impairment loss provisions,
- determining level of limits rates, including exposures and production concentration limits value, as well as emergency levels for those concentrations,
- monitoring, reporting and validation of scoring cards and other tools applied to determine decision rules, used in the credit underwriting process and developed upon quantitative methods.

The credit risk monitoring process is performed permanently, with reports drawn up on a daily, monthly or quarterly basis. The reports are prepared within the management information system and presented to the Member of the Management Board supervising the Bank's credit risk as well as at the meetings of the Management Board and the Supervisory Board.

The Bank manages credit risk applying the methodology of annual planning of key risk parameters and limiting particular types of risks. The Bank applies forecasts corresponding to the calendar year. The forecasts are divided into separate business lines (products). Control over forecast realization is performed on a monthly basis, with any variance of the assumed values being subject to a detailed analysis. The Bank's partial objective is to reach the assumed ratios determining the credit risk level and its impact on credit portfolio profitability.

Within its policy the Bank also concentrates on managing limits related to credit risk, and in particular, on identifying criteria for determining the limits and their periodical review, as well as on monitoring and controlling the limits as determined.

In addition to the risk forecasting methodology, the Bank applies other mechanisms for assessing the credit risk level, enabling simulation of the results of possible business decisions considered at the Bank. In particular the Bank prepares:

- vintage analyses,
- trend analyses of main portfolio loss ratios,
- marginal analyses of level selected credit risk indicators,
- matrices of exposures migration between the DPD groups,
- analyses of the level of impairment loss provisions,
- analyses in the scope of risks identification, their levels and the options of managing them in relation to new products and services,
- analyses of the clients' application and behavioral characteristics,
- statistical analyses taking into account historical data, portfolio forecasts and other internal analyses aiming at determining limits applied at the Bank,
- stress tests,
- other analyses and ad hoc reports prepared in order to monitor and report the credit portfolio quality.

The Bank pursues comprehensive backup of the IT systems for the process of credit application analysis and verification. The Bank's strategy assumes restructuring of the credit underwriting process so that the Bank is ready to handle a larger volume of credit applications with simultaneous maintenance of the credit risk exposure at the acceptable level, measured by the value of capital requirement for credit risk.

As regards determining of impairment loss provisions, the Bank applies the methodology compliant with the International Accounting Standards.

In 2013 the Bank again focused on improving credit risk parameters and improving effectiveness of operational activities.

After a significant improvement of quality of loans granted in 2009-2011, in 2013 the quality of new credit production, the same as in 2012, was stable and within the approved parameters of the risk appetite.

In the middle of 2013 the Bank changed its procedures in the scope of credit risk management in order to ensure full compliance with requirements of the Recommendation T of February 2013. In the middle of 2013 there was also implemented one recommendation of the PFSA issued after the inspection of 2012, namely: for restructuring loans credit capacity assessment is done taking into account the capacity to repay the debt, based on obtained income and borne costs and information from internal and external data bases.

In the scope of collection of delinquent loans the following actions should be indicated:

- performed review and introduced changes in the approach to segmentation of delinquent portfolios of HP loans, credit cards and cash loans,
- increased operating effectiveness in the scope of recovering and selling vehicles being collaterals to car loans,
- realized projects related to sale of portfolios written off in previous years from the Bank's balance sheet,
- a series of undertaken actions and solutions implemented aiming at increasing effectiveness in the scope of the contact rate with delinquent clients,
- introduced new rules of cooperation with eternal collection companies in the scope of telephone service.

As the risk of the new credit production is stable and at a low level and the existing portfolio's behavior improved, in 2013, in relation to the majority of portfolio segments, we can observe improvement of parameters as regards loans migration between DPD groups and recovery of exposures with impairment loss.

The value of provisions in the annual account in 2013 amounted to PLN– 12.4 mm as compared to PLN 116.8 mm in 2012.

The irregular loans portfolio (i.e. loans more than 90 days past due) amounted to PLN 1 411.6 mm at the end of 2013, as compared to PLN 1 580.0 mm at the end of 2012.

**Percentage rate risk in the bank ledger**

The Bank defines the percentage rate risk as risk arising from exposing the current and future Bank's financial result to adverse impact of changes of percentage rates. All components of the percentage rate risk, including the following, are monitored and limited:

- liquidity gap risk,
- base risk,
- yield curve risk,
- risk of client's using his prepayment option.

To measure the percentage rate risk the Bank applies among others the percentage rate gap adjusted by early loan repayments and hypothesis regarding early termination of deposits. The analysis covers the impact of the potential change of percentage rates on the Bank's interest result. The Bank estimates also the Value at Risk (VaR). The analysis is expanded with analysis of stress scenarios for the assumed shock change of percentage rates.

**FX risk**

The Bank defines the FX risk as risk arising from exposing the current and the future Bank's financial result and its capital to adverse changes of the FX rates. Within FX risk monitoring the Bank analyses also liquidity risk in foreign currencies and the impact of the FX risk on the credit risk that occurs in case of loans denominated to foreign currencies – if there is a mismatch between the loan currency and the client's income currency, as well as impact of the FX risk on liquidity risk that arises from

PLN valuation of CIRS and FX Swap derivatives. The Bank's balance sheet includes a high share of loans denominated in foreign currencies. In 2013 conclusion of a REPO transaction secured with treasury bonds and usage of the received credit line in CHF changed the CHF funding structure and had positive impact on the short- and long-term liquidity gap.

**Capital adequacy**

The aim of the capital adequacy management is the Bank's fulfilling prudence regulations in the scope of capital requirements for the borne risk, quantified in a form of the solvency ratio. The main tools of capital adequacy management are:

- selection of optimal, in terms of the required capital, methods of measuring capital requirement for the borne types of risk,
- internal procedures determining original positions included in the bank portfolio.

As of 31st December 2013 the Bank's equity amounted to PLN 1 737.5 mm, what in the opinion of the Bank's Management Board fully covered risks related to the Bank's activity and requirements of the banking supervision.

| | **31.12.2013** | **31.12.2012 (transformed data)** |
|---|---:|---:|
| **Core funds** | **1 640 347 133** | **1 538 107 079** |
| - share capital | 520 000 000 | 520 000 000 |
| - supplementary capital | 1 261 890 381 | 1 129 417 182 |
| - loss of previous years | -66 871 695 | -26 482 052 |
| - unrealized loss on financial instruments classified as tradable | -7 505 923 | 0 |
| - positions reducing the core funds: | -67 165 630 | -84 828 051 |
| *- intangible assets* | *-53 538 853* | *-71 201 274* |
| *- bank's capital engagement in financial institutions* | *-13 626 777* | *-13 626 777* |
| **Supplementary funds** | **97 163 132** | **116 864 597** |
| - subordinated liability | 110 000 000 | 130 000 000 |
| - unrealized profits on financial instruments classified as tradable | 789 909 | 491 374 |
| - positions reducing the supplementary funds: | -13 626 777 | -13 626 777 |
| *- bank's capital engagement in financial institutions* | *-13 626 777* | *-13 626 777* |
| **Total equity for the purpose of calculating the solvency ratio** | **1 737 510 265** | **1 654 971 676** |

Solvency ratio as of 31st December 2013 was at the level above the minimum defined in art. 128 of the Banking act and recommendations of the PFSA and was 14.36%.

**Liquidity risk**

The aim of liquidity risk management is to shape the Bank's capital position and off-balance sheet liabilities in order to ensure permanent capacity to pay off liabilities, taking into account the nature of the conducted activity and needs that may appear as a result of changes in the market environment or behavior of clients. The main aim of liquidity risk management at the Bank is to pursue growth of stable sources of funding.

To measure the liquidity risk the Bank applies among others the percentage rate gap adjusted by early loan repayments, hypothesis of early termination of deposits, analysis of stress scenarios within the liquidity emergency plan and analysis of stability and costs of obtaining liabilities.

The Bank's financial liquidity is shaped mainly with funds obtained from deposits from retail and corporate clients, issue of own securities, as well as in the frame of credit lines from the Santander Group and other entities. Unused credit lines cover all financial needs of the Bank arising from the conducted stress tests and ensure the main and the supplementary liquidity reserve.

**Operational risk**

The Bank defines operational risk is a probability of a loss arising from maladjustment or unreliability of internal processes, people and systems or external incidents, covering also legal risk.

The operational risk management and control at Santander Consumer Bank S.A. covers all Bank's organizational units and its subsidiaries. In reference to operational risk, according to the applied rule the risk management function is separated from the risk control function. Application of this rule ensures the possibility to properly join quality and quantity methods of measuring operational risk in the process of controlling this risk, their development and ensures independent measuring and reporting of operational risk. At the same time, supervision over operational risk is within competences of the operational risk management function, especially through means and methods of its limiting, rejecting or transferring.

Due to product and organizational characteristics and the size of the incurred operating losses, the most important business areas generating operational risk in 2013 are as follows:

- counteracting external frauds,
- products and risk of their impact on relations with regulators and clients,
- area of IT systems and their impact on functioning of the Bank,
- activity of outsourcers in relations to tasks realized for the benefit of the Bank.

The main tools for measuring the level of operational risk at the Bank are:

- data base of operational incidents,
- self-assessment of business areas,
- self-assessment of risk in business sub-processes,
- key operational risk indicators (KRI).

In order to limit exposure to operational risk the Bank applies remedy actions, mitigation plans and risk transfer through insurance.

On 01.12.2013, in relation to fulfillment of the conditions specified in art. 16 of the appendix no. 14 to the Resolution no. 76/2010 dated 10th March 2010, the Bank changed the method of calculating the value of the capital adequacy ratio for operational risk from the basic approach method to the standardized approach method. As a result of the change, there were two business lines separate from the banking activity and there was a decision taken to assign products to them in accordance with the following:

- Retail banking:
  - (a) Credit cards,
  - (b) HP loans,
  - (c) Cash loans,
  - (d) Mortgage loans,
  - (e) Car loans granted to individuals,
  - (f) Deposits taken from individuals.
- Commercial banking:
  - (a) Stock-financing loans,
  - (b) Car loans granted to economic entities,
  - (c) Deposits taken from corporations,
  - (d) Activity of the area of assets and liabilities management (ALM).

As a result of the change of the calculation method, the requirement for operational risk was reduced from PLN 189 685 625 to PLN 157 931 002.

## VII. Summary

In 2013 Santander Consumer Bank S.A. focused its activity on ensuring stability, on further improvement of effectiveness and on being compliant with the legal and regulatory environment. The Bank maintained the strong position on the consumer finance market. Conducting stable and secure bank activity, conquering new markets and gaining new clients, the Bank elaborated net profit in the amount of PLN 449.4 mm and maintained the solvency ratio at a secure level of 14.36%.

Wrocław, 3rd March 2014

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| ...................................... | ...................................... | |
| Arkadiusz Wiktor Przybył | Piotr Żabski | |
| President of the Management Board | Vice President of the Management Board | |
| ...................................... | ...................................... | ...................................... |
| Mariusz Klepacz | Przemysław Kończal | Oleksandr Krupchenko |
| Management Board Member | Management Board Member | Management Board Member |
| ...................................... | ...................................... | ...................................... |
| Rafał Szmuc | Sebastian Ślanda | Artur Wawrzyniak |
| Management Board Member | Management Board Member | Management Board Member |