REPORT OF
BANK ZACHODNI WBK GROUP
FOR QUARTER 1 2018

2018

Bank Zachodni WBK
Grupa Santander

	FINANCIAL HIGHLIGHTS	PLN k		EUR k	
		01.01.2018-31.03.2018	01.01.2017-31.03.2017	01.01.2018-31.03.2018	01.01.2017-31.03.2017
	Consolidated financial statements of Bank Zachodni WBK Group				
I	Net interest income	1 389 826	1 253 996	332 622	292 368
II	Net fee and commission income	515 114	475 193	123 280	110 791
III	Profit before tax	712 684	740 028	170 564	172 537
IV	Net profit attributable to owners of BZ WBK S.A.	438 734	453 044	105 000	105 627
V	Total net cash flows	(567 096)	(4 880 588)	(135 721)	(1 137 905)
VI	Profit of the period attributable to non-controlling interests	93 471	74 172	22 370	17 293
VII	Profit per share in PLN/EUR	4,42	4,57	1,06	1,07
VIII	Diluted earnings per share in PLN/EUR	4,41	4,56	1,06	1,06
	Financial statements of Bank Zachodni WBK				
I	Net interest income	986 964	902 101	236 206	210 324
II	Net fee and commission income	393 269	401 317	94 120	93 567
III	Profit before tax	403 089	511 796	96 470	119 325
IV	Profit for the period	280 852	353 952	67 215	82 524
V	Total net cash flows	(514 211)	(4 574 165)	(123 064)	(1 066 463)
VI	Profit per share in PLN/EUR	2,83	3,57	0,68	0,83
VII	Diluted earnings per share in PLN/EUR	2,83	3,57	0,68	0,83

	FINANCIAL HIGHLIGHTS	PLN k		EUR k	
		31.03.2018	31.12.2017	31.03.2018	31.12.2017
	Consolidated financial statements of Bank Zachodni WBK Group				
I	Total assets	157 556 422	152 674 444	37 437 667	36 604 676
II	Deposits from banks	3 838 090	2 783 083	911 985	667 262
III	Deposits from customers	113 576 582	111 481 135	26 987 426	26 728 316
IV	Total liabilities	133 790 826	129 330 815	31 790 620	31 007 892
V	Total equity	23 765 596	23 343 629	5 647 047	5 596 785
VI	Non-controlling interests in equity	1 530 692	1 436 409	363 714	344 388
VII	Number of shares	99 333 481	99 333 481	-	-
VIII	Net book value per share in PLN/EUR	239,25	235,00	56,85	56,34
IX	Capital ratio	16,67%	16,69%		
X	Declared or paid dividend per share in PLN/EUR*	3,10	5,40	0,74	1,27
	Financial statements of Bank Zachodni WBK				
I	Total assets	137 530 032	132 863 268	32 679 109	31 854 820
II	Deposits from banks	2 484 820	1 414 448	590 429	339 123
III	Deposits from customers	104 135 445	102 155 522	24 744 076	24 492 441
IV	Total liabilities	116 501 503	112 024 431	27 682 429	26 858 575
V	Total equity	21 028 529	20 838 837	4 996 680	4 996 245
VI	Number of shares	99 333 481	99 333 481		
VII	Net book value per share in PLN/EUR	211,70	209,79	50,30	50,30
VIII	Capital ratio	18,94%	18,95%		
IX	Declared or paid dividend per share in PLN/EUR*	3,10	5,40	0,74	1,27

* Detailed information are described in Note 41.

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

- for balance sheet items – average NBP exchange rate as at 31.03.2018: EUR 1 = PLN 4.2085 and as at 29.12.2017: EUR 1 = PLN 4.1709
- for profit and loss items – as at 31.03.2018 - the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month in 2018: EUR 1 = PLN 4.1784; as at 31.03.2017 - the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month in 2017: EUR 1 = PLN 4.2891

As at 31.03.2018, FX denominated balance sheet positions were converted into PLN in line with the NBP FX table no. 064/A/NBP/2018 dd. 30.03.2018.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENT OF BANK ZACHODNI WBK GROUP FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2018

2018

Bank Zachodni WBK
Grupa Santander

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In thousands of PLN

Condensed consolidated income statement

for reporting period:		01.01.2018-31.03.2018	01.01.2017-31.03.2017
Interest income		**1 688 501**	**1 559 802**
Interest income on financial assets measured at amortised cost		1 518 899	-
Interest income on financial assets measured at fair value through other comprehensive income		163 239	-
Income similar to interest - financial assets measured at fair value through profit or loss		6 363	-
Interest expense		(298 675)	(305 806)
Net interest income	Note 4	**1 389 826**	**1 253 996**
Fee and commission income		617 725	582 576
Fee and commission expense		(102 611)	(107 383)
Net fee and commission income	Note 5	**515 114**	**475 193**
Dividend income		185	345
Net gains/(losses) on subordinated entities		(65)	3 757
Net trading income and revaluation	Note 6	20 073	55 858
Gains (losses) from other financial securities	Note 7	(300)	17 177
Other operating income	Note 8	77 448	42 340
Impairment losses on loans and advances	Note 9	(222 966)	(145 512)
Operating expenses incl.:		(971 151)	(865 972)
-Bank's staff, operating expenses and management costs	Notes 10, 11	(862 454)	(763 710)
-Depreciation/amortisation		(82 536)	(74 269)
-Other operating expenses	Note 12	(26 161)	(27 993)
Share in net profits (loss) of entities accounted for by the equity method		10 998	8 655
Tax on financial institutions		(106 478)	(105 809)
Profit before tax		**712 684**	**740 028**
Corporate income tax	Note 13	(180 479)	(212 812)
Consolidated profit for the period		**532 205**	**527 216**
of which:		-	-
-attributable to owners of BZ WBK S.A.		438 734	453 044
-attributable to non-controlling interests		93 471	74 172
Net earnings per share (PLN/share)			
Basic earnings per share		4,42	4,57
Diluted earnings per share		4,41	4,56

Notes presented on pages 15 – 65 constitute an integral part of these financial statements.

In thousands of PLN

Condensed consolidated statement of comprehensive income

for reporting period:	01.01.2018-31.03.2018	01.01.2017-31.03.2017
Consolidated profit for the period	**532 205**	**527 216**
Other comprehensive income which can be transferred to the profit and loss account:	**138 236**	**118 416**
Available-for sale financial assets valuation, gross	-	163 450
Deferred tax	-	(31 056)
Cash flow hedges valuation, gross	(11 304)	(17 257)
Deferred tax	2 148	3 279
Debt securities measured at fair value through other comprehensive income	181 965	-
Deferred tax	(34 573)	-
Other comprehensive income which can't be transferred to the profit and loss account	**1 504**	**(4)**
Equity securities measured at fair value through other comprehensive income	1 860	-
Deferred tax	(356)	-
Provision for retirement allowances – actuarial gains/losses, gross	-	(5)
Deferred tax	-	1
Other comprehensive income for the period, net of income tax	**139 740**	**118 412**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**671 945**	**645 628**
Attributable to:		
owners of BZ WBK S.A.	577 662	569 394
non-controlling interests	94 283	76 234

Notes presented on pages 15 – 65 constitute an integral part of these financial statements.

In thousands of PLN

Condensed consolidated statement of financial position

as at:		31.03.2018	31.12.2017
ASSETS			
Cash and balances with central banks	Note 14	5 202 843	4 146 222
Loans and advances to banks	Note 15	1 810 599	2 136 474
Financial assets held for trading	Note 16	5 778 803	3 416 108
Hedging derivatives		186 449	218 061
Loans and advances to customers incl.:	Note 17	109 077 791	107 839 897
- measured at amortised cost		108 971 391	-
- measured at fair value through profit or loss		106 400	-
Buy-sell-back transactions		-	-
Financial assets available for sale		-	28 415 812
Investment securities incl.:	Note 18	29 001 043	-
- debt securities measured at fair value through other comprehensive income		28 090 221	-
- equity securities measured at fair value through other comprehensive income		907 432	-
- other investment securities measured at fair value through other profit or loss		3 390	-
Investments in associates	Note 19	901 864	889 372
Intangible assets		486 567	490 327
Goodwill		1 712 056	1 712 056
Property, plant and equipment		898 332	930 717
Net deferred tax assets		1 445 532	1 414 227
Assets classified as held for sale		15 261	103
Other assets		1 039 282	1 065 068
Total assets		**157 556 422**	**152 674 444**
LIABILITIES AND EQUITY			
Deposits from banks	Note 20	3 838 090	2 783 083
Hedging derivatives		642 311	578 798
Financial liabilities held for trading	Note 16	954 909	1 237 704
Deposits from customers	Note 21	113 576 582	111 481 135
Sell-buy-back transactions		5 378 655	2 650 846
Subordinated liabilities	Note 22	1 500 901	1 488 602
Debt securities in issue	Note 23	5 164 719	5 895 814
Current income tax liabilities		147 693	192 925
Provisions for off balance sheet credit facilities	Note 24	68 036	50 652
Other provisions	Note 25	108 114	102 482
Other liabilities	Note 26	2 410 816	2 868 774
Total liabilities		**133 790 826**	**129 330 815**
Equity			
Equity attributable to owners of BZ WBK		**22 234 904**	**21 907 220**
Share capital		993 335	993 335
Other reserve capital		16 923 096	16 920 129
Revaluation reserve		827 996	714 466
Retained earnings		3 051 743	1 066 236
Profit for the current period		438 734	2 213 054
Non-controlling interests in equity		**1 530 692**	**1 436 409**
Total equity		**23 765 596**	**23 343 629**
Total liabilities and equity		**157 556 422**	**152 674 444**

Notes presented on pages 15 – 65 constitute an integral part of these financial statements.

In thousands of PLN

Condensed consolidated statement of changes in equity

Consolidated statement of changes in equity	Equity attributable to equity holders of BZ WBK SA Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total	Non-controlling interests in equity	Total equity
Opening balance as at 31.12.2017	**993 335**	**16 920 129**	**714 466**	**3 279 290**	**21 907 220**	**1 436 409**	**23 343 629**
Impact of the implementation of IFRS 9	-	-	(25 329)	(229 125)	(254 454)	-	(254 454)
Opening balance as at 01.01.2018 (restated)	**993 335**	**16 920 129**	**689 137**	**3 050 165**	**21 652 766**	**1 436 409**	**23 089 175**
Total comprehensive income	-	-	138 928	438 734	577 662	94 283	671 945
Consolidated profit for the period	-	-	-	*438 734*	*438 734*	*93 471*	*532 205*
Other comprehensive income	-	-	*138 928*	-	*138 928*	*812*	*139 740*
Profit on sale of equity securities measured at fair value through other comprehensive income	-	-	(69)	69	-	-	-
Share scheme charge	-	3 201	-	-	3 201	-	3 201
Equity adjustment due to merger and liquidation of subsidiaries and controlling stake at the subsidiaries	-	(234)	-	1 509	1 275	-	1 275
As at 31.03.2018	**993 335**	**16 923 096**	**827 996**	**3 490 477**	**22 234 904**	**1 530 692**	**23 765 596**

As at the end of the period revaluation reserve in the amount of PLN 827,996 k comprises of debt securities and equity shares classified as available for sale of PLN 391,482 k and PLN 533,565 k respectively and additionally cash flow hedge activities of PLN (97,488) k and accumulated actuarial gains - provision for retirement allowances of PLN 437 k.

Consolidated statement of changes in equity	Equity attributable to equity holders of BZ WBK SA Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total	Non-controlling interests in equity	Total equity
Opening balance as at 31.12.2016	**992 345**	**15 791 555**	**276 093**	**2 720 834**	**19 780 827**	**1 237 649**	**21 018 476**
Total comprehensive income	-	-	116 350	453 044	569 394	76 234	645 628
Consolidated profit for the period	-	-	-	*453 044*	*453 044*	*74 172*	*527 216*
Other comprehensive income	-	-	*116 350*	-	*116 350*	*2 062*	*118 412*
Equity adjustment due to merger and liquidation of subsidiaries and controlling stake at the subsidiaries	-	7 588	-	704	8 292	18 993	27 285
As at 31.03.2017	**992 345**	**15 799 143**	**392 443**	**3 174 582**	**20 358 513**	**1 332 876**	**21 691 389**

The revaluation reserve of PLN 392,443 k comprises valuation of debt securities of PLN (16,918) k, equity shares of PLN 524,129 k, cash flow hedges of PLN (122,787) k and the provision for retirement allowances with cumulative actuarial gains of PLN 8,019 k.

In thousands of PLN

Condensed consolidated statement of cash flows

for the period	01.01.2018-31.03.2018	01.01.2017-31.03.2017
Profit before tax	**712 684**	**740 028**
Total adjustments:		
Share in net profits of entities accounted for by the equity method	(10 998)	(8 655)
Depreciation/amortisation	82 536	74 269
Impairment losses	(10)	(10)
Profit from investing activities	(44 418)	(20 008)
	739 794	**785 624**
Changes:		
Provisions	23 016	4 096
Trading portfolio financial instruments	(2 645 490)	(110 173)
Hedging derivatives	95 125	(706 965)
Loans and advances to banks	(26)	6
Loans and advances to customers	(1 237 894)	(949 640)
Deposits from banks	1 281 887	(46 726)
Deposits from customers	1 947 958	(4 064 851)
Buy-sell/ Sell-buy-back transactions	2 727 809	(103 404)
Other assets and liabilities	(759 568)	(52 331)
	1 432 817	**(6 029 988)**
Interest accrued excluded from operating activities	(100 884)	(108 434)
Dividend	(185)	(344)
Paid income tax	(231 059)	(198 372)
Net cash flows from operating activities	**1 840 483**	**(5 551 514)**
Inflows	**688 051**	**1 294 165**
Sale of financial assets available for sale	-	1 185 909
Sale of investment securities	517 241	-
Sale of intangible assets and property, plant and equipment	58 606	4 939
Dividend received	6	180
Interest received	112 198	103 137
Outflows	**(2 222 031)**	**(1 072 707)**
Purchase of financial assets available for sale	-	(1 047 570)
Purchase of investment securities	(2 146 814)	-
Purchase of intangible assets and property, plant and equipment	(75 217)	(25 137)
Net cash flows from investing activities	**(1 533 980)**	**221 458**
Inflows	**367 720**	**995 000**
Debt securities in issue	160 000	670 000
Drawing of loans	207 720	325 000
Outflows	**(1 241 319)**	**(545 532)**
Debt securities buy out	(890 000)	(285 000)
Repayment of loans	(283 495)	(206 748)
Interest paid	(67 824)	(53 784)
Net cash flows from financing activities	**(873 599)**	**449 468**
Total net cash flows	**(567 096)**	**(4 880 588)**
Cash and cash equivalents at the beginning of the accounting period	**7 662 368**	**11 838 799**
Cash and cash equivalents at the end of the accounting period	**7 095 272**	**6 958 211**

Notes presented on pages 15 – 65 constitute an integral part of these financial statements.

In thousands of PLN

Condensed income statement of Bank Zachodni WBK

for reporting period:	01.01.2018-31.03.2018	01.01.2017-31.03.2017
Interest income	**1 201 338**	**1 125 790**
Interest income on financial assets measured at amortised cost	1 042 999	-
Interest income on financial assets measured at fair value through other comprehensive income	151 976	-
Income similar to interest - financial assets measured at fair value through profit or loss	6 363	-
Interest expense	(214 374)	(223 689)
Net interest income	**986 964**	**902 101**
Fee and commission income	459 792	466 398
Fee and commission expense	(66 523)	(65 081)
Net fee and commission income	**393 269**	**401 317**
Dividend income	179	340
Net gains/(losses) on subordinated entities	(65)	-
Net trading income and revaluation	19 967	53 941
Gains (losses) from other financial securities	505	15 019
Other operating income	62 437	35 004
Impairment losses on loans and advances	(180 648)	(103 991)
Operating expenses incl.:	(782 838)	(694 933)
-Bank's staff, operating expenses and management costs	(695 534)	(616 248)
-Depreciation/amortisation	(70 301)	(64 655)
-Other operating expenses	(17 003)	(14 030)
Corporate income tax	(96 681)	(97 002)
Profit before tax	**403 089**	**511 796**
Corporate income tax	(122 237)	(157 844)
Profit for the period	**280 852**	**353 952**
Net earnings per share (PLN/share)		
Basic earnings per share	2,83	3,57
Diluted earnings per share	2,83	3,57

Condensed statement of comprehensive income of Bank Zachodni WBK

for reporting period:	01.01.2018-31.03.2018	01.01.2017-31.03.2017
Profit for the period	**280 852**	**353 952**
Other comprehensive income which can be transferred to the profit and loss account:	**136 309**	**114 125**
Available-for sale financial assets valuation, gross	-	158 279
Deferred tax	-	(30 073)
Cash flow hedges valuation, gross	(10 558)	(17 384)
Deferred tax	2 006	3 303
Debt securities measured at fair value through other comprehensive income	178 840	-
Deferred tax	(33 979)	-
Other comprehensive income which can't be transferred to the profit and loss account:	**2 135**	**-**
Equity securities measured at fair value through other comprehensive income	2 637	-
Deferred tax	(502)	-
Other comprehensive income for the period, net of income tax	**138 444**	**114 125**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**419 296**	**468 077**

Notes presented on pages 15 – 65 constitute an integral part of these financial statements.

In thousands of PLN

Condensed statement of financial position of Bank Zachodni WBK

as at:	31.03.2018	31.12.2017
ASSETS		
Cash and balances with central banks	5 138 906	4 114 801
Loans and advances to banks	1 771 634	2 012 118
Financial assets held for trading	5 784 756	3 421 547
Hedging derivatives	122 891	146 724
Loans and advances to customers incl.:	91 449 082	90 537 003
- measured at amortised cost	91 342 682	-
- measured at fair value through profit or loss	106 400	-
Financial assets available for sale	-	25 784 029
Investment securities incl.:	26 485 682	-
- debt securities measured at fair value through other comprehensive income	25 604 387	-
- equity securities measured at fair value through other comprehensive income	881 295	-
Investments in subsidiaries and associates	2 376 937	2 377 037
Intangible assets	449 750	459 976
Goodwill	1 688 516	1 688 516
Property, plant and equipment	794 309	821 532
Net deferred tax assets	726 762	709 867
Assets classified as held for sale	15 188	8
Other assets	725 619	790 110
Total assets	**137 530 032**	**132 863 268**
LIABILITIES AND EQUITY		
Deposits from banks	2 484 820	1 414 448
Hedging derivatives	640 891	578 798
Financial liabilities held for trading	976 118	1 263 859
Deposits from customers	104 135 445	102 155 522
Sell-buy-back transactions	4 339 679	1 479 667
Subordinated liabilities	1 500 901	1 488 602
Debt securities in issue	488 574	1 240 244
Current income tax liabilities	47 335	61 143
Provisions for off balance sheet credit facilities	44 282	25 384
Other provisions	60 330	57 216
Other liabilities	1 783 128	2 259 548
Total liabilities	**116 501 503**	**112 024 431**
Equity		
Share capital	993 335	993 335
Other reserve capital	16 179 384	16 176 183
Revaluation reserve	836 339	712 303
Retained earnings	2 738 619	1 040 860
Profit for the current period	280 852	1 916 156
Total equity	**21 028 529**	**20 838 837**
Total liabilities and equity	**137 530 032**	**132 863 268**

Notes presented on pages 15 – 65 constitute an integral part of these financial statements.

In thousands of PLN

Condensed statement of changes in equity of Bank Zachodni WBK

Statement of changes in equity	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total
Opening balance as at 31.12.2017	**993 335**	**16 176 183**	**712 303**	**2 957 016**	**20 838 837**
Impact of the implementation of IFRS 9	-	-	(14 339)	(218 466)	(232 805)
Opening balance as at 01.01.2018 (restated)	**993 335**	**16 176 183**	**697 964**	**2 738 550**	**20 606 032**
Total comprehensive income	-	-	138 444	280 852	419 296
Profit for the period	-	-	-	*280 852*	*280 852*
Other comprehensive income	-	-	*138 444*	-	*138 444*
Profit on sale of equity securities measured at fair value through other comprehensive income	-	-	(69)	69	-
Share scheme charge	-	3 201	-	-	3 201
As at 31.03.2018	**993 335**	**16 179 384**	**836 339**	**3 019 471**	**21 028 529**

As at the end of the period revaluation reserve in the amount of PLN 836,339 k comprises of debt and equity securities measured at fair value through other comprehensive income of PLN 382,135 k and PLN 553,862 k respectively, additionally cash flow hedge activities of PLN (99,980) k and accumulated actuarial gains - provision for retirement allowances of PLN 322 k.

Statement of changes in equity	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total
Opening balance as at 31.12.2016	**992 345**	**15 132 993**	**281 754**	**2 622 428**	**19 029 520**
Total comprehensive income	-	-	114 125	353 952	468 077
Profit for the period	-	-	-	*353 952*	*353 952*
Other comprehensive income	-	-	*114 125*	-	*114 125*
As at 31.03.2017	**992 345**	**15 132 993**	**395 879**	**2 976 380**	**19 497 597**

The revaluation reserve of PLN 395,879 k comprises valuation of debt securities of PLN (18,188) k, equity shares of PLN 531,904 k, cash flow hedges of PLN (125,663) k and the provision for retirement allowances with cumulative actuarial gains of PLN 7,826 k.

Notes presented on pages 15 – 65 constitute an integral part of these financial statements.

In thousands of PLN

Condensed statement of cash flows of Bank Zachodni WBK

for reporting period:	01.01.2018-31.03.2018	01.01.2017-31.03.2017
Profit before tax	**403 089**	**511 796**
Total adjustments:		
Depreciation/amortisation	70 301	64 655
Profit from investing activities	(44 590)	(15 887)
	428 800	**560 564**
Changes in:		
Provisions	22 012	(7 722)
Trading portfolio financial instruments	(2 650 950)	(99 677)
Hedging derivatives	85 926	(657 985)
Loans and advances to banks	(16)	16
Loans and advances to customers	(912 079)	(1 380 085)
Deposits from banks	1 282 437	(35 652)
Deposits from customers	2 007 471	(3 543 808)
Buy-sell/ Sell-buy-back transactions	2 860 012	353 344
Other assets and liabilities	(712 219)	(5 631)
	1 982 594	**(5 377 200)**
Interest accrued excluded from operating activities	(132 539)	(134 948)
Dividend	(179)	(339)
Paid income tax	(130 807)	(85 358)
Net cash flows from operating activities	**2 147 869**	**(5 037 281)**
Inflows	**246 697**	**856 078**
Sale of investments in subsidiaries	35	-
Sale of financial assets available for sale	-	775 907
Sale of investment securities	94 630	-
Sale of intangible assets and property, plant and equipment	53 514	12
Dividend received	-	175
Interest received	98 518	79 984
Outflows	**(1 897 896)**	**(760 426)**
Purchase of financial assets available for sale	-	(747 570)
Purchase of investment securities	(1 841 612)	-
Purchase of intangible assets and property, plant and equipment	(56 284)	(12 856)
Net cash flows from investing activities	**(1 651 199)**	**95 652**
Inflows	**-**	**670 000**
Debt securities in issue	-	670 000
Outflows	**(1 010 881)**	**(302 536)**
Debt securities buy out	(750 000)	(285 000)
Repayment of loans	(238 300)	(3 234)
Interest paid	(22 581)	(14 302)
Net cash flows from financing activities	**(1 010 881)**	**367 464**
Total net cash flows	**(514 211)**	**(4 574 165)**
Cash and cash equivalents at the beginning of the accounting period	**7 506 027**	**11 554 555**
Cash and cash equivalents at the end of the accounting period	**6 991 816**	**6 980 390**

Notes presented on pages 15 – 65 constitute an integral part of these financial statements.

Additional notes to condensed interim consolidated financial statement

1. General information about issuer

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

Condensed interim consolidated financial statement of BZ WBK Group for the 3-month period ended 31.03.2018 includes Bank's financial information as well as information from its subsidiaries (all together called Group) and shares in associated entities.

The immediate and ultimate parent entity of Bank Zachodni WBK S.A. is Banco Santander S.A., having its registered office in Santander, Spain.

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

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

In thousands of PLN

BZ WBK Group consists of the following entities:

Subsidiaries:

	Subsidiaries	Registered office	[%] of votes on AGM 31.03.2018	[%] of votes on AGM 31.12.2017
1.	BZ WBK Finanse sp. z o.o.	Poznań	100.00	100.00
2.	BZ WBK Faktor sp. z o.o.	Warszawa	100% of AGM votes are held by BZ WBK Finanse sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse sp. z o.o.
3.	BZ WBK Leasing S.A.	Poznań	100% of AGM votes are held by BZ WBK Finanse sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse sp. z o.o.
4.	BZ WBK Inwestycje sp. z o.o.	Poznań	100.00	100.00
5.	Giełdokracja sp. z o.o. 1)	Poznań	-	100.00
6.	BZ WBK F24 S.A. / BZ WBK Nieruchomości S.A. 2)	Poznań	100% of AGM votes are held by BZ WBK Finanse sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse sp. z o.o.
7.	BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. 3)	Poznań	50.00	50.00
8.	Santander Consumer Bank S.A.	Wrocław	60.00	60.00
9.	Santander Consumer Finanse sp. z o.o.	Warszawa	100% of AGM votes are held by Santander Consumer Bank S.A.	100% of AGM votes are held by Santander Consumer Bank S.A.
10.	PSA Finance Polska sp. z o.o. 4)	Warszawa	50% of AGM votes are held by Santander Consumer Bank S.A. and 50% of AGM votes are held by Banque PSA Finance S.A.	50% of AGM votes are held by Santander Consumer Bank S.A. and 50% of AGM votes are held by Banque PSA Finance S.A.
11.	PSA Consumer Finance Polska sp. z o.o. 4)	Warszawa	100% of AGM votes are held by PSA Finance Polska sp. z.o.o.	100% of AGM votes are held by PSA Finance Polska sp. z.o.o.
12.	Santander Consumer Multirent sp. z o.o.	Warszawa	100% of AGM votes are held by Santander Consumer Bank S.A.	100% of AGM votes are held by Santander Consumer Bank S.A.
13.	S.C. Poland Consumer 15-1 sp.zo.o. 5)	Warszawa	subsidiary of Santander Consumer Bank S.A.	subsidiary of Santander Consumer Bank S.A.
14.	S.C. Poland Consumer 16-1 sp.zo.o. 5)	Warszawa	subsidiary of Santander Consumer Bank S.A.	subsidiary of Santander Consumer Bank S.A.

1) On 5 March 2018 Giełdokracja Sp. z o.o. was liquidated.

2) On 18.10.2017, BZ WBK Nieruchomości S.A. with its registered office in Zakrzewo changed name to BZ WBK F24 S.A. with its registered office in Poznań. On 24.11.2017, BZ WBK S.A. made contribution in kind of BZWBK F24 S.A. (formerly BZ WBK Nieruchomości S.A.) shares to BZWBK Finanse sp. z o.o. to cover the acquisition of BZWBK Finanse sp. z o.o. shares by BZWBK S.A. On 12.01.2018. in the Nation Court Register was registered increase of share capital BZWBK Finanse sp. z o.o to PLN 1,630k. Share capital was fully paid.

3) As at 31.03.2018, Bank Zachodni WBK was a co-owner of BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A., together with Banco Santander S.A. Both owners are members of Santander Group and each holds an equal stake of 50% in the company's share capital. Bank Zachodni WBK exercises control over BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. Consequently, the company is treated as a subsidiary.

4) According to BZ WBK Group Management Board, investing in PSA Finance Polska Sp. z o.o., a subsidiary company, resulted from the need to draft consolidated financial statements due to the fact that Santander Consumer Bank S.A has a direct control and Bank Zachodni WBK S.A. has indirect control over the investment.

5) SC Poland Consumer 15-1 sp. z o.o. SC Poland Consumer 16-1 sp. z o.o. set up for the purpose of securitisation of a part of the loan portfolio; its shareholder is polish legal entity who has no ties with the Group; the company is controlled by Santander Consumer Bank, in accordance with the control criteria set out in IFRS 10.7.

In thousands of PLN

Associates:

	Associates	Registered office	[%] of votes on AGM 31.03.2018	[%] of votes on AGM 31.12.2017
1.	POLFUND - Fundusz Poręczeń Kredytowych S.A.	Szczecin	50.00	50.00
2.	BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Poznań	49.00	49.00
3.	BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poznań	49.00	49.00

2. Basis of preparation of condensed interim consolidated financial statement

In comparison with annual financial statements, the content of an interim financial report is condensed, therefore it should be read in conjunction with the financial statements of BZ WBK Group for the year 2017.

The consolidated financial statements of the BZ Group for the year 2017 are available at the Bank's official website: www.bzwbk.pl.

2.1. Statement of compliance

The condensed interim consolidated financial statements of BZ WBK Group for the period of three months ended 31 March 2018 were prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union and other applicable regulations. In accordance with Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2014 of 28.01.2014, No 133 as amended), the Bank is required to publish the financial results for the three months ended 31 March 2018 which is deemed to be the current interim financial reporting period.

In thousands of PLN

2.2. New standards and related interpretations as well as changes to standards and related interpretations that can be applicable to BZ WBK Group which are not yet binding and which were not previously introduced

IFRS	Nature of changes	Effective from	Influence on BZ WBK Group
Amendment to IFRS 9 Financial Instruments Prepayment right with negative compensation	Amendments to IFRS 9 introduce the statements with reference to contractual prepayment feature, when the lender could be forced to accept the prepayment amount that is substantially less than unpaid amounts of principal and interest. Such a prepayment amount would be a payment to the borrower from the lender, instead of compensation from the borrower to the lender. Such a financial asset would be eligible to be measured at amortized cost or fair value through other comprehensive income (subject to an assessment of the business model in which they are held), however, the negative compensation must be reasonable compensation for early termination of the contract.	1 January 2019	BZ WBK Group is currently in the process of analysing the amendment of the Standard and the assessment of impact of the amendment
IFRS 16 Leases	The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases. All lease transactions results in the lessee's right to use the assets and the obligation to make a payment. Accordingly, the classification of leases into operating lease and finance lease as per IAS 17 no longer applies under IFRS 16, as the new standard introduces a single model for accounting for leases by the lessee. The lessee will be required to present the following: (a) assets and liabilities in respect of all leases executed for more than 12 months, except where an asset is of low quality; and (b) depreciation charge for the leased asset separately from the interest expense on the lease liability in the statement of profit or loss and other comprehensive income. The principles of accounting for leases by the lessee established in IFRS 16 are largely the same as in IAS 17. As a consequence, the lessee continues to use the classification into operating lease and finance lease and accounts for them accordingly.	1 January 2019	IFRS 16 implementation progress is is described in annual report for financial year 2017.
Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures *	The amendment is effective for annual periods starting from 1 January 2019 or later with a possibility of earlier application. The amendments to IAS 28 Investments in Associates and Joint Ventures clarify that companies accounting for long-term interests in an associate or joint venture where the equity method is not applied, have to use IFRS 9. The IASB has also published an example that illustrates how companies apply the requirements in IFRS 9 and IAS 28 to long-term interests in an associate or joint venture.	1 January 2019	BZ WBK Group is currently in the process of analysing the amendment of the Standard and the assessment of impact of the amendment
Improvements to IFRS 10 and IAS 28 *	Improvements to IFRS 10 and IAS 28 cover sales or contributions of assets between an investor and its associate/joint venture. The improvements eliminate the inconsistencies between IFRS 10 and IAS 28. The accounting treatment hinges on whether the non-monetary assets sold or contributed to an associate/joint venture constitute a business. Should the assets constitute a business, the investor shall recognize the profit or loss in full. Should the assests not constitute a business, the profit or loss shall be recognised only to the extent of unrelated investors' interests in the associate or joint venture. The improvements were published on 11 September 2014.	The International Accounting Standards Board has not establised the validity date of the amended regulations.	The amendment will not have a significant impact on financial statements.
IFRS 17 Insurance Contracts*	IFRS 17 defines a new approach to the recognition, valuation, presentation and disclosure of insurance contracts. The main purpose of IFRS 17 is to guarantee the transparency and comparability of insurers' financial statements. In order to meet this requirement the entity will disclose a lot of quantitative and qualitative information enabling the users of financial statements to assess the effect that insurance contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of the entity. IFRS 17 introduces a number of significant changes in relation to the existing requirements of IFRS 4. They concern, among others: aggregation levels at which the calculations are made, methods for the valuation of insurance liabilities, recognition a profit or loss over the period the entity provides insurance coverage, reassurance recognition, separation of the investment component and presentation of particular items of the balance sheet and profit and loss account of reporting units including the separate presentation of insurance revenues, insurance service expenses and insurance finance income or expenses.	1 January 2021	The standard will not have a significant impact on financial statements.

In thousands of PLN

IFRIC 23 Uncertainty over Income Tax Treatments*	Interpretation clarifies how the recognition and measurement requirements of IAS 12 "Income taxes" are applied where there is uncertainty over income tax treatments. An uncertain tax treatment is any tax treatment applied where there is uncertainty over whether that treatment will be accepted by the tax authority. IFRIC Interpretation 23 addresses, in particular, when there is uncertainty over income tax treatments, whether an entity considers uncertain tax treatments separately, what assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, tax rates and how an entity considers changes in facts and circumstances. The impact of the uncertainty should be measured using the method that best predicts thre resolution of the uncertainty - either the most likely amount method or the expected value method when measuring an uncertainty.	1 January 2019	The amendment will not have a significant impact on financial statements.
IAS 19, Plan Amendment, Curtailment or Settlement*	Amendments to IAS 19 specifies how an entity determines pension expenses when changes to a defined benefit pension plan occur. IAS 19 ‘Employee Benefits’ specifies how an entity accounts for a defined benefit plan. When a change to a plan – an amendment, curtailment or settlement- takes place, IAS 19 requires an entity to remeasure its net defined benefit liability or asset. The amendments require an entity to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements.	1 January 2019	The amendment will not have a significant impact on financial statements.

*New standards and changes to the existing standards issued by the IASB, but not yet approved for application in the EU.

2.3. Standards and interpretations or changes to existing standards or interpretations which were applied for the first time in the financial year 2018

IFRS	Nature of changes	Effective from	Influence on BZ WBK Group
IFRIC 22 Foreign Currency Transactions and Advance Consideration *	IFRIC Interpretation 22 clarify the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency. The Interpretation relates to the situation when the transaction is in foreign currency and the entity pays or receives consideration in advance in a foreign currency before the recognition of the related asset, expense or income.	1 January 2018	The amendment does not have a significant impact on financial statements.
IFRS 9 Financial Instruments	The changes refer to the following areas: • Classification and measurement – introduction of three classification categories for debt instruments, i.e. measured at: amortised cost, fair value through other comprehensive income and fair value through profit or loss. Changes were made in the measurement of equity instruments by limiting the possibility of measurement at historical cost; • Expected credit losses – introduction of a new model for recognition of impairment (ECL): impairment charge is required to be measured as lifetime expected credit losses rather than 12-month expected credit losses; • Hedge effectiveness testing and eligibility for hedge accounting – replacement of the precise effectiveness range (80-125%) with a requirement that there is an economic relationship between the hedged item and the hedging instrument and that the hedge ratio is the same as the one used for risk management purposes. Ineffective hedges continue to be taken to a profit and loss account; • Hedged items – new requirements allow appointment of new hedged items in relation to certain economically viable hedging strategies, which, to date, were not eligible under IAS 39; • Hedging instruments – relaxation of requirements pertaining to certain hedging instruments listed in IAS 39. The standard allow recognition of the time value of options purchased and implementing non-derivative financial instruments as hedging instruments; • Recognition of change in the fair value of financial liability arising from changes in the liability’s credit risk in other comprehensive income (in principle).	1 January 2018	Impact is described in "Changes in accounting policy"

In thousands of PLN

IFRS 15 - Revenue from Contracts with Customers	Changes relate to the following areas: • Transfer of control – recognition of revenue only when the customer gains control over a good or service. The amendment makes the definition of the transfer of control more precise. Introducing regulations allowing to define the legitimacy of recognising the revenue over time or at a point in time; • Variable consideration - the amendment takes into account variable consideration in prices of goods or services arising, for example, as a result of penalties or performance bonus; • Allocation of the transaction price on the basis of an adequate sales price per unit - introduction of the requirement to allocate the payment for goods or services in the case of sale under a single contract; • Licences - introduction of the requirement for entities to define the time for which a licence is transferred and specifying more precisely the revenue calculation in the case of transferring a licence at a point in time or over time; • Time value of money – the transaction price is adjusted for the time value of money. The entity may choose not to account for the time value of money when the interval between transfer of the promised goods or services and payment by the customer is expected to be less than 12 months; • Costs of obtaining a contract - introducing the conditions which determine if the given costs of obtaining a contract are subject to capitalization and can be amortised parallel to revenue recognition; • Disclosures - introduction of a requirement to disclose qualitative and quantitative information relating to judgements and changes in the judgements related with revenue recognition.	1 January 2018	Impact is described in "Changes in accounting policy"
Commentary on IFRS 15 Revenue from Contracts with Customers	The commentary is a source of additional information and guidance re: the key assumptions of IFRS 15, including the identification of unit-specific commitments, the establishment of the unit's role (agent vs. principal) and the mode of recording revenue generated under the licence. Apart from additional guidance, there are exemptions and simplified rules for first time adopters.	1 January 2018	Impact is described in "Changes in accounting policy"
Annual Improvements to IFRS 2014-2016	In December 2016, the International Accounting Standards Board published 'Annual Improvements to IFRS Standards 2014-2016 Cycle' which amended 3 standards, i.e. IFRS 12 'Disclosure of Interests in Other Entities', IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 28 'Investments in Associates'. The improvements feature guidelines and amendments re: the scope of applicability, recognition and valuation as well as terminology and editing changes.	1 January 2018 for improvements to IFRS 1 and IAS 28	The amendment does not have a significant impact on financial statements.
Improvements to IAS 40 'Investment Property' *	Improvements to IAS 40 specify the requirements for transfers to or from investment property classification. According to the amended standard, a change in management intention to use the property is not evidence of change in the use of the property. The amendment applies to all changes in use that are introduced after the effective date of the amendment and to all investment properties held at that date.	1 January 2018	The amendment does not have a significant impact on financial statements.
Amendments to IFRS 2: Classification and measurement share-based payment transactions *	Changes relate to the following areas: • Guideliness on fair value measurement of liability due to cash-settled share-based payment transaction; • Guideliness on classification modification from cash-based to equity-settled payment transactions and also • Guideliness on employees tax liabilities recognition relating to share-based payment transactions.	1 January 2018	The amendment does not have a significant impact on financial statements.
Improvements to IFRS 4: Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'	Improvements to IFRS 4 'Insurance Contracts' address the issue of adopting a new standard, i.e. IFRS 9 'Financial Instruments'. Improvements to IFRS 4 supplement the existing options and are aimed to prevent temporary fluctuations in the insurance industry results arising from the implementation of IFRS 9.	1 January 2018	The amendment does not have a significant impact on financial statements.

*New standards and changes to the existing standards issued by the IASB, but not yet approved for application in the EU.

2.4. Basis of preparation of interim financial statements

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

The consolidated financial statements of BZ WBK Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted for application in the European Union, in accordance with the historical cost principle, except for the items specified below:

Item	Balance sheet valuation rules
Held-for-trading financial instruments	Fair value through profit or loss
Loans and advances to customers which do not meet the contractual cash flows test	Fair value through profit or loss
Financial instruments measured at fair value through other comprehensive income (since 01.01.2018)	Fair value through other comprehensive income
Financial assets available for sale (until 31.12.2017)	Fair value through other comprehensive income
Share-based payment transactions	Fair value through profit or loss
Investment assets – equity instruments	Fair value through other comprehensive income – an option
Fixed assets available for sale and groups of fixed assets designated as available for sale	Are recognised at the lower of their carrying amount and their fair value less costs of disposal.

2.5. Use of estimates

Preparation of financial statements in accordance with the IFRS requires the management to make subjective judgements, estimations and assumptions, which affects the applied accounting principles as well as presented assets, liabilities, revenues and expenses.

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

The estimates and assumptions are reviewed on an ongoing basis. Changes to estimates are recognised in the period in which the estimate is changed if the change affects only that period, or in the period of the change and future periods if the change affects both current and future periods.

2.6. Main estimates made by BZ WBK Group

Impairment allowances for expected credit losses in respect of financial assets

The estimation of potential loan losses is inherently uncertain and depends upon many factors, including historical loan loss trends, portfolio grade profiles, economic climates, conditions in various industries to which BZ WBK Group is exposed and other external factors such as legal and regulatory requirements. An allowance is made for loans when, in the judgement of management, the estimated repayment that can be recovered from the obligor, including the value of any security held, is likely to fall short of the amount of the outstanding exposure. The amount of allowance for the BZ WBK Group is intended to cover the difference between the assets' carrying value and the present value of estimated future cash flows discounted at the assets' original effective interest rates.

The process of identification of financial assets which need to be covered by loan loss allowances is based on several independent verification levels. Credit quality and loan loss allowances are independently monitored by head office personnel on a regular basis. The Group uses a consistent system for grading loans according to agreed credit criteria with an important objective being the timely identification of vulnerable loans so that remedial action can be taken at the earliest opportunity Credit rating is fundamental to the determination of loan loss allowances at BZ WBK Group. It triggers the process which results in the creation of loan loss allowances in respect of individual financial assets which are at the risk on non-repayment.

An impairment analysis if carried out:

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

BZ WBK Group regularly reviews the methodologies and assumptions which are the basis for determining estimated cash flows and cash flow periods. In particular, a comparison is made between effected cash flows for the purpose of making the best possible estimate of recoverable amount.

Net impairment allowances on loans and advances are presented in Note 9.

Business Model Assessment

Business models at BZ WBK Group are determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The business model does not depend on the intentions of the BZ WBK Group management regarding a particular instrument, which is why the model is assessed at a higher level of aggregation.

The business model refers to how BZ WBK Group manages its financial assets in order to generate cash flows. That is, the business model determines whether cash flows will result from:

– a contract (a business model whose objective is to hold assets in order to collect contractual cash flows)
– the sale of financial assets (other/residual business model) or
– from both of those sources (a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets).

The assessment of a business model involves the analysis of qualitative and quantitative criteria (both presented in the section concerning classification of financial assets).

If BZ WBK Group changes the business model for financial asset management, the entire portfolio of assets covered by that business model is reclassified on the level of a specific reporting segment, and the consequences arising from the change of the assessment category are recognised at a point of time in the profit and loss account or other comprehensive income.

BZ WBK Group expects that such changes will take place rarely. They are determined by the Group's senior management as a result of external or internal changes and must be significant to the Group’s operations and demonstrable to external parties.

Revenue from Contracts with Customers

The five-step revenue recognition model involves a subjective assessment and identification of:

- the timing of satisfaction of performance obligations
- transaction price, and
- amounts allocated to the performance obligation.

According to BZ WBK Group, the performance obligation is satisfied at a specific point in time for most of significant categories of revenues as there are indicators of the transfer of control, such as BZ WBK Group’s present right to payment for the asset (if a customer is presently obliged to pay for an asset, it means that he has gained the ability to direct the use of and obtain substantially all of the remaining benefits from that asset). However, the identification of timing of performance obligation (whether satisfied at a point in time or over time) is not a crucial estimate, because contractual provisions provide for monthly settlement periods that ensure a correct recognition of revenues in proper reporting periods.

The transaction price usually refers to the consideration payable to a customer, due to the absence of:

- variable consideration,
- significant financing component in the contract,
- non-cash consideration.

As regards revenue from contracts with customers based on the success fee (i.e. contracts which do not guarantee the remuneration for BZ WBK Group or provide for the minimum level of remuneration during the term of the contract until a certain condition is met, thus entitling the Group to receive significant remuneration to compensate for long-term efforts to perform the contract), then the variable consideration is the prevailing – if not the only one – component of the transaction price. However, variable consideration is usually subject to contractual limits (expressed as a percentage or a value threshold).

Promised assets usually are not distinct, therefore BZ WBK Group combines these items with other promised goods or services until it identifies a bundle of goods or services that is distinct. Consequently, BZ WBK Group accounts for all the goods or services promised in a contract as a single performance obligation, so that the allocation of transaction price to that performance obligation (which involves assessment of sale prices for promised goods or services and allocation of discounts and variable consideration to individual elements of the contract) is not of key importance.

As regards the different types of revenues governed by IFRS 15, BZ WBK Group estimates provisions for refunds only in relation to income from insurance intermediation activities, which is substantiated by the nature of the income, respective contractual and legal clauses, constructive obligations and availability of historical information about refunds.

Refunds from insurance agreements are calculated by means of the vintage method whereby expected refunds are estimated on the basis of average cumulative amount of refunds obtained in the previous period.

The percentage share of refunds vs. the remuneration for BZ WBK Group is calculated in monthly periods (determined by the effective date of the insurance agreement), indicating the month when the refund was made. The percentage share of refunds for a given month is the sum of refunds obtained in specific years of the insurance agreement (and considering the expected level of refunds).

Changes in judgements and estimates

In 2018, the scope of data covered by estimates changed in comparison with BZ WBK Group's consolidated financial statements for 2017, due to:

- obligatory assessment of business model, introduced under IFRS 9 Financial Instruments (previously not required under IAS 39 Recognition and Measurement) and change in the approach to estimating losses for exposures measured at amortized cost or fair value through other comprehensive income and,
- disclosure of judgements (and changes in the judgements) made in applying this Standard that significantly affect the determination of the the timing of satisfaction of performance obligations, the transaction price and the amounts allocated to performance obligations – this requirement having been introduced under IFRS 15 Revenue from Contracts with Customers.

2.7. Accounting principles

Except for the changes presented below, BZ WBK Group applied the accounting policies consistently both to the period presented in the financial statement and to the comparable period.

The accounting policies have been applied consistently by BZ WBK Group entities.

The implementation's impact and changes in accounting principles introduced since January 1, 2018 resulting from the entry into force of IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers are presented below.

New International Financial Reporting Standards implementation's impact

IFRS 9 Financial instruments

BZ WBK Group applied new accounting principles regarding the classification and measurement of financial instruments in the preparation of the consolidated financial statements of the Group for the period ended March 31, 2018. The accounting principles applied by the BZ WBK Group until the end of 2017 form part of the annual report for 2017.

IFRS 9 Financial Instruments was published by the International Accounting Standards Board on 24 July 2014 and approved by virtue of the Commission Regulation (EU) 2016/2067 of 22 November 2016 for application in the EU member states. The standard applies to financial statements for annual reporting periods beginning on or after 1 January 2018, except for insurers which may apply the standard starting from 1 January 2021. IFRS 9 supersedes IAS 39 Financial Instruments: Recognition and Measurement. However, it allows reporting entities an option to continue to use the hedge accounting provisions stipulated in IAS 39.

IFRS 9 introduces changes that affect the following areas of financial instruments accounting:

- classification and measurement of financial instruments
- recognition and calculation of impairment and
- hedge accounting.

The impact of changes in the classification and measurement of financial assets and impairment for expected credit losses resulting from the implementation of IFRS 9 is described below.

Classification and measurement of financial instruments

The BZ WBK Group carried out a detailed analysis of its business models in the area of financial asset management as well as an analysis of cash flow characteristics resulting from the agreements in force. The comparison of the category of valuation and balance sheet value of financial assets as at January 1, 2018 in accordance with IAS 39 and IFRS 9 is as follows:

In thousands of PLN

Consolidated financial statement's line for 2017	Measurement category - IAS 39	Carrying amount	Measurement category - IFRS 9	Carrying amount
Financial assets				
Cash and balances with central banks	Amortized cost (loans and advances)	4 146 222	Amortized cost	4 146 222
Loans and advances to banks	Amortized cost (loans and advances)	2 136 474	Amortized cost	2 136 474
Financial assets held for trading	Fair value through profit and loss	3 416 108	Fair value through profit and loss	3 416 108
Hedging derivatives	Hegde accounting	218 061	Hegde accounting	218 061
Loans and advances to customers	Amortized cost (loans and advances)	107 715 574	Amortized cost	107 451 150
Loans and advances to customers	Amortized cost (loans and advances)	124 323	Fair value through profit and loss	105 401
Financial asstes available for sale - Debt instruments	Fair value through other comprehensive income	27 494 933	Fair value through other comprehensive income	27 494 933
Financial asstes available for sale - Equity instruments	Fair value through other comprehensive income	868 722	Fair value through other comprehensive income - option	868 722
Financial asstes available for sale - Equity instruments	Historical cost	52 157	Fair value through other comprehensive income - option	37 063
Other assets	Amortized cost (loans and advances)	931 074	Amortized cost	931 074
TOTAL		**147 103 648**		**146 805 208**

The comparison of the category of valuation and the carrying amount of liabilities as at 1 January 2018 is as follows:

Consolidated financial statement's line for 2017	Measurement category	Carrying amount	Measurement category	Carrying amount
Liabilities				
Provisions for off balance sheet credit facilities	IAS 37	50 652	IFRS 9	65 686
TOTAL		**50 652**		**65 686**

The reconciliation of the items of the statement of financial position, whose value has changed due to the change in the valuation category after the transition from IAS 39 to IFRS 9, which took place on 1 January 2018, is presented below.

Item	Measurement category – IAS 39	Measurement category – IFRS 9	Carrying amount – IAS 39	IFRS 9 implementation impact *		Carrying amount – IFRS 9
				Classsification and measurement impact	Impairment impact	
ASSETS						
Loans and advances to customers	Amortised cost	Amortised cost	107 715 574	26 565	(290 989)	**107 451 150**
- change in recognition method for interest income			-	-	(23 787)	-
- impairment for expected credit losses			-	-	(240 637)	-
- other changes in presentation			-	26 565	(26 565)	-
Loans and advances to customers	Amortised cost	Fair value through profit or loss	124 323	(80 729)	61 807	**105 401**
Financial assets available for sale	Historic cost/purchase price less impairment charges	Fair value through OCI	52 157	(17 078)	1 984	**37 063**
Total			**107 892 054**	**(71 242)**	**(227 198)**	**107 593 614**

The value of other financial assets presented in the consolidated statement of financial position did not change significantly as a result of implementation of IFRS 9.

Compared to the disclosure of the impact of IFRS 9 implementation in the annual consolidated financial statements for 2017, the BZ WBK Group has made the following changes:

- impact of the change in the method of recognition of interest income for financial assets classified to stage 1 and 2 in the amount of PLN 23,787 k PLN was presented as part of changes resulting from the implementation of impairment instead of classification and valuation,
- changes in the presentation of the impairment interest adjustment for stage 3: BZ WBK Group following the guidelines contained in the ITG document of December 11, 2015 (IFRS Transition Resource Group for the Impairment of Financial Instruments: "Measurement of the loss allowance for credit-impaired financial assets") presents the correction of interest income, which reduces interest income for exposures classified to stage 3 to the level of recoverable value in the amount of PLN 26,565 k PLN as part of impairment for expected credit losses.

The adjustments did not affect, in comparison to previous disclosure, the net value of the item "Loans and advances".

In thousands of PLN

The table below presents the impact of IFRS 9 implementation on liabilities as at 1 January 2018:

Item	Measurement category	Measurement category	Carrying amount	IFRS 9 implementation impact *		Carrying amount – IFRS 9
				Classsification and measurement impact	Impairment impact	
LIABILITIES						
Provisions for off balance sheet credit facilities	IAS 37	IFRS 9	50 652	-	15 034	**65 686**
Total			**50 652**	**-**	**15 034**	**65 686**

The value of other liabilities presented in the consolidated statement of financial position did not change as a result of implementation of IFRS 9.

As at 1 January 2018, the total value of the impact of IFRS 9 implementation PLN (313,474) k, and the deferred tax effect in the form of deferred net tax asset increase PLN 59,020 k decreased the balance of retained earnings and revaluation reserve by the amount of PLN (254,454) k.

Changes in the classification and measurement of financial assets presented in the tables above result from:

– identification in BZ WBK Group portfolio profit sharing clauses which are not compliant with contractual cash flow test criteria (profit sharing agreements). The indicated clauses were identified in some tranches of debt financial instruments entitling the BZ WBK Group to obtain additional cash flows, other than solely payments of principal and interest, in the form of a contractually agreed share in the client's financial result. The existence of such contractual clauses has resulted in mandatory valuation of tranches at fair value. The adjustment to the fair-value measurement has been set at PLN (64 726) k, without the deferred tax effect.

– identification in BZ WBK Group portfolio financial instruments whose contractual cash flows are not payments of principal and interest, which applies to debt instruments classified as “Loans and advances” whose interest is accrued on the subscription price and capitalised over the life of the product (until maturity) whereas interest payments to BZ WBK Group will be calculated on the nominal price so these cash flows do not represent interest payments as defined in IFRS 9. Due to the failure to meet the contractual cash flow test criteria, the instruments described were mandatory measured at fair value. The adjustment to the fair-value measurement has been set at PLN (15,897) k and unsettled provision amounted PLN (106) k without the deferred tax effect,

– a different recognition method for interest income from assets held, depending on the level of credit risk. Until the end of 2017, the interest income from exposures measured at amortised cost, for which IBNR impairment charge was calculated, was recognised at the net carrying amount, whereas from 1 January 2018 at the gross carrying amount of the exposure. IFRS 9 provides for two exceptions from this rule:

a) POCI (Purchased or Originated Credit Impaired) assets. The interest income from these exposures is calculated on the net carrying amount based on the credit risk-adjusted effective interest rate.

b) financial assets impaired after the initial recognition (stage 3) The interest income from these exposures is calculated based on the effective interest rate and the net carrying amount.

Considering the differences in the recognition of interest income from financial assets classified into stages 1 and 2, for which until end of 2017 the IBNR provision charge was calculated, on the effective date of IFRS 9, BZ WBK Group recognised an interest income adjustment of PLN (23,787) k without deferred tax effect.

– non-listed equity instruments classified as available for sale, due to a significant limitation of the ability to measure such assets at historical cost less impairment charges, if any. By default, equity instruments are measured at fair value through profit or loss unless an irrevocable election is made at initial recognition to measure subsequent fair value changes at fair value through other comprehensive income. Using the option permitted by IFRS 9, BZ WBK Group took an irrevocable decision to designate strategic equity investments from the portfolio of financial assets other than those held for trading as instruments measured at fair value through other comprehensive income. The equity investments for which BZ Group chose the option of fair value measurement through other comprehensive income were acquired to be maintained in the investment portfolio for a long term and strategically, without the intention to make a profit on selling them in the short or medium term. If the equity instrument designated to be measured at fair value through other comprehensive income is sold, the gain (loss) on the transaction is not recycled to profit or loss at the time of the sale.

The adjustment to the fair-value measurement of equity instruments has been set at PLN (17,078) k and amount of reversed impairment charges at PLN 1,984 k, without the deferred tax effect.

As at 31 December 2017 and 31 March 2018, BZ WBK Group has not identified any financial assets which it would intend to designate, as of 1 January 2018, to be measured at fair value through profit or loss to reduce the accounting mismatch, which would otherwise emerge as a result of measuring financial assets at amortised cost or at fair value through other comprehensive income.

Financial liabilities will continue to be measured in accordance with the existing rules laid down in IAS 39, i.e. at amortised cost or at fair value through profit or loss. BZ WBK Group has not chosen the option of measuring financial liabilities at fair value. Should this option be chosen, changes in the fair value arising from changes in BZ WBK Group credit risk will be taken to other comprehensive income, and once a financial liability is derecognised, the value previously recognised in other comprehensive income will not be recycled to profit or loss.

In thousands of PLN

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance, both for performing and non-performing exposures, measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

Measurement category	Loss allowance under IAS 39/Provisions IAS 37	Reclassification	Remeasurement	Change in interest impaired adjustment's presentation	Loss allowance under IFRS 9
Loans and receivables (IAS 39)/Financial assets at amortized cost (IFRS 9)					
Loans and advances from customers	4 846 130	(61 807)	240 637	26 565	5 051 525
Loans and receivables (IAS 39)/Financial assets at amortized cost (IFRS 9) - TOTAL	**4 846 130**	**(61 807)**	**240 637**	**26 565**	**5 051 525**
Provisions for off-balance sheet credit facilities (IAS 37)/Loss allowance for expected credit losses (IFRS 9)					
Provisions for off-balance sheet credit facilities (IAS 37)/Loss allowance for expected credit losses (IFRS 9)	50 652	-	15 034	-	65 686
Provisions for off-balance sheet credit facilities (IAS 37)/Loss allowance for expected credit losses (IFRS 9) - TOTAL	**50 652**	**-**	**15 034**	**-**	**65 686**
TOTAL	**4 896 782**	**(61 807)**	**255 671**	**26 565**	**5 117 211**

The implementation of IFRS 9 requirements caused increase in impairment losses in BZ WBK Group. The total value of additional impairment charges recognised in retained earnings for previous years is PLN 193,864 k, without the deferred tax effect, of which PLN 240,637 k relates to balance sheet items, PLN 15,034 k the increase in provisions for off-balance sheet liabilities presented in the line „Provisions for off balance sheet credit facilities" and the reclassifications of financial instruments from the category of assets measured at amortized cost to measured at fair value through profit or loss triggered impairment charge reversal in the amount of PLN 61,807 k.

Impact of IFRS 9 on capital adequacy

On 12 December 2017, the European Parliament and the Council adopted Regulation No 2017/2395 amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State. This Regulation entered into force on the next day following its publication in the Official Journal of the European Union and has been applicable since 1 January 2018. The European Parliament and the Council concluded that the application of IFRS 9 may lead to a sudden significant increase in expected credit loss provisions and consequently to a sudden decrease in institutions' Common Equity Tier 1 capital.

The regulation regarding the mitigation of impact of IFRS 9 on Tier 1 capital provides for the following:

- Where an institution's opening balance sheet on the day that it first applies IFRS 9 reflects a decrease in Common Equity Tier 1 capital as a result of increased expected credit loss provisions, including the loss allowance for lifetime expected credit losses for financial assets that are credit-impaired, compared to the closing balance sheet on the previous day, BZ WBK Group should be allowed to include in its Common Equity Tier 1 capital a portion of the increased expected credit loss provisions for a transitional period. That transitional period should have a maximum duration of 5 years and should start in 2018. The portion of expected credit loss provisions that can be included in Common Equity Tier 1 capital should decrease over time down to zero to ensure the full implementation of IFRS 9 on the day immediately after the end of the transitional period.
- The multipliers that can be applied in consecutive years of the transitional period are as follows: 95%, 85%, 70%, 50%, 25%.
- If BZ WBK Group decides to apply the IFRS 9 transitional arrangements, it should publicly disclose its own funds, capital ratios and leverage ratio both with and without the application of those arrangements in order to enable the recipients of financial statements to determine the impact of those arrangements.
- BZ WBK Group should decide whether to apply those transitional arrangements and inform the KNF accordingly.
- During the transitional period, BZ WBK Group may reverse once its initial decision, subject to the prior permission of the KNF, which should ensure that such decision is not motivated by considerations of regulatory arbitrage.
- Institutions that decide to apply transitional arrangements should be required to adjust the calculation of regulatory items which are directly affected by expected credit loss provisions to ensure that they do not receive inappropriate capital relief. For example, the specific credit risk adjustments by which the exposure value is reduced under the standardised approach for credit risk should be reduced by a factor which has the effect of increasing the exposure value. This would ensure that an institution would not benefit from both an increase in its Common Equity Tier 1 capital due to transitional arrangements as well as a reduced exposure value.

Having analysed Regulation No. 2017/2395, BZ WBK Group has decided to apply the transitional arrangements provided for therein, which means that the full impact of the introduction of IFRS 9 will not be taken into account for the purpose of capital adequacy assessment of BZ WBK Group.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers was published on 28 May 2014 by the International Accounting Standards Board and applies to annual reporting periods beginning on or after 1 January 2018.

IFRS 15 introduces a new, 5-step model to be applied to revenue-generating contracts with customers, excluding the contracts which are covered by a separate standard. The standard has been introduced to harmonise the rules used by enterprises and to eliminate inconsistencies with previous standards.

As of 1 January 2018, IFRS 15 replaces the following standards and interpretations:

- IAS 18 Revenue
- IAS 11 Construction Contracts
- SIC-31 Revenue - Barter Transactions Involving Advertising Services
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 18 Transfers of Assets from Customers

The new standard is applied to almost all contracts with customers. The main exceptions include leases (IAS 17), financial instruments and other contractual rights or obligations (IFRS 9, IFRS 10, IFRS 11, IAS 27 and IAS 28), insurance contracts (IFRS 4) and guarantees covered by other standards.

The previous standards (IAS 11/IAS 18) distinguished three separate models for revenue recognition, depending on the type of the sale transaction:

- construction contract
- sale of goods
- sale of services.

IFRS 15 has introduced a single, five-step revenue recognition model, replacing the previous three separate models of revenue recognition. The new model will apply to all transactions, enterprises and industries. This model is used in two versions, depending on how the entity satisfies a performance obligation:

- over time, or
- at a point in time.

The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised assets to customers in an amount that reflects the consideration to which BZ WBK expects to be entitled in exchange for those assets.

The key criterion for the recognition of revenue is no longer the moment of transferring the “risks and rewards”, which was considered as key under IAS 18, but the moment of satisfaction of a performance obligation, which takes place as control is passed. This determines the recognition of a revenue under IFRS 15. However, the expectation is that the moment will more often than not coincide with the moment of transfer of risks and rewards within the meaning of IAS 18.

Furthermore, in line with IFRS 15, costs incurred to obtain and secure a contract with a customer should be capitalised and amortised over time for as long as the benefits from the contract are consumed.

The implementation of IFRS 15 does not have significant impact on the financial standing and equity of BZ WBK Group because revenue derived from financial instruments offered by BZ WBK Group such as loans or leases is recognised using an effective interest rate and the recognition method for revenue and corresponding cost will not change in the context of contractual provisions.

Comparability with the results from the previous periods

The use of IFRS 9 required a change in presentation and the scope of disclosure, including in the first year after adoption, when a wide range of information is needed to allow financial statement users to understand the impact that the IFRS 9 might have in terms of classification, measurement and impairment of financial instruments on the financial position and the financial results of BZ WBK Group.

BZ WBK Group elected to use the IFRS 9 provisions which provide for exemption of the obligation to restate comparative information for prior periods in relation to the changes arising from classification, measurement and impairment. Differences in the carrying amount of financial assets and liabilities resulting from the application of IFRS 9 are reported in retained earnings in equity and in revaluation reserve as at 1 January 2018.

The application of IFRS 15 did not require any significant changes in the presentation method.

In thousands of PLN

Changes to accounting principles

Financial assets and liabilities

Recognition and derecognition

Initial recognition

BZ WBK Group recognises a financial asset or a financial liability in its statement of financial position when, and only when, it becomes bound by contractual provisions of the instrument.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, at the trade date.

Derecognition of financial assets

BZ WBK Group derecognises a financial asset when and only when, if:

- contractual rights to the cash flows from that financial asset have expired, or
- BZ WBK Group transfers a financial asset, and such operation meets the derecognition criteria specified further in this policy.

BZ WBK Group transfers a financial asset when and only when, if:

- BZ WBK Group transfers contractual rights to the cash flows from that financial asset, or
- BZ WBK Group retains contractual rights to receive the cash flows from that financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions specified further in this policy.

When BZ WBK Group retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), then BZ WBK Group treats the transaction as a transfer of a financial asset if, and only if, all of the following three conditions are met:

- BZ WBK Group has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset,
- BZ WBK Group is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows,
- BZ WBK Group has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, BZ WBK Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents (as defined in IAS 7 Statement of Cash Flows) during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.

When BZ WBK Group transfers a financial asset, it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial asset. In such a case:

- if BZ WBK Group transfers substantially all of the risks and rewards of ownership, then it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer;
- the Group transfers substantially all the risks and rewards of ownership, then it shall continue to recognise the financial asset;
- the Group neither transfers nor retains substantially all the risks and rewards of ownership, then it shall verify if it has retained control of the financial asset. In such a case:
  a) if BZ WBK Group has not retained control, it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer;
  b) if BZ WBK Group has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

The transfer of risks and rewards is evaluated by comparing the Group's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. BZ WBK Group has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer. BZ WBK Group transfers substantially all the risks and rewards of ownership of a financial asset if its exposure to such variability is no longer significant in relation to the total variability in the present value of the future net cash flows associated with the financial asset.

BZ WBK Group derecognises a part of financial asset (or a group of similar financial assets) when and only when, if the asset to be derecognised fulfills one of the three conditions:

- that part comprises only specifically identified cash flows on a financial asset (or a group of similar financial assets),
- that part comprises only a proportionate share of cash flows from that financial asset (or a group of similar financial assets),

- that part comprises only a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets).

In all other cases, BZ WBK Group derecognises a part of financial asset (or a group of similar financial assets).

Derecognition of financial liabilities

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

An exchange between BZ WBK Group and the lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.

If BZ WBK Group repurchases a part of a financial liability, the entity shall allocate the previous carrying amount of the financial liability between the part that continues to be recognised and the part that is derecognised based on the relative fair values of those parts on the date of the repurchase. The difference between:

- the carrying amount allocated to the part derecognised, and
- the consideration paid, including any non-cash assets transferred or liabilities assumed, for the part derecognised are recognised in profit or loss.

Classification of financial assets and financial liabilities

Classification of financial assets

Unless BZ WBK Group has made a prior decision to measure a financial asset at fair value through profit or loss, the BZ WBK Group classifies financial asset that are not an equity instrument as subsequently measured at amortised cost or at fair value through other comprehensive income or fair value through profit or loss on the basis of both:

- the business model of BZ WBK Group for managing the financial assets and
- the contractual cash flow characteristics of the financial asset.

A financial asset is measured at amortised cost if both of the following conditions are fulfilled:

- the financial asset is held in a business model whose purpose is to hold financial assets to collect contractual cash flows, and
- the contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are fulfilled:

- the financial asset is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- the contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If a financial asset is not measured at amortised cost or at fair value through other comprehensible income, it is measured at fair value through profit or loss.

BZ WBK Group may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an “accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The financial asset that is an equity instrument, the BZ WBK Group measures at fair value through the profit or loss, unless BZ WBK Group made an irrevocable election at initial recognition for particular investments in equity instruments to present subsequent changes in fair value in other comprehensive income.

Business models

Business models at BZ WBK Group are determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The business model does not depend on the intentions of the BZ WBK Group key management regarding a particular instrument.

The business model refers to how BZ WBK Group manages its financial assets in order to generate cash flows. That is, the business model determines whether cash flows will result from:

- collecting contractual cash flows
- selling financial assets
- or both.

Consequently, the business model assessment is not performed on the basis of scenarios that BZ WBK Group does not reasonably expect to occur, such as so-called "worst case" or "stress case" scenarios.

BZ WBK Group determines the business model on the basis of the assessment of qualitative and quantitative criteria.

Qualitative criteria for the assessment of a business model

The business model for managing financial assets is a matter of fact and not merely an assertion. It is observable through the activities undertaken to achieve the objective of the business model. BZ WBK Group uses judgement when it assesses its business model for managing financial assets and that assessment is not determined by a single factor or activity. BZ WBK Group considers all relevant qualitative and quantitative criteria available at the date of business model assessment. Such relevant evidence includes the following issues:

a) how the performance of the business model and the financial assets held within that business model are evaluated and reported to the key management personnel of BZ WBK Group for the management accounting purposes. If the fair value of the asset portfolio is a key indicator for reasons other than:

- managing liquidity risk,
- maintaining a pre-determined profitability level, or
- maintaining an appropriate balance between the maturity dates of financial assets and financial liabilities,

then the objective of the business model is achieved by selling the assets.

b) the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed. If the performance of an asset portfolio is assessed solely on the basis of its fair value and cash flows are generated through the sale of assets, then the objective of the business model is achieved by selling the assets from the portfolio managed.

c) the method of remunerating the persons who manage the financial instruments portfolio. If the managers' compensation is linked to the fair value of assets in the portfolio managed (excluding the credit risk factor), then the objective of the business model is achieved by selling the assets.

d) if the analysed asset portfolio has been designated as a portfolio held for trading. Financial instrument held for trading means an asset which:

- has been acquired or incurred principally for the purpose of selling or repurchasing in the near term,
- on initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is an objective evidence of a recent actual pattern of short-term profit-taking, or
- is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If any of the above qualitative criteria is fulfilled, then the asset portfolio must be linked with another (residual) business model. If none of the four criteria is fulfilled, this implies a business model whose objective is to hold assets to collect contractual cash flows or a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Further business model assessment involves an analysis of quantitative criteria.

Quantitative criteria for the assessment of a business model

In addition to qualitative criteria, the business model should also be reviewed in terms of quantitative aspects, unless the initial analysis of qualitative criteria clearly implies a residual model managed on the fair-value basis.

The purpose of the analysis of quantitative criteria of business model assessment is to determine if the sale of financial assets during the analysed period exceeds the pre-determined threshold values (in percentage terms) defined in internal regulations.

In the analysis of the quantitative criteria of the business model assessment, BZ WBK Group determines that a business model whose objective is to hold assets in order to collect contractual cash flows enables the sale of those assets, without affecting the current business model, in the following cases:

- if the sale is due to the increase in credit risk related to the assets,
- if the sale is infrequent (even if its value is significant),
- if the value of the sale is insignificant (even if the sale is frequent),
- if the assets are sold to improve liquidity in a stress case scenario,

- if the sale is required by third parties (it applies to the assets which have to be sold owing to e.g. the requirements of supervisory authorities, but were originally held to collect contractual cash flows),
- if the sale results from exceeding the concentration limits specified in internal procedures and is a part of the credit risk management policy,
- if the sale is made close to the maturity date of the financial assets and the proceeds from the sale are approximations of the contractual cash flows that BZ WBK Group would have collected if it had held the assets until their maturity date.

Other forms of the sale of assets as part of the business model whose objective is to hold assets in order to collect contractual cash flows (e.g. frequent sales of significant value) result in the need to change the business model and reclassify the financial assets which were originally allocated to that model.

Business model types

The analysis of qualitative and quantitative criteria makes it possible to identify three basic business models applied in the operations of BZ WBK Group:

– the business model whose objective is to hold assets in order to collect contractual cash flows (hold to collect),
– the business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (hold to collect and sell),
– the other/ residual business model (the business model whose objective is achieved by selling assets).

The business model whose objective is to hold assets in order to collect contractual cash flows is the most frequent business model in BZ WBK Group except in the case of:

– debt instruments measured at fair value through other comprehensive income that are maintained in the ALM segment; those instruments are subject to the business model whose objective is achieved by both collecting contractual cash flows and selling financial assets,
– instruments held for trading, including mostly derivative instruments which are not subject to hedge accounting; those instruments are covered by the other/ residual business model.

Changing the business model

BZ WBK Group reclassifies all affected financial assets when, and only when, it changes its business model for managing financial assets. Such changes are expected to be very infrequent. They are determined by the senior management of BZ WBK Group as a result of external or internal changes and must be significant to the BZ WBK Group's operations and demonstrable to external parties. Accordingly, a change in the business model of BZ WBK Group will occur only when the Group either begins or ceases to perform an activity that is significant to its operations (for example, when a business line has been acquired, disposed of or terminated).

The objective of the business model of BZ WBK Group is changed before the reclassification date.

The following are not changes in business model:

a) a change in intention related to particular financial assets (even in circumstances of significant changes in market conditions),
b) the temporary disappearance of a particular market for financial assets,
c) a transfer of financial assets between parts of BZ WBK Group with different business models.

If BZ WBK Group reclassifies a financial asset, it applies the reclassification prospectively from the reclassification date.

If BZ WBK Group reclassifies a financial asset out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is established at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in profit or loss.

Characteristics of contractual cash flows

BZ WBK Group classifies financial assets on the basis of the contractual cash flow characteristics of the financial asset if that asset is held within a business model

- whose objective is to hold assets to collect contractual cash flows or
- whose objective is achieved by both collecting contractual cash flows and selling financial assets

  unless BZ WBK Group has designated that financial asset to be measured at fair value through profit or loss.

For this purpose, BZ WBK Group determines if the contractual cash flows generated by the asset in question are solely payments of principal and interest on the principal amount outstanding.

Principal is the fair value of the financial asset at initial recognition. However, that principal amount may change over the life of the financial asset (for example, if there are repayments of principal).

Interest should include the consideration for:

- the time value of money,

- credit risk,
- other basic lending risks and costs,
- and a profit margin.

The time value of money is the element of interest that provides consideration for only the passage of time. That is, the time value of money element does not provide consideration for other risks or costs associated with holding the financial asset. In order to assess whether the element provides consideration for only the passage of time, BZ WBK Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for BZ WBK Group by failing to discharge an obligation. In other words, credit risk refers to the possibility of the Customer's failure to repay the principal and interest due within the contractual deadline.

Other basic lending risks and costs include for example administration costs related to the analysis of the credit application, assessment of the customer's repayment capacity, monitoring of the customer's economic and financial standing, etc.

In the process of applying BZ WBK Group's accounting policy management assessed whether financial assets, including loan agreements, whose interest rate construction contains a multiplier greater than 1, meet classification criteria allowing their valuation at amortized cost, that is:

- business model and
- characteristics of contractual cash flows.

The portfolio of financial assets, whose interest rate construction contained a multiplier greater than 1, includes:

- credit cards granted until August 1, 2016, whose interest rate formula was based on 4x lombard rate and did not contain direct reference to the provisions of the Civil Code in the regard of interest cap,
- loans subsidized from Agencja Restrukturyzacji i Modernizacji Rolnictwa (ARMiR) granted on the basis of an agreement valid until the end of 2014
- subsidized students' loans from Bank Gospodarstwa Krajowego (BGK)

All financial asset portfolios listed above are maintained in a business model whose objective is to hold financial assets in order to collect contractual cash flows. Credit risk for these assets is the basic risk managed in portfolios, and historical analysis of frequency and volume of sales do not indicate significant sales of asset portfolios for reasons other than credit risk.

In addition, it was not found that:

- fair value was a key performance indicator (KPI) for assessing portfolio performance for internal reporting purposes,
- the assessment of the portfolio's results was based only on the fair value of assets in the analyzed portfolio,
- remuneration of portfolio managers was related to the fair value of assets in the analyzed portfolio.

Moreover, contractual terms related to a financial asset indicate that there are specific cash flow terms that are solely payments of principal and interest on the principal outstanding. The analysis conducted by the BZ WBK Group management based on available management and business reports, supported additionally by the sensitivity analysis of the interest result on interest rate fluctuations, provide the basis for stating that interest includes payment for time value of money, credit risk related to the principal amount still to be repaid in a given period and for other basic risks and costs associated with granting loans, as well as a profit margin.

In view of the above the BZ WBK Group, guided by the principle of substance over the legal form and the intention to ensure comparability of similar credit products with a similar level of risk and a comparable allocation of remuneration for time value of money, credit risk and profit margin, concluded that fundamental classification criteria for financial assets, whose interest formula contains a multiplier greater than 1, to the category of financial assets measured at amortized cost are met, and therefore there are no premises for obligatory valuation of these portfolios at fair value through profit or loss.

A comparison of the balance sheet value with the fair value of financial asset portfolios whose interest rate formula contains a multiplier, as at the reporting date and in the comparative period is disclosed in explanatory note 27

Classification of financial liabilities

BZ WBK Group classifies all financial liabilities as subsequently measured at amortised cost, except for:

- financial liabilities measured at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- financial guarantee contracts. After initial recognition at fair value, the issuer shall measure contract at the higher of:
    - (i) amount of the expected credit loss allowance,
    - (ii) initial recognised amount, less respective cumulated income recognised as per IFRS 15;

- commitments to provide a loan at a below-market interest rate. If the liability is not measured at fair value through profit or loss, the issuer shall measure it at the higher of:
    (i) amount of the expected credit loss allowance,
    (ii) initial recognised amount, less respective cumulated income recognised as per IFRS 15;
- contingent consideration recognised by the acquire under the business combination arrangement governed by IFRS 3. Such contingent consideration shall subsequently be measured at fair value with changes recognised in profit or loss.

Upon initial recognition of the liability, BZ WBK Group may irrevocably classify such item as the one measured at fair value through profit or loss if such an accounting method provides a better view of the accounts, because:

- it eliminates or largely prevents the accounting mismatch that would arise if assets or liabilities or related profit or loss were recognised under different accounting methods, or
- a group of financial assets or liabilities is managed and measured at fair value as per the documented strategy for risk management and investments, and information about these items are provided to key executives within the BZ WBK Group (as per the definition specified in IAS 24 *Related Party Disclosures*).

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host—with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty, is not an embedded derivative, but a separate financial instrument.

Measurement of financial assets and financial liabilities

Initial measurement

Except for trade receivables, at initial recognition, BZ WBK Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

However, if the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, BZ WBK Group recognises this instrument on that date as follows:

- when the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, then BZ WBK Group recognises the difference between the transaction price and the fair value at initial recognition as a gain or loss.
- in all other cases, at the measurement adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, BZ WBK Group recognises that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

At initial recognition, BZ WBK Group shall measure trade receivables that do not have a significant financing component (determined in accordance with IFRS 15) at their transaction price (as defined in IFRS 15).

Subsequent measurement of financial assets

After initial recognition, BZ WBK Group recognises a financial asset:

- at amortised cost, or
- fair value through other comprehensive income, or
- at fair value through profit or loss.

Impairment charges are not calculated for financial assets measured at fair value through profit or loss.

Subsequent measurement of financial liabilities

After initial recognition, BZ WBK Group recognises a financial liability:

- at amortised cost, or
- at fair value through profit or loss.

“Other financial liabilities” cover items other than financial liabilities measured at fair value through profit or loss. These are liabilities measured at amortised costs, and they include: deposits from banks, deposits from customers, liabilities due to repo transactions, loans and advances obtained, issued debt instruments and subordinated liabilities.

Subordinated liabilities are recognised as liabilities which in the event of resolution of BZ WBK Group are repaid after satisfaction of claims of all other BZ WBK creditors. Financial liabilities are classified as subordinated liabilities by the decision of the Polish Financial Supervision Authority issued at the request of BZ WBK Group.

Amortised cost measurement

Financial assets

Effective interest method

Interest revenue is calculated by using the effective interest method. This shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- purchased or originated credit-impaired financial assets For those financial assets, BZ WBK Group applies the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition,
- financial assets other than purchased or originated credit-impaired financial assets that thereafter were recognised as such items. For those financial assets, BZ WBK Group applies the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

In subsequent reporting periods, BZ WBK Group calculates the interest revenue by applying the effective interest rate to the gross carrying amount if the credit risk on the financial instrument improves so that the financial asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the requirements specified this paragraph were applied.

Modification of contractual cash flows

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with this policy, BZ WBK Group recalculates the gross carrying amount of the financial asset and shall recognise a modification gain or loss in profit or loss. The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets) or, when applicable, the revised effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Write-off

BZ WBK Group directly reduces the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event.

Impairment

General approach

BZ WBK Group recognises an allowance for expected credit losses on a financial asset, in respect of:

- financial assets measured at amortised cost or at fair value through other comprehensive income, or;
- lease receivables paid in a timely manner,
- contract assets or loan commitments, and
- contingent liabilities to which the impairment requirements apply.

BZ WBK Group applies the impairment requirements for the recognition and measurement of a loss allowance for financial assets that are measured at fair value through other comprehensive income. However, the loss allowance is recognised in other comprehensive income and does not reduce the carrying amount of the financial asset in the statement of financial position.

At each reporting date, BZ WBK Group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

The objective of the impairment requirements is to recognise lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition — whether assessed on an individual or collective basis — considering all reasonable and supportable information, including that which is forward-looking.

If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, BZ WBK Group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

For loan commitments and financial guarantee contracts, the date that BZ WBK Group becomes a party to the irrevocable commitment shall be considered to be the date of initial recognition for the purposes of applying the impairment requirements.

If BZ WBK Group has measured the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses in the previous reporting period, but determined at the current reporting date that the credit risk for that financial instrument has declined, BZ WBK Group measures the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.

BZ WBK Group recognises in profit or loss, as an impairment gain or loss, the amount of expected credit losses that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised.

Financial assets measured at amortised cost

At the end of each reporting period, BZ WBK Group determines whether there is an objective evidence for impairment of a financial asset or a group of financial assets. Financial asset or a group of financial assets is impaired and the allowance for expected credit losses is justified if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an 'impairment event') and that impairment event (or events) has (have) an impact on the estimated future cash flows from that financial asset (or a group of assets) that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather, the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that the financial asset (or a group of financial assets) is impaired includes observable data that comes to the attention of the entity about the following events:

(a) serious financial difficulties of the issuer or debtor;
(b) failure to fulfil contractual terms and conditions, e.g. to clear the interest or principal debt or to repay these obligations on schedule;
(c) amended lending terms granted to the debtor (for financial or legal reasons resulting from the debtor's financial problems) that otherwise would not have been provided;
(d) very likely bankruptcy of the debtor, sanation proceedings, out-of-court arrangement proceedings or other form of financial restructuring initiated by the debtor;
(e) disappearance of an active market for the financial asset in question, due to financial difficulties; or
(f) the information available indicates a measurable drop of estimated future cash flows generated by a group of financial assets since their initial recognition, even though such a reduction for a single financial asset cannot be determined, including:
    (i) deterioration of the status of debtor's repayments to BZ WBK Group, or
    (ii) economic developments on the domestic or local market which translate into non-repayments to BZ WBK Group.

If there is objective evidence of loans and receivables impairment, the allowance for expected credit losses is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). If a loan or receivable bears a floating interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. If a floating rate financial asset or floating rate financial liability is recognised initially at an amount equal to the principal receivable or payable on maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or liability. The carrying amount of the asset shall be reduced through the recognition of an expected credit loss allowance. The amount of expected credit loss allowance is recognise in the profit and loss account.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from debt enforcement less costs for obtaining and selling the collateral.

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

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

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

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

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

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

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

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

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

Impairment calculation methods are standardised across BZ WBK Group.

Recognition of expected losses

In BZ WBK Group, the recognition of expected credit losses depends on changes in risk after recognition of the exposure. In accordance with the requirements of IFRS 9, BZ WBK Group has introduced three main stages for recognising expected losses:

- Stage 1: exposures with no significant increase in risk since initial recognition, i.e. exposures for which the likelihood of the exposure being downgraded to the impaired portfolio (Stage 3 exposures) has not increased. For such exposures, the expected losses are recognised over the next 12 months.
- Stage 2: exposures with a significant increase in risk since initial recognition, but with no objective evidence of default. For such exposures, lifetime expected losses are recognised.
- Stage 3: exposures for which the risk of default has materialised (indications of impairment have been identified). For such exposures, lifetime expected losses are recognised.

Lifetime expected losses are recognised also for the exposures classified as POCI (purchased or originated credit-impaired).

Identifying a significant increase in credit risk

At each reporting date, BZ WBK Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, BZ WBK Group uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, BZ WBK Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort and that is indicative of significant increases in credit risk since initial recognition.

BZ WBK Group has developed detailed criteria for identifying a significant risk increase based on the following main assumptions:

- qualitative assumptions:
  - implementing dedicated monitoring strategies for the customer following the identification of early warning signals that indicate a significant increase in credit risk,
  - restructuring actions connected with making concessions to the customers as a result of their difficult financial standing,
- quantitative:
  - a risk buffer method based on the comparison of curves illustrating the probability of default over the currently remaining lifetime of the exposure based on the risk level assessment at exposure recognition and at reporting date,
  - delay in payment as defined by the applicable standard, i.e. 30 days past due combined with the materiality threshold consistent with classification into stage 3.

Purchased or originated credit-impaired financial assets

At the reporting date, BZ WBK Group recognises only the changes in lifetime expected credit losses as a loss allowance for purchased or originated credit-impaired financial assets.

At each reporting date, BZ WBK Group recognises in profit or loss the amount of the change in lifetime expected credit losses as an impairment gain or loss. BZ WBK Group recognises favourable changes in lifetime expected credit losses as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.

Simplified approach for trade receivables and contract assets

BZ WBK Group always measures the loss allowance at an amount equal to lifetime expected credit losses for trade receivables or contract assets that result from transactions that are within the scope of IFRS 15, and that:

(i) do not contain a significant financing component (or when BZ WBK Group applies the practical expedient for contracts that are one year or less) in accordance with IFRS 15; or

(ii) contain a significant financing component in accordance with IFRS 15, if BZ WBK Group chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses. This accounting policy applies to all such trade receivables and contract assets.

Contingent liabilities

BZ WBK Group creates provisions for impairment risk-bearing irrevocable contingent liabilities (irrevocable credit lines, financial guarantees, letters of credit, etc.). The value of the provision is determined as the difference between the estimated amount of available contingent exposure set using the Credit Conversion Factor (CCF) and the current value of expected future cash flows under this exposure.

Approach to the estimation of risk parameters used to calculate expected losses

For the purpose of estimating allowances for expected losses, BZ WBK Group continues using own estimates of risk parameters that are based on internal models, however with the necessary modifications in the context of IFRS 9 requirements (such as estimating the parameters over the lifetime of the exposure or taking into account future macroeconomic conditions). BZ WBK Group has developed a methodology for models' parameters and built models compliant with IFRS 9. Expected credit losses are equal to the estimated PD parameter multiplied by the estimated LGD and EAD parameters. The final value of expected credit losses is the sum of expected losses from all periods (depending on the stage, either in 12 months or in the entire lifetime) discounted using the effective interest rate. The estimated parameters are adjusted for macroeconomic scenarios in accordance with the assumptions of IFRS 9. The scenarios used by BZ WBK Group are developed internally.

The models and parameters generated for the needs of IFRS 9 are subject to model management process and periodic calibration and validation.

Gains and losses

A gain or loss on a financial asset or liability measured at fair value is recognised in profit or loss unless the asset or liability is:

- a part of a hedging relationship,
- an investment into an equity instrument and BZ WBK Group has decided to present gains and losses on that investment in other comprehensive income,
- a financial liability designated as measured at fair value through profit or loss and BZ WBK Group is required to present the effects of changes in the liability's credit risk in other comprehensive income; or
- is a financial asset measured at fair value through other comprehensive income and BZ WBK Group is required to recognise some changes in fair value in other comprehensive income.

Dividends are recognised in profit or loss only if:

- the right of BZ WBK Group to receive payment of the dividend is established,
- it is probable that the economic benefits associated with the dividend will flow to BZ WBK Group, and
- the amount of the dividend can be measured reliably.

A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss through the amortisation process or in order to recognise impairment gains or losses. A gain or loss on a financial liability that is measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the financial liability is derecognised and through the amortisation process.

With regard to the financial assets recognised by BZ WBK Group at the settlement date, any change in the fair value of the asset to be received during the period between the trade date and the settlement date is not recognised for assets measured at amortised cost. For assets measured at fair value, however, the change in fair value is recognised in profit or loss or in other comprehensive income, as appropriate. The trade date means the date of initial recognition for the purposes of applying the impairment requirements.

Investments in equity instruments

Investments in equity instruments are measured at fair value through profit or loss unless at their initial recognition BZ WBK Group makes an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of this policy that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.

If BZ WBK Group has elected to measure equity instruments at fair value through profit or loss, dividends from that investment are recognised in profit or loss.

As at the reporting date, BZ WBK Group elected to measure all equity instruments other than shares in subsidiaries, associates and joint ventures at fair value through other comprehensive income.

Liabilities designated as measured at fair value through profit or loss

BZ WBK Group presents a gain or loss on a financial liability that is designated as measured at fair value through profit or loss as follows:

- the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, and
- the remaining amount of change in the fair value of the liability is presented in profit or loss unless the treatment of the effects of changes in the liability's credit risk described in (a) would create or enlarge an accounting mismatch in the profit or loss of BZ WBK Group.

If the requirements specified above would create or enlarge an accounting mismatch in the profit or loss of BZ WBK Group, the Group presents all gains or losses on that liability (including the effects of changes in the credit risk of that liability) in profit or loss.

BZ WBK Group presents in profit or loss all gains and losses on loan commitments and financial guarantee contracts that are designated as measured at fair value through profit or loss.

Assets measured at fair value through other comprehensive income

A gain or loss on a financial asset measured at fair value through other comprehensive income is recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. If the financial asset is reclassified out of the fair value through other comprehensive income measurement category, BZ WBK Group recognises in profit or loss the cumulative gain or loss that was previously recognised in other comprehensive income. Interest calculated using the effective interest method is recognised in profit or loss.

If a financial asset is measured at fair value through other comprehensive income, the amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if the financial asset had been measured at amortised cost.

Financial instruments held for trading

A financial asset or financial liability is classified by BZ WBK Group as held for trading if:

a) it has been acquired or incurred principally for the purpose of selling or repurchasing in the near term,
b) on initial recognition it is a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Derivative financial instruments are recognised at fair value without any deduction for transactions costs to be incurred on sale. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received).

BZ WBK Group separates derivatives embedded in other financial instruments from the host contract and recognises them as a derivative if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and the host contract is not carried at fair value through profit or loss. Embedded derivatives are measured at fair value with changes recognised in the profit and loss account.

BZ WBK Group uses derivative financial instruments to hedge its exposure to FX risk and interest rate risk arising from the Group's operations. The derivatives that do not qualify for hedge accounting are accounted for as instruments held for trading and recognised at fair value.

Hedge accounting

Pursuant to paragraph 7.2.21 of IFRS 9, BZ WBK Group chose to continue to apply the hedge accounting requirements and hedging relationships arising from IAS 39.

Goodwill and intangible assets

Development costs

BZ WBK Group recognises the development costs as intangible assets based on the future economic benefits and fulfilment of conditions specified in IAS 38, i.e.: BZ WBK Group:

- has the ability and intention to complete and use the asset that is being generated,
- has the adequate technical and financial measures to complete the works and use the asset that is being generated and
- can reliably measure the amount of expenditure incurred during the development works that can be allocated to the generated intangible asset.

The economic life of development costs is definite. The amortisation rates are adjusted to the length of the economic life. BZ WBK Group indicates separately the costs from internal development and the costs acquired through business combinations.

Developmnt expenditure comprises all expenditure that is directly attributable to development activities.

Net fee and commission income

The commission income consists mainly of revenues recognized in accordance with the 5-element revenue recognition model resulting from IFRS 15 "Revenues from contracts with customers", whose elements are described below, as well as commission income recognized in accordance with other standards (IAS 17 Leases and IFRS 9 Financial instruments.

Step 1: Identifying the contract with the customer. The first step is to identify the contract with the customer. IFRS 15 defines a contract as an agreement between two or more parties that creates enforceable rights and obligations. However, not all contracts are covered by IFRS 15. BZ WBK Group recognises a contract with a customer within the scope of IFRS 15 if all the following conditions are met:

- The contract has been approved in writing, orally, or in accordance with other customary business practices and the parties are committed to perform their obligations in the contract.
- BZ WBK Group can identify each party's rights regarding the assets.
- BZ WBK Group can identify payment terms for the assets.
- The contract has commercial substance (i.e. the risk, timing or amount of the vendor's future cash flows to BZ WBK Group are expected to change as a result of the contract).
- It is probable that BZ WBK Group will collect the consideration to which it will be entitled in exchange for the assets that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, BZ WBK Group considers only the customer's ability and intention to pay that amount of consideration when it is due.

In the process of identifying a contract with the customer, BZ WBK Group takes into account both combination and modification of contracts as this may affect the method of recognising revenue from contracts with customers.

BZ WBK Group combines two or more contracts entered into at or near the same time with the same customer (or related parties of the customer), and accounts for the contracts as a single contract if one or more of the following criteria are met:

- the contracts are negotiated as a package with a single commercial objective;
- the amount of consideration to be paid in one contract depends on the price or performance of the other contract;
- the assets promised in contracts are a single performance obligation.

A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract. A contract modification exists when the parties to a contract approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the contract. A contract modification could be approved in writing, by oral agreement or implied by customary business practices. If the parties to the contract have not approved a contract modification, BZ WBK Group continues to apply IFRS 15 to the existing contract until the contract modification is approved.

A contract modification may exist even though the parties to the contract have a dispute about the scope or price (or both) of the modification or the parties have approved a change in the scope of the contract but have not yet determined the corresponding change in price. In determining whether the rights and obligations that are created or changed by a modification are enforceable, BZ WBK Group considers all relevant facts and circumstances including the terms of the contract and other evidence. If the parties to a contract have approved a change in the scope of the contract but have not yet determined the corresponding change in price, BZ WBK Group estimates the change to the transaction price arising from the modification in relation to the estimation of variable consideration and constraining estimates of variable consideration.

Step 2: Identifying the performance obligations in the contract The next step in the process of recognising revenue is to identify performance obligations (assets) under the contract which are distinct. An asset is distinct if the customer can benefit from the asset either on its own or together with other resources that are readily available to the customer, and at the same time the asset is separately identifiable from other assets in the contract. In such a case, BZ WBK Group is dealing with separate performance obligations.

Factors that indicate that BZ WBK Group's promise to transfer an asset to a customer is separately identifiable include, but are not limited to, the following:

- BZ WBK Group does not provide a significant service of integrating the asset with other assets promised in the contract into a bundle of assets that represent the combined output for which the customer has contracted.
- The asset does not significantly modify or customise another asset promised in the contract.
- The asset is not highly dependent on, or highly interrelated with, other assets promised in the contract.

If a promised asset is not distinct, BZ WBK Group combines that asset with other promised assets until it identifies a bundle of assets that is distinct. In some cases, that would result in BZ WBK Group accounting for all the assets promised in a contract as a single performance obligation.

Step 3: Determining the transaction price. In accordance with IFRS 15, the transaction price is the amount of consideration that BZ WBK Group expects to be entitled to in exchange for assets promised. It represents the amount of the revenue that will be recognised as a result of performance of the contract. In addition to the amount of consideration, the transaction price should also reflect any highly probable variable consideration (including bonuses or penalties), a discounting factor, amounts paid to customers or non-cash consideration. As the transaction price may be based to a large degree on estimates, BZ WBK reviews it as at each balance sheet date.

If the consideration promised in a contract includes a variable amount, BZ WBK Group estimates the amount of consideration to which it will be entitled in exchange for transferring the promised assets to a customer. An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items.

Step 4: Allocating the transaction price to the performance obligations. As individual performance obligations may be recognised at different times and in different ways (at a point in time or over time), in the case of multiple performance obligations in a contract, the transaction price needs to be allocated to identified performance obligations.

The allocation should be based on the stand-alone selling price, which is the price at which a vendor would sell an asset separately in similar circumstances and to similar customers. If the transaction price changes during the contract, the re-allocation is based on the original unit selling prices.

Step 5: Recognising revenue at the moment of satisfying each performance obligation. Revenue is recognised when assets are transferred to a customer and the customer acquires control over the subject matter of the contract. IFRS 15 specifies the conditions under which a control is said to be transferred to the customer. Control may be transferred at a point in time or over time, which is determined on the basis of the criteria set out in the standard. Control is the ability to direct the use of, and obtain substantially all of the remaining benefits from, an asset. This is a wider concept than the previously used moment of transfer of significant risks and rewards. Indicators that control has been transferred include that the customer has, for example: physical possession of the asset, legal title of the asset, or has accepted the effect of the performance obligation.

According to BZ WBK Group, the indicators of the transfer of control include the following:

- BZ WBK Group has a present right to payment for the asset: if a customer is presently obliged to pay for an asset, then that may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset in exchange.
- The customer has legal title to the asset: legal title may indicate which party to a contract has the ability to direct the use of, and obtain substantially all of the remaining benefits from, an asset or to restrict the access of other entities to those benefits. Therefore, the transfer of legal title of an asset may indicate that the customer has obtained control of the asset. If BZ WBK Group retains legal title solely as protection against the customer's failure to pay, those rights of BZ WBK Group do not preclude the customer from obtaining control of an asset.
- BZ WBK Group has transferred physical possession of the asset: the customer's physical possession of an asset may indicate that the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from the asset or to restrict the access of other entities to those benefits. However, physical possession may not coincide with control of an asset. For example, in some repurchase agreements and a customer or may have physical possession of an asset that BZ WBK Group controls.
- The customer has the significant risks and rewards of ownership of the asset: the transfer of the significant risks and rewards of ownership of an asset to the customer may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from the asset. However, when evaluating the risks and rewards of ownership of a promised asset, BZ WBK Group excludes any risks that give rise to a separate performance obligation in addition to the performance obligation to transfer the asset.
- The customer has accepted the asset: the customer's acceptance of an asset may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

Control may be transferred at a point in time or over time. The following criteria are used to determine when control is transferred and how income should be recognised:

- The customer receives the benefits as the contract is performed; if the service was discontinued, another service provider would not need to re-perform the work that the entity has completed to date.
- BZ WBK Group creates or enhances an asset that the customer controls as it is created or enhanced.
- BZ WBK Group does not create an asset with an alternative use and has a right to payment for performance completed to date.

If any of the above criteria is satisfied, income is recognised over time. In other cases, income is recognised at a point in time when control is transferred.

3. Operating segments reporting

Presentation of information about business segments in Bank Zachodni WBK Group bases on management information model which is used for preparing of reports for the Management Board, which are used to assess performance of results and allocate resources. Operational activity of Bank Zachodni WBK Group has been divided into five segments: Retail Banking, Business & Corporate Banking, Global Corporate Banking, ALM (Assets and Liabilities Management) and Centre, and Santander Consumer. They were identified based on customers and product types.

Profit before tax is a key measure which Management Board of Bank Zachodni WBK Group uses to assess performance of business segments activity.

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

Interest and similar income split by business segments is assessed by Management Board of Bank Zachodni WBK Group on the net basis including costs of internal transfer funds and without split by interests income and costs.

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

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

Income and cost allocations are regulated by agreements between segments, which are based on single rates for specific services or breakdown of total income and/or cost.
Assets and liabilities of a given segment are used for the operational activity and may be assigned to the segment directly or on a reasonable basis.

Bank Zachodni WBK Group focuses its operating activity on the domestic market.

In 2018 change customer resegmentation between business segments. Once a year, BZWBK Group carry out the resegmentation / migration of customers between operating segments which results from the fact that customer meet the criteria of assignment for different operating segment than before. This change is intended to provide services at the highest level of quality and tailored to individual needs or the scale of customer operations.

Comparable data are adjusted accordingly.

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

Retail Banking

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

Business & Corporate Banking

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

Global Corporate Banking

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

- transactional banking with such products as cash management, deposits, leasing, factoring, letters of credit, guarantees, bilateral lending and trade finance;
- lending, including project finance, syndicated facilities and bond issues;

- FX and interest rate risk management products provided to all the Bank's customers (segment allocates revenues from this activity to other segments, the allocation level may be subject to changes in consecutive years);
- underwriting and financing of securities issues, financial advice and brokerage services for financial institutions.

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

ALM and Centre

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

Santander Consumer

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

In thousands of PLN

Consolidated income statement (by operating segments)

01.01.2018-31.03.2018	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Global Corporate Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	**658 710**	**130 769**	**51 593**	**184 009**	**364 745**	**1 389 826**
incl. internal transactions	(30 345)	(12 415)	542	42 184	34	-
Net fee and commission income	**346 111**	**64 577**	**54 915**	**6 135**	**43 376**	**515 114**
incl. internal transactions	25 571	10 390	(39 704)	4 443	(700)	-
Other income	**17 487**	**9 436**	**24 652**	**32 802**	**12 779**	**97 156**
incl. internal transactions	564	8 290	(10 143)	1 737	(448)	-
Dividend income	-	-	-	**179**	**6**	**185**
Operating costs	**(479 326)**	**(76 031)**	**(53 283)**	**(131 750)**	**(148 225)**	**(888 615)**
incl. internal transactions	(2 583)	(347)	-	3 210	(280)	-
Depreciation/amortisation	**(55 658)**	**(7 039)**	**(3 974)**	**(5 930)**	**(9 935)**	**(82 536)**
Impairment losses on loans and advances	**(154 797)**	**(24 059)**	**(5 070)**	**(2 172)**	**(36 868)**	**(222 966)**
Share in net profits (loss) of entities accounted for by the equity method	-	-	-	**10 998**	-	**10 998**
Tax on financial institutions	-	-	-	**(96 681)**	**(9 797)**	**(106 478)**
Profit before tax	**332 527**	**97 653**	**68 833**	**(2 410)**	**216 081**	**712 684**
Corporate income tax						**(180 479)**
Consolidated profit for the period						**532 205**

* Includes individual customers, small & medium companies and Wealth Management (private banking and BZ WBK TFI S.A.)

Consolidated statement of financial position (by operating segments)

31.03.2018	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Global Corporate Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Loans and advances to customers	58 027 694	25 020 145	11 283 567	-	14 746 385	**109 077 791**
Investments in associates	-	-	-	901 864	-	**901 864**
Other assets	6 449 548	1 241 211	6 325 073	29 748 040	3 812 895	**47 576 767**
Total assets	**64 477 242**	**26 261 356**	**17 608 640**	**30 649 904**	**18 559 280**	**157 556 422**
Deposits from customers	74 110 380	17 069 141	9 404 974	4 870 855	8 121 232	**113 576 582**
Other liabilities and equity	4 473 636	3 162 553	6 884 875	19 020 728	10 438 048	**43 979 840**
Total equity and liabilities	**78 584 016**	**20 231 694**	**16 289 849**	**23 891 583**	**18 559 280**	**157 556 422**

* Includes individual customers, small & medium companies and Wealth Management (private banking and BZ WBK TFI S.A.)

In thousands of PLN

Consolidated income statement (by operating segments)

01.01.2017-31.03.2017	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Global Corporate Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	**593 309**	**129 377**	**42 938**	**169 208**	**319 164**	**1 253 996**
incl. internal transactions	(24 269)	(11 760)	245	35 555	229	-
Net fee and commission income	**334 482**	**54 315**	**50 649**	**(876)**	**36 623**	**475 193**
incl. internal transactions	22 592	8 936	(33 139)	2 051	(440)	-
Other income	**13 541**	**21 245**	**20 878**	**56 434**	**7 034**	**119 132**
incl. internal transactions	880	9 413	(10 867)	(11 484)	12 058	-
Dividend income	**-**	**-**	**1**	**338**	**6**	**345**
Operating costs	**(470 808)**	**(74 193)**	**(49 932)**	**(59 577)**	**(137 193)**	**(791 703)**
incl. internal transactions	(1 938)	(345)	-	3 109	(826)	-
Depreciation/amortisation	**(49 743)**	**(5 253)**	**(5 250)**	**(6 439)**	**(7 584)**	**(74 269)**
Impairment losses on loans and advances	**(93 135)**	**(18 698)**	**(1 586)**	**(188)**	**(31 905)**	**(145 512)**
Share in net profits (loss) of entities accounted for by the equity method	**-**	**-**	**-**	**8 655**	**-**	**8 655**
Tax on financial institutions	**-**	**-**	**-**	**(97 002)**	**(8 807)**	**(105 809)**
Profit before tax	**327 646**	**106 793**	**57 698**	**70 553**	**177 338**	**740 028**
Corporate income tax						(212 812)
Consolidated profit for the period						**527 216**

*Includes individual customers, small & medium companies and Wealth Management (private banking and BZ WBK TFI S.A.)

Consolidated statement of financial position (by operating segments)

31.12.2017	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Global Corporate Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Loans and advances to customers	57 000 918	24 458 668	11 830 105	-	14 550 206	107 839 897
Investments in associates	-	-	-	889 372	-	889 372
Other assets	5 730 389	1 026 777	3 845 759	29 444 552	3 897 698	43 945 175
Total assets	**62 731 307**	**25 485 445**	**15 675 864**	**30 333 924**	**18 447 904**	**152 674 444**
Deposits from customers	72 996 282	17 746 791	8 128 154	4 454 998	8 154 910	111 481 135
Other liabilities and equity	4 879 623	3 074 395	5 357 993	17 588 304	10 292 994	41 193 309
Total equity and liabilities	**77 875 905**	**20 821 186**	**13 486 147**	**22 043 302**	**18 447 904**	**152 674 444**

* Includes individual customers, small & medium companies and Wealth Management (private banking and BZ WBK TFI S.A.)

In thousands of PLN

4. Net interest income

Interest income	01.01.2018-31.03.2018 Interest income on financial assets measured at amortised cost	Interest income on financial assets measured at fair value through other comprehensive income	Income similar to interest - financial assets measured at fair value through profit or loss	Total
Loans and advances to enterprises	425 003	-	501	425 504
Loans and advances to individuals, of which:	947 746	-	-	947 746
Home mortgage loans	280 304	-	-	280 304
Debt securities incl.:	-	163 239	5 862	169 101
Investment securities	-	*163 239*	-	*163 239*
Trading portfolio	-	-	*5 862*	*5 862*
Leasing agreements	70 712	-	-	70 712
Loans and advances to banks	7 691	-	-	7 691
Public sector	1 974	-	-	1 974
Reverse repo transactions	13 653	-	-	13 653
Interest recorded on hedging IRS	52 121	-	-	52 121
Total	**1 518 899**	**163 239**	**6 363**	**1 688 501**
Interest expenses	**01.01.2018-31.03.2018 Interest expenses on financial liabilities measured at amortised cost**	**Interest expenses on financial liabilities measured at fair value trought other comprehensive income**	**Interest expenses on financial liabilities measured at fair value trought profit or loss**	**Total**
Deposits from individuals	(118 894)	-	-	(118 894)
Deposits from enterprises	(84 594)	-	-	(84 594)
Repo transactions	(17 746)	-	-	(17 746)
Deposits from public sector	(13 305)	-	-	(13 305)
Deposits from banks	(13 262)	-	-	(13 262)
Subordinated liabilities and issue of securities	(50 873)	-	-	(50 873)
Total	**(298 675)**	**-**	**-**	**(298 675)**
Net interest income	**1 220 224**	**163 239**	**6 363**	**1 389 826**

Interest income	01.01.2017-31.03.2017
Loans and advances to enterprises	399 019
Loans and advances to individuals, of which:	853 134
Home mortgage loans	*250 682*
Debt securities incl.:	161 140
Investment portfolio available for sale	*158 239*
Trading portfolio	*2 901*
Leasing agreements	61 066
Loans and advances to banks	15 191
Public sector	1 710
Reverse repo transactions	3 093
Interest recorded on hedging IRS	65 449
Total	**1 559 802**
Interest expenses	**01.01.2017-31.03.2017**
Deposits from individuals	(140 425)
Deposits from enterprises	(89 816)
Repo transactions	(7 225)
Deposits from public sector	(10 913)
Deposits from banks	(12 773)
Subordinated liabilities and issue of securities	(44 654)
Total	**(305 806)**
Net interest income	**1 253 996**

In thousands of PLN

5. Net fee and commission income

Fee and commission income	01.01.2018-31.03.2018	01.01.2017-31.03.2017
eBusiness & payments	147 009	138 585
Current accounts and money transfer	81 499	83 361
Asset management fees	81 201	69 065
Foreign exchange commissions	89 091	78 131
Credit commissions	80 683	72 258
Insurance commissions	50 144	51 481
Brokerage activities	18 132	22 069
Credit cards	43 118	40 029
Off-balance sheet guarantee commissions	14 822	12 788
Finance lease commissions	4 372	3 974
Issue arrangement fees	3 058	997
Distribution fees	863	3 856
Other commissions	3 733	5 982
Total	**617 725**	**582 576**
Fee and commission expenses	**01.01.2018-31.03.2018**	**01.01.2017-31.03.2017**
eBusiness & payments	(45 208)	(43 941)
Distribution fees	(5 308)	(5 805)
Brokerage activities	(2 731)	(3 172)
Credit cards	(8 706)	(8 923)
Credit commissions paid	(11 773)	(19 307)
Insurance commissions	(2 718)	(2 302)
Finance lease commissions	(7 044)	(5 967)
Asset management fees and other costs	(1 829)	(1 630)
Other	(17 294)	(16 336)
Total	**(102 611)**	**(107 383)**
Net fee and commission income	**515 114**	**475 193**

6. Net trading income and revaluation

Net trading income and revaluation	01.01.2018-31.03.2018	01.01.2017-31.03.2017
Derivative instruments and interbank fx transactions	17 038	41 015
Other FX related income	5 643	10 968
Profit on equity instruments	-	3 356
Profit on debt instruments	-	519
Profit on equity securities mandatorily measured at fair value through other profit or loss	(3 002)	-
Profit on debt securities mandatorily measured at fair value through other profit or loss	394	-
Total	**20 073**	**55 858**

Net trading income and revaluation includes the change of the value of derivative instruments in the amount of PLN (3,473) k for 1Q 2018 and PLN (4,918) k for 1Q 2017.

The amounts included CVA and DVA adjustments which in 1Q 2018 and 1Q 2017 totaled PLN (3,087) k and PLN (4, 797) k respectively.

In thousands of PLN

7. Gains (losses) from other financial securities

Gains (losses) from other financial securities	01.01.2018-31.03.2018	01.01.2017-31.03.2017
Profit on sale of equity shares available for sale	-	10 775
Profit on sale of debt securities available for sale	-	5 503
Profit on sale of debt securities measured at fair value through other comprehensive income	210	-
Profit on sale of other investment securities mandatorily measured at fair value through other profit or loss	(4)	-
Change in fair value of other investment securities mandatorily measured at fair value through other profit or loss	(109)	-
Total profit (losses) on financial instruments	**97**	**16 278**
Change in fair value of hedging instruments	(9 332)	2 789
Change in fair value of underlying hedged positions	8 935	(1 890)
Total profit (losses) on hedging and hedged instruments	**(397)**	**899**
Total	**(300)**	**17 177**

8. Other operating income

Other operating income	01.01.2018-31.03.2018	01.01.2017-31.03.2017
Income on sale of services	11 115	3 376
Reimbursements of BGF charges *	-	433
Release of provision for legal cases and other assets	1 922	1 429
Settlements of leasing agreements	965	952
Recovery of other receivables	2 305	1 503
Profit on sales or liquidation of fixed assets, intangible assets and assets for disposal	44 277	220
Received compensations, penalties and fines	1 413	362
Other income from legal cases	-	24 131
Other	15 451	9 934
Total	**77 448**	**42 340**

*Following the change in the calculation of contributions to the Bank Guarantee Fund as a result of the introduction of the Bank Guarantee Fund Act of 10 June 2016, the bank changed the accounting treatment of the associated income which is now disclosed under fee and commission income.

9. Impairment losses on loans and advances

Impairment losses on loans and advances for reporting period: 01.01.2018 r. - 31.03.2018 r.	Impairment losses on loans and advances measured at amortised cost			Change in adjustment value of loans and advances measured at fair value trought profit or loss	Total
	Stage 1	Stage 2	Stage 3		
Charge for loans and advances to customers	(14 591)	26 159	(249 944)	16	(238 360)
Recoveries of loans previously written off	-	-	17 680	-	17 680
Off-balance sheet credit related facilities	(2 540)	2 111	(1 857)	-	(2 286)
Total	**(17 131)**	**28 270**	**(234 121)**	**16**	**(222 966)**

In thousands of PLN

Impairment losses on loans and advances	01.01.2017-31.03.2017
Collective and individual impairment charge	(158 316)
Incurred but not reported losses charge	(17 316)
Recoveries of loans previously written off	31 262
Off-balance sheet credit related facilities	(1 142)
Total	**(145 512)**

10. Employee costs

Employee costs	01.01.2018-31.03.2018	01.01.2017-31.03.2017
Salaries and bonuses	(324 869)	(313 223)
Salary related costs	(59 367)	(58 065)
Staff benefits costs	(8 299)	(8 395)
Professional trainings	(2 877)	(2 480)
Retirement fund, holiday provisions and other employee costs	(579)	(624)
Total	**(395 991)**	**(382 787)**

11. General and administrative expenses

General and administrative expenses	01.01.2018-31.03.2018	01.01.2017-31.03.2017
Maintenance and rentals of premises	(84 167)	(86 295)
Marketing and representation	(25 464)	(30 598)
IT systems costs	(60 331)	(54 010)
Bank Guarantee Fund, Polish Financial Supervision Authority and National Depository for Securities	(163 630)	(105 152)
Postal and telecommunication costs	(12 855)	(12 876)
Consulting fees	(18 862)	(13 314)
Cars, transport expenses, carriage of cash	(15 241)	(16 399)
Other external services	(36 102)	(20 821)
Stationery, cards, cheques etc.	(6 192)	(6 104)
Sundry taxes	(8 507)	(8 126)
Data transmission	(3 562)	(3 609)
KIR, SWIFT settlements	(7 172)	(7 501)
Security costs	(7 083)	(6 765)
Costs of repairs	(10 808)	(3 587)
Other	(6 487)	(5 766)
Total	**(466 463)**	**(380 923)**

In thousands of PLN

12. Other operating expenses

Other operating expenses	01.01.2018-31.03.2018	01.01.2017-31.03.2017
Charge of provisions for legal cases and other assets	(9 834)	(15 749)
Costs of purchased services	(5 605)	(1 004)
Other memebership fees	(181)	(190)
Paid compensations, penalties and fines	(3 339)	(4 725)
Donations paid	(39)	(1 500)
Other	(7 163)	(4 825)
Total	**(26 161)**	**(27 993)**

13. Corporate income tax

Corporate income tax	01.01.2018-31.03.2018	01.01.2017-31.03.2017
Current tax charge in the income statement	(188 095)	(90 160)
Deffered tax	5 333	(122 821)
Adjustments from previeus years	2 283	169
Total income tax expense	**(180 479)**	**(212 812)**
Current tax charge in the retained earnings (capital)	(17)	-
Total income tax expense	**(180 496)**	**(212 812)**

Corporate total tax charge information	01.01.2018-31.03.2018	01.01.2017-31.03.2017
Profit before tax	712 684	740 028
Tax rate	19%	19%
Tax calculated at the tax rate	(135 410)	(140 605)
Non-tax-deductible expenses	(1 919)	(4 884)
The fee to the Bank Guarantee Fund	(30 448)	(19 377)
Tax on financial institutions	(20 230)	(20 104)
Sale of receivables	(34)	(20 186)
Adjustment of prior year tax	2 283	169
Tax effect of consolidation adjustments	6 793	(5 761)
Other	(1 514)	(2 064)
Total income tax expense	**(180 479)**	**(212 812)**
Sale of equity investments measured at fair value through other comprehensive income	(17)	-
Total income tax expense	**(180 496)**	**(212 812)**

Deferred tax recognised in other comprehensive income	31.03.2018	31.12.2017
Relating to equity securities available-for-sale	-	(130 950)
Relating to debt securities available-for-sale	-	(57 957)
Relating to valuation of debt investments measured at fair value through other comprehensive income	(92 530)	-
Relating to valuation of equity investments measured at fair value through other comprehensive income	(127 824)	-
Relating to cash flow hedging activity	22 656	20 508
Relating to valuation of defined benefit plans	(125)	(125)
Total	**(197 823)**	**(168 524)**

In thousands of PLN

14. Cash and balances with central banks

Cash and balances with central banks	31.03.2018	31.12.2017
Cash	1 993 272	2 270 698
Current accounts in central banks	3 147 220	1 857 824
Term deposits	62 351	17 700
Total	**5 202 843**	**4 146 222**

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

15. Loans and advances to banks

Loans and advances to banks	31.03.2018	31.12.2017
Loans and advances	356 604	850 541
Current accounts	1 453 995	1 285 933
Total	**1 810 599**	**2 136 474**

16. Financial assets and liabilities held for trading

	31.03.2018		31.12.2017	
Financial assets and liabilities held for trading	Assets	Liabilities	Assets	Liabilities
Trading derivatives	**1 089 139**	**954 909**	**1 226 551**	**1 237 704**
Interest rate operations	359 621	268 605	307 344	275 046
Transactions on equity instruments	6 880	6 880	6 053	6 053
FX operations	722 638	679 424	913 154	956 605
Debt and equity securities	**4 689 664**	**-**	**2 189 557**	**-**
Debt securities	**4 663 953**	**-**	**2 174 096**	**-**
Government securities:	4 660 242	-	2 170 048	-
- bonds	4 660 242	-	2 170 048	-
Commercial securities:	3 711	-	4 048	-
- bonds	3 711	-	4 048	-
Equity securities	**25 711**	**-**	**15 461**	**-**
Total financial assets/liabilities	**5 778 803**	**954 909**	**3 416 108**	**1 237 704**

Financial assets and liabilities held for trading - trading derivatives include the change in the value of counterparty risk in the amount of PLN (2 998) k as at 31.03.2018 and PLN 190 k as at 31.12.2017.

In thousands of PLN

17. Loans and advances to customers

Loans and advances to customers	31.03.2018 Measured at amortised cost	31.03.2018 Measured at fair value trought profit or loss	31.12.2017
Loans and advances to enterprises	47 800 140	187 150	47 776 973
Loans and advances to individuals, of which:	59 094 016	-	57 822 414
Home mortgage loans	*37 974 294*	-	*37 293 296*
Finance lease receivables	7 086 750	-	6 848 960
Loans and advances to public sector	228 163	-	228 201
Other	9 741	-	9 479
Gross receivables	**114 218 810**	**187 150**	**112 686 027**
Allowance for impairment	(5 247 419)	(80 750)	(4 846 130)
Total	**108 971 391**	**106 400**	**107 839 897**

Movements on impairment losses on loans and advances to customers for reporting period 01.01.2018 - 31.03.2018	Movements on impairment losses on loans and advances to customers measured at amortised cost: Stage 1	Stage 2	Stage 3	Change in adjustment value of loans and advances measured at fair value trought profit or loss	Total
Opening balance as at 31.12.2017	-	-	-	-	**(4 846 130)**
Impact of the implementation of IFRS 9	-	-	-	-	(286 018)
Opening balance as at 01.01.2018 (restated)	**(454 570)**	**(552 200)**	**(4 044 755)**	**(80 623)**	**(5 132 148)**
Charge/write back of current period	(14 591)	26 159	(249 944)	16	(238 360)
Write off/Sale of receivables	106	-	41 500	-	41 606
Transfer	(344)	(410)	3 406	-	2 652
F/X differences	(235)	(197)	(1 344)	(143)	(1 919)
Balance at the end of the period	**(469 634)**	**(526 648)**	**(4 251 137)**	**(80 750)**	**(5 328 169)**

Movements on impairment losses on loans and advances to customers	01.01.2017-31.03.2017
Individual and collective impairment	
Opening balance as at 31.12.2016	(4 187 798)
Charge/write back of current period	(668 164)
Write off/Sale of receivables	735 191
Transfer	(16 960)
F/X differences	30 137
Balance at the end of the period	**(4 107 594)**
IBNR	
Opening balance as at 31.12.2016	(691 083)
Charge/write back of current period	(65 420)
Sale of receivables	3 429
Transfer	940
F/X differences	13 598
Balance at the end of the period	**(738 536)**
Allowance for impairment	**(4 846 130)**

As indicated in the description of accounting policy, the BZ WBK Group continues the valuation of financial assets portfolios, which include a multiplier in the construction of interest rates at amortized cost.
Below is presented a comparison, as at 01.01.2018 and 31.03.2018, of the carrying amount of credit cards with their fair value that would have been recognized if the BZ WBK Group reclassified these portfolios to fair value through profit or loss. The value of other portfolios of financial assets containing a multiplier greater than 1 in the interest rate formula is insignificant from the BZ WBK Group consolidated financial statements point of view and their balance sheet value reflects the fair value.

	Date	Carrying amount of credit cards	Fair value of credit cards
1	31.12.2017	1 489 930	1 489 954
2	31.03.2018	1 429 238	1 431 251

In thousands of PLN

18. Investment securities

Investment securities	31.03.2018
Debt securities measured at fair value through other comprehensive income	**28 090 221**
Government securities:	25 877 935
- bonds	25 877 935
Central Bank securities:	82 023
- bills	82 023
Other securities:	2 130 263
-bonds	2 130 263
Equity securities measured at fair value through other comprehensive income	**907 432**
- listed	19 663
- unlisted	887 769
Other investment securities mandatorily measured at fair value through other profit or loss	**3 390**
Total	**29 001 043**

Financial assets available for sale	31.12.2017
Debt securities	**27 494 933**
Government securities:	24 025 353
- bonds	24 025 353
Central Bank securities:	1 379 839
- bills	1 379 839
Other securities:	2 089 741
-bonds	2 089 741
Equity securities	**920 879**
- listed	19 329
- unlisted	901 550
Total	**28 415 812**

19. Investments in associates

Balance sheet value of associates	31.03.2018	31.12.2017
Polfund - Fundusz Poręczeń Kredytowych S.A.	43 506	43 570
BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.and BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A.	858 358	845 802
Total	**901 864**	**889 372**

Movements on investments in associates	01.01.2018-31.03.2018	01.01.2017-31.12.2017
Balance as at 1 January	**889 372**	**871 491**
Share of profits/(losses)	10 998	58 264
Dividends	-	(44 861)
Other	1 494	4 478
Balance at the end of the period	**901 864**	**889 372**

In thousands of PLN

20. Deposits from banks

Deposits from banks	31.03.2018	31.12.2017
Term deposits	646 732	64 023
Loans from other banks	1 778 399	1 994 759
Current accounts	1 412 959	724 301
Total	**3 838 090**	**2 783 083**

21. Deposits from customers

Deposits from customers	31.03.2018	31.12.2017
Deposits from individuals	**66 073 674**	**64 987 719**
Term deposits	22 422 629	21 911 544
Current accounts	43 484 513	42 948 226
Other	166 532	127 949
Deposits from enterprises	**42 883 938**	**42 170 092**
Term deposits	19 366 894	17 486 056
Current accounts	18 959 388	20 481 778
Loans	3 736 007	3 552 388
Other	821 649	649 870
Deposits from public sector	**4 618 970**	**4 323 324**
Term deposits	2 616 059	2 085 917
Current accounts	1 998 912	2 233 410
Other	3 999	3 997
Total	**113 576 582**	**111 481 135**

22. Subordinated liabilities

Subordinated liabilities	Redemption date	Currency	Nominal value
Tranche 1	05.08.2025	EUR	100 000
Tranche 2	03.12.2026	EUR	120 000
Tranche 3	22.05.2027	EUR	137 100

Movements in subordinated liabilities	31.03.2018	31.03.2017
As at the beginning of the period	**1 488 602**	**440 457**
Increase (due to):	**24 962**	**494 164**
- interest on subordinated loan	11 613	6 829
- FX differences	13 349	(29 889)
- reclassification *	-	517 224
Decrease (due to):	**(12 663)**	**(3 474)**
- interest repayment	(12 663)	(3 474)
Subordinated liabilities - as at the end of the period	**1 500 901**	**931 147**
Short-term	6 555	6 254
Long-term (over 1 year)	1 494 346	924 893

* On 24.02.2017, Bank Zachodni WBK received KNF consent to allocate bonds issued by the bank on 02.12.2016 and maturing on 03.12.2026 to subordinated debt.

In thousands of PLN

23. Debt securities in issue

Issuance of debt securities in 1Q 2018 (non-matured securities)	Nominal value	Currency	Redemption date
SCB00042	100 000	PLN	05.03.2021
SCB00043	60 000	PLN	29.03.2022

Issuance of debt securities in 2017 (non-matured securities)	Nominal value	Currency	Redemption date
Series F bank securities	750 000	PLN	19.02.2018
Series A	700 000	PLN	18.04.2018
SCB00038	300 000	PLN	09.08.2021
SCB00039	252 100	PLN	09.10.2020
SCB00040	261 400	PLN	07.10.2022
SCB00041	60 000	PLN	07.10.2022

Movements in debt securities in issue	31.03.2018	31.03.2017
As at the beginning of the period	**5 895 814**	**5 529 187**
Increase (due to:)	**199 160**	**706 741**
- debt securities in issue	160 000	670 000
- interest on debt securities in issue	39 160	36 741
Decrease (due to):	**(930 255)**	**(851 493)**
- debt securities redemption	(890 000)	(285 000)
- reclassification*	-	(517 224)
- FX differences	-	(13 656)
- interest repayment	(40 255)	(35 613)
As at the end of the period	**5 164 719**	**5 384 435**

* On 24.02.2017, Bank Zachodni WBK received KNF consent to allocate bonds issued by the bank on 02.12.2016 and maturing on 03.12.2026 to subordinated debt.

24. Provisions for off balance sheet credit facilities

Provisions for off balance sheet credit facilities	31.03.2018	31.12.2017
Provisions for financial liabilities to grant loans	54 172	40 574
Provisions for financial guarantees	13 185	9 518
Other provisions	679	560
Total	**68 036**	**50 652**

Change in provisions for off balance sheet credit facilities	31.03.2018
Opening balance as at 31.12.2017	**50 652**
Impact of the implementation of IFRS 9	15 034
Opening balance as at 01.01.2018 (restated)	**65 686**
Provision charge	45 310
Utilization	69
Write back	(43 024)
Other changes	(5)
Balance at the end of the period	**68 036**
Short-term	52 635
Long-term	15 401

In thousands of PLN

Change in provisions for off balance sheet credit facilities	31.03.2017
As at the beginning of the period	**50 746**
Provision charge	19 366
Utilization	(391)
Write back	(18 224)
Balance at the end of the period	**51 497**
Short-term	43 555
Long-term	7 942

25. Other provisions

Other provisions	31.03.2018	31.12.2017
Provisions for legal claims	105 912	99 463
Provisions for restructuring	2 202	3 019
Total	**108 114**	**102 482**

Change in provisions 31.03.2018	Provisions for legal claims	Provisions for restructuring	Total
As at the beginning of the period	**99 463**	**3 019**	**102 482**
Provision charge	9 669	-	9 669
Utilization	(2 733)	-	(2 733)
Write back	(487)	(817)	(1 304)
Other changes	-	-	-
Balance at the end of the period	**105 912**	**2 202**	**108 114**

Change in provisions 31.03.2017	Provisions for legal claims	Provisions for restructuring	Total
As at the beginning of the period	**74 396**	**4 986**	**79 382**
Provision charge	15 493	266	15 759
Utilization	(11 664)	-	(11 664)
Write back	274	(1 024)	(750)
Other changes	-	-	-
Balance at the end of the period	**78 499**	**4 228**	**82 727**

26. Other liabilities

Other liabilities	31.03.2018	31.12.2017
Settlements of stock exchange transactions	24 888	25 851
Interbank settlements	418 198	952 192
Employee provisions	283 075	407 722
Other provisions	3 300	3 300
Sundry creditors	516 376	511 537
Other deferred and suspended income	257 827	249 880
Public and law settlements	137 134	84 971
Accrued liabilities	676 723	532 117
Finance lease related settlements	91 206	99 306
Other	2 089	1 898
Total	**2 410 816**	**2 868 774**
of which financial liabilities *	2 013 766	2 532 025

* Financial liabilities include all items of 'Other liabilities' with the exception of Public and law settlements, Other deferred and suspended income and Other Provisions.

In thousands of PLN

Change in provisions 31.03.2018	Employee provisions	*of which: Provisions for retirement allowances*	Other provisions	Total
As at the beginning of the period	**407 722**	***72 726***	**3 300**	**411 022**
Provision charge	69 085	*1 154*	-	69 085
Utilization	(170 014)	-	-	(170 014)
Write back	(23 718)	*(2)*	-	(23 718)
Other changes	-	-	-	-
Balance at the end of the period	**283 075**	***73 878***	**3 300**	**286 375**
Short-term	209 197	-	3 300	212 497
Long-term	73 878	*73 878*	-	73 878

Change in provisions 31.03.2017	Employee provisions	*of which: Provisions for retirement allowances*	Other provisions	Total
As at the beginning of the period	**375 959**	***60 397***	**3 300**	**379 259**
Provision charge	68 747	*1 238*	-	68 747
Utilization	(149 366)	-	-	(149 366)
Write back	(25 025)	-	-	(25 025)
Other changes	(77)	-	-	(77)
Balance at the end of the period	**270 238**	***61 635***	**3 300**	**273 538**
Short-term	208 603	-	3 300	211 903
Long-term	61 635	*61 635*	-	61 635

In thousands of PLN

27. Fair value

A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.

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

ASSETS	31.03.2018		31.12.2017	
	Book Value	Fair value	Book Value	Fair value
Cash and balances with central banks	5 202 843	5 202 843	4 146 222	4 146 222
Loans and advances to banks	1 810 599	1 810 599	2 136 474	2 136 474
Financial assets held for trading	5 778 803	5 778 803	3 416 108	3 416 108
Hedging derivatives	186 449	186 449	218 061	218 061
Loans and advances to customers	109 077 791	110 241 208	107 839 897	108 488 102
Financial assets available for sale	-	-	28 415 812	28 415 812
Investment securities incl.:	29 001 043	29 001 043	-	-
- debt securities measured at fair value through other comprehensive income	28 090 221	28 090 221	-	-
- equity securities measured at fair value through other comprehensive income	907 432	907 432	-	-
- other investment securities measured at fair value through other profit or loss	3 390	3 390	-	-
LIABILITIES				
Deposits from banks	3 838 090	3 838 090	2 783 083	2 783 083
Hedging derivatives	642 311	642 311	578 798	578 798
Financial liabilities held for trading	954 909	954 909	1 237 704	1 237 704
Deposits from customers	113 576 582	113 591 349	111 481 135	111 496 805
Subordinated liabilities	1 500 901	-	1 488 602	1 500 989

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

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

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

Loans and advances to banks: The fair value of deposits is measured using discounted cash flows at the current money market interest rates for receivables of similar credit risk, maturity and currency. In the case of demand deposits without a fixed maturity date or with maturity up to 6 months, it is assumed that their fair value is not significantly different than their book value. The process of fair value estimation for these instruments is not affected by the long-term nature of the business with depositors.

Loans and advances to customers: Carried at net value after impairment charges. Fair value is calculated as the discounted value of the expected future cash flows in respect of principal and interest payments. It is assumed that loans and advances will be repaid at their contractual maturity date. The estimated fair value of the loans and advances reflects changes in the credit risk from the moment of sanction (margins) and changes in interest rates. In the case of foreign currency loans, the current margin for loans in EUR was applied. The valuation does not take into account the potential risks of legal solutions for the CHF mortgage loan portfolio.

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

Debt securities in issue and subordinated liabilities: The Group has made an assumption that the fair value of these securities is based on discounted cash flows methods incorporating adequate interest rates.

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

As at 31.03.2018 and in the comparable periods the Group made the following classification of its financial instruments measured at fair value in the statement of financial position:

In thousands of PLN

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

Level II (the measurement methods based on market-derived parameters): This level includes derivative instruments. Derivative instruments are measured using discounted cash flow models based on the discount curve derived from the inter-bank market.

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

The objective of using a valuation technique is to determine the fair value, i.e., prices, which were obtained by the sale of an asset in in an orderly transaction between market participants carried out under current market conditions between market participants at the measurement date.

Valuation of major capital investments classified to Level III:

a) AVIVA Towarzystwo Ubezpieczeń na Życie SA (AVIVA TUŻ),
b) AVIVA Powszechne Towarzystwo Emerytalne SA (AVIVA PTE),
c) AVIVA Towarzystwo Ubezpieczeń Ogólnych SA (AVIVA TUO).

are made semi-annually by specialized units of the Bank using income methods based on discounted cash flows, where the most important variables of the model are the level of forecasted dividends and the risk free rate.

As at 31.03.2018 and in the comparable periods the Group classified its financial instruments to the following fair value levels:

31.03.2018	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	4 689 664	1 089 139	-	5 778 803
Hedging derivatives	-	186 449	-	186 449
Debt securities measured at fair value through other comprehensive income	28 057 689	-	32 532	28 090 221
Equity securities measured at fair value through other comprehensive income	19 663	-	887 769	907 432
Other investment securities measured at fair value through other profit or loss	3 390	-	-	3 390
Total	**32 770 406**	**1 275 588**	**920 301**	**34 966 295**
Financial liabilities				
Financial liabilities held for trading	-	954 909	-	954 909
Hedging derivatives	-	642 311	-	642 311
Total	**-**	**1 597 220**	**-**	**1 597 220**

31.12.2017	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	2 189 110	1 226 551	447	3 416 108
Hedging derivatives	-	218 061	-	218 061
Financial investment assets - debt securities	27 462 401	-	32 532	27 494 933
Financial investment assets - equity securities	19 328	-	901 551	920 879
Total	**29 670 839**	**1 444 612**	**934 530**	**32 049 981**
Financial liabilities				
Financial liabilities held for trading	-	1 237 704	-	1 237 704
Hedging derivatives	-	578 798	-	578 798
Total	**-**	**1 816 502**	**-**	**1 816 502**

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

In thousands of PLN

Level III	Financial assets			Financial liabilities
31.03.2018	Financial assets held for trading	Financial investment assets - debt securities OCI	Financial investment assets - equity securities OCI	Financial liabilities held for trading
Beginning of the period	**447**	**32 532**	**901 551**	**-**
Profit or losses				
recognised in income statement	*(26)*	-	-	-
recognised in equity (OCI)	-	-	*2 738*	-
Purchase	-	-	-	-
Sale	(421)	-	-	-
Matured	-	-	-	-
Impairment	-	-	-	-
Other	-	-	(16 520)	-
At the period end	**-**	**32 532**	**887 769**	**-**

Level III	Financial assets			Financial liabilities
31.12.2017	Financial assets held for trading	Financial investment assets - debt securities	Financial investment assets - equity securities	Financial liabilities held for trading
Beginning of the period	**251**	**38 240**	**849 578**	**-**
Profit or losses				
recognised in income statement	*(29)*	-	-	-
recognised in equity	-	-	*68 337*	-
Purchase	1 057	-	2 036	-
Sale	(832)	-	(18 400)	-
Matured	-	-	-	-
Impairment	-	-	-	-
Other	-	(5 708)	-	-
At the period end	**447**	**32 532**	**901 551**	**-**

28. Contingent liabilities

Significant court proceedings

As at 31.03.2018 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 1,228,017 k, which is ca 5.52% of the Group's equity. This amount includes PLN 766,111 k claimed by the Group, PLN 454,973 k in claims against the Group and PLN 6,933 k of the Group's receivables due to bankruptcy or arrangement cases.

On 20.10.2017, Bank Zachodni WBK received a notice of a class action instituted by the borrowers who had loans indexed to the CHF, originated by the former Kredyt Bank. The total value of the claim, estimated as at 31.12.2017, was PLN 32.3 m. On 27.02.2018, Bank Zachodni WBK received a notice of broaden a class action by next groups of borrowers and the total value of the claim increased to PLN 47,0 m.

As at 31.03.2018 the amount of significant court proceedings which had been completed amounted to PLN 176,324 k.

As at 31.03.2018, the value of provisions for legal claims was PLN 105,912 k, including for significant cases against the Bank was PLN 60,330 k. In 17 cases against the Bank, where the claim value was high, a provision of PLN 42,403 k was raised.

The Bank raises provisions for legal risk where an internal risk assessment for a particular case indicates a possible outflow of cash. Provisions for cases disputed in court are presented in Note 25.

In thousands of PLN

As at 31.12.2017 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 1,080,768 k, which is ca 4.63% of the Group's equity. This amount includes PLN 717,617k claimed by the Group, PLN 359,362 k in claims against the Group and PLN 3,789 k of the Group's receivables due to bankruptcy or arrangement cases.

As at 31.12.2017 the amount of significant court proceedings which had been completed amounted to PLN 532,519 k.

As at 31.12.2017, the value of provisions for legal claims was PLN 99,463 k. In 10 cases against the Bank, where the claim value was high, a provision of PLN 40,983 k was raised.

Off-balance sheet liabilities

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

Contingent liabilities - sanctioned	Stage 1	Stage 2	Stage 3	31.03.2018	31.12.2017
Liabilities sanctioned					
- financial	**24 753 207**	**436 405**	**26 261**	**25 215 873**	**24 642 271**
- credit lines	20 375 030	335 120	17 517	20 727 667	20 279 546
- credit cards debits	3 715 735	69 652	8 744	3 794 131	3 730 667
- import letters of credit	662 121	31 633	-	693 754	624 207
- term deposits with future commencement term	321	-	-	321	7 851
- guarantees	**4 691 390**	**184 051**	**14 185**	**4 889 626**	**4 885 661**
Allowance for impairment	**(29 950)**	**(14 597)**	**(23 489)**	**(68 036)**	**(50 652)**
Total	**29 414 647**	**605 859**	**16 957**	**30 037 463**	**29 477 280**

29. Shareholders with min. 5% voting power

According to the information held by the Bank's Management Board, the shareholder with a min. 5% of the total number of votes at the Bank Zachodni WBK General Meeting as at the publication date of the condensed interim consolidated report for Q1 2018 /24.04.2018/ is Banco Santander S.A.

Shareholder	Number of shares held		% in the share capital		Number of votes at AGM		Voting power at AGM	
	24.04.2018	31.01.2018	24.04.2018	31.01.2018	24.04.2018	31.01.2018	24.04.2018	31.01.2018
Banco Santander S.A.	67 680 774	68 880 774	68,13%	69,34%	67 680 774	68 880 774	68,13%	69,34%
Other	31 652 707	30 452 707	31,87%	30,66%	31 652 707	30 452 707	31,87%	30,66%
Total	**99 333 481**	**99 333 481**	**100,00%**	**100,00%**	**99 333 481**	**99 333 481**	**100,00%**	**100,00%**

On 16th February 2018, Banco Santander, pursuant to a stock lending transaction, transferred 1,200,000 shares in Bank Zachodni WBK's share capital to Deutsche Bank AG, with ists registered office in Frankfurt.

30. Related parties

Transactions with associates	31.03.2018	31.12.2017
Assets	**87**	**93**
Other assets	87	93
Liabilities	**115 206**	**120 382**
Deposits from customers	100 056	90 102
Sell-buy-back transactions	14 946	30 044
Other liabilities	204	236

In thousands of PLN

Transactions with associates	01.01.2018-31.03.2018	01.01.2017-31.03.2017
Income	**6 582**	**2 036**
Fee and commission income	6 582	2 036
Expenses	**1 321**	**825**
Interest expense	336	298
Fee and commission expense	487	527
Operating expenses incl.:	498	-
General and administrative expenses	*498*	-

Transactions with Santander Group	with the parent company		with other entities	
	31.03.2018	31.12.2017	31.03.2018	31.12.2017
Assets	**572 586**	**598 411**	**2 705**	**9 854**
Loans and advances to banks, incl:	309 347	308 691	2 705	9 831
loans and advances	-	*95 993*	-	-
current accounts	*309 347*	*212 698*	*2 705*	*9 831*
Financial assets held for trading	259 827	282 036	-	-
Hedging derivatives	3 234	7 469	-	-
Other assets	178	215	-	23
LIABILITIES	**969 124**	**403 807**	**73 317**	**86 720**
Deposits from banks incl.:	575 071	62 996	9 263	23 539
current accounts	*575 071*	*62 996*	*9 263*	*23 539*
Hedging derivatives	83	-	-	-
Financial liabilities held for trading	374 579	322 933	-	-
Deposits from customers	-	-	45 249	52 577
Other liabilities	19 391	17 878	18 805	10 604
Contingent liabilities	-	-	**71**	-
Sanctioned:	-	-	71	-
guarantees	-	-	*71*	-

Transactions with Santander Group	with the parent company		with other entities	
	01.01.2018-31.03.2018	01.01.2017-31.03.2017	01.01.2018-31.03.2018	01.01.2017-31.03.2017
Income	**2 915**	**111 738**	**59**	**113**
Interest income	2 425	3 565	12	68
Fee and commission income	490	430	47	45
Net trading income and revaluation	-	107 743	-	-
Expenses	**115 320**	**483**	**13 287**	**23 155**
Interest expense	507	153	112	1 464
Fee and commission expense	321	330	96	71
Net trading income and revaluation	110 687	-	3 664	16 036
Operating expenses incl.:	3 805	-	9 415	5 584
Bank's staff, operating expenses and management costs	*3 804*	-	*9 413*	*5 576*
Other operating expenses	*1*	-	*2*	*8*

31. Acquisitions and disposals of investments in subsidiaries and associates

Liquidation of Giełdokracja Sp. Zo.o.

On 5 March 2018 Giełdokracja Sp. z o.o. was liquidated. Final settlement of the company's assets and liabilities was made, the loss on the liquidation of the company is PLN 65 k.

Agreement on the acquisition of a carve-out of Deutsche Bank Polska by Bank Zachodni WBK

On 14 December 2017, Bank Zachodni WBK and Banco Santander signed a transaction agreement with Deutsche Bank AG (DB AG) to purchase a part of Deutsche Bank Polska (DBPL) business, consisting of retail banking, private banking, SME banking and DB Securities. DBPL's corporate and investment banking business and foreign-currency mortgage portfolio are excluded from the transaction and will remain in DBPL (retained business).

On the same day, the bank signed a pre-demerger agreement with DBPL and DB AG setting out the terms of cooperation between the bank and DBPL to finalise the transaction.

Pursuant to the transaction agreement, DBPL's branch network and external sales channels (agents and intermediaries) are to be integrated with the bank's structures. Asset management contracts will also be transferred along with the carve-out, which will enable the transfer of open-ended investment funds.

Before the demerger, Bank Zachodni WBK will buy DBPL's shares from DB AG, representing 10% of votes at the DBPL's General Meeting of Shareholders. Next, the bank and DBPL will file requests for the registration of the demerger with relevant registry courts.

The demerger will be effected on the following terms:

- DBPL will be a demerged company and BZ WBK will be an acquiring company;
- The share capital of DBPL will be decreased by at least an equivalent of the total nominal value of the shares purchased by Bank Zachodni WBK. On the date of the registration of such capital decrease, all the shares purchased by the bank will cease to exist and DB AG will become the sole shareholder of DBPL;
- In exchange for the transfer of the carved-out business to Bank Zachodni WBK, DB AG will receive a stated number of BZ WBK shares (demerger shares) on the demerger date, calculated based on the agreed formula which will be used to determine a share exchange ratio in the demerger plan. The demerger will be effective as of the date of registration of the bank's capital increase by way of the issuance of demerger shares;
- On the demerger date, the carved-out business will be transferred to the bank and the business which is not subject to the transaction will remain in DBPL. DBPL's assets and liabilities will be allocated between the carved-out business and the retained business based on the terms specified in the transaction agreement and the demerger plan.

The preliminary purchase price is PLN 1,289,799,000 and has been calculated on the basis of a capital requirement for carved-out risk weighted assets (excluding DB Securities' shares), determined using financial projections as at the date close to the execution of the transaction agreement. The portion of the preliminary purchase price related to the value of DB Securities' shares has been calculated on the basis of the company's net assets value.

The consideration for the transaction will be paid in:

- cash, through the payment of a price for the purchased shares (20% of the preliminary purchase price);
- newly issued shares of the bank representing approx. 2.7% of the bank's share capital (80% of the preliminary purchase price).

Once the transaction agreement is executed, the preliminary purchase price will be adjusted to reflect changes in relevant assets and liabilities that have taken place between the transaction agreement date and the demerger date.

The transaction is subject to regulatory approvals, including consents from the Polish Financial Supervision Authority (KNF) and the President of the Office of Competition and Consumer Protection (UOKiK), as well as resolutions of the General Meetings of Shareholders of BZ WBK and DBPL, signing of the demerger plan and fulfilment of certain operational conditions. The transaction is expected to close in Q4 2018. The migration of IT systems is planned to be completed immediately after closing.

Conclusion of the agreement will not lead to a take-over of control or significant influence over Deutsche Bank Polska S.A., nor will it give rise to any obligations that would need to be disclosed.

Contribution in kind of BZWBK F24 S.A. (formerly BZ WBK Nieruchomości S.A.) shares to BZWBK Finanse sp. z o.o.

On 24.11.2017, BZ WBK S.A. made contribution in kind of BZWBK F24 S.A. (formerly BZ WBK Nieruchomości S.A.) shares to BZWBK Finanse sp. z o.o. to cover the acquisition of BZWBK Finanse sp. z o.o. shares by BZWBK S.A. In the second half of 2017, BZ WBK F24 S.A. changed its business model. The main profile of the business activity focused around financing of consumer car purchase – the company was registered by the Polish Financial Supervision Authority (KNF) as a lending institution.
The changed ownership structure will allow to limit the cost of business management and it is consistent with the strategy of extending the business activity of BZ WBK Group whereby BZ WBK F24 S.A. will offer financial products addressed to personal customers (consumers) on the market of so-called "light vehicles".
On 12.01.2018, in the Nation Court Register was (KRS) registered increase of share capital BZWBK Finanse sp. z o.o. to PLN 1,630 k. Share capital was fully paid.

32. Changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities, whether those assets or liabilities are recognized at fair value or amortised costs

There were no changes in the business or economic circumstances that would affect the fair value of the entity's financial assets or financial liabilities, whether these assets or liabilities were recognised at fair value or amortised cost.

33. Any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period

No such events took place in the reporting period and the comparable period.

34. Transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments

Details about the fair value hierarchy are presented in Note 27.

35. Changes in the classification of financial assets as a result of a change in the purpose or use of those assets

In the reporting period no such changes were made.

36. Comments concerning the seasonal or cyclical character of the interim activity

The business activity of Bank Zachodni WBK and its subsidiary undertakings has no material seasonal character.

37. Character and amounts of items which are extraordinary due to their nature, volume or occurrence

Liquidation of Giełdokracja sp. z o.o. (details in Note 31).

38. Information concerning issuing loan and guarantees by an issuer or its subsidiary

As at 31.03.2018 and 31.12.2017 Bank Zachodni WBK and its subsidiaries had not issued any guarantees to one business unit or a subsidiary totalling a minimum of 10% of the issuer's equity.

39. Creation and reversal of impairment charges for financial assets, tangible fixed assets, intangible fixed assets and other assets

As at 31.03.2018, 31.12.2017 and 31.03.2017 either Bank Zachodni WBK or its subsidiaries did not create or reverse any material impairment charges for financial assets, tangible fixed assets, intangible fixed assets or other assets.

40. Material purchases or sales of tangible fixed assets and material obligations arising from the purchase of tangible fixed assets

In February 2018, real estate located in Wrocław was sold. Profit on disposal amount of PLN 44.300k.

41. Dividend per share

The proposal regarding dividend 2016 . Dividend pay – out date for 14.06.2018

On 17.04.2018 The Management Board of Bank Zachodni WBK S.A. informs that in full compliance with the individual recommendation issued by the Polish Financial Supervision Authority on 16 March 2018, has adopted a resolution which recommend not to allocate to dividend any part of the net profit for 2017. The Supervisory Board also approved that recommendation. At the same time, taking into account a good capital
position of the Bank and Group, the Bank's Management Board tabled the following proposal, that has been approved by the Supervisory Board, to allocate:

- PLN 307,627k from the Bank's undivided net profit for 2016 to dividend for shareholders, for which means that the proposed dividend per share will be PLN 3.10,
- to set the dividend registration date for 30th May 2018, while the dividend pay-out date for 14th June 2018.

The Management Board and the Supervisory Board will submit the above proposal along with the recommendation to the Annual General Meeting of the Bank.

Regarding dividend 2015 and 2014. Dividend pay –out date for 14.06.2017

On 17.05.2017 Annual General Meeting of Bank Zachodni WBK S.A. adopted a resolution on dividend payment.
It was decided to allocate PLN 535,866k from the Bank's undivided net profit for 2014 and 2015 to dividend for shareholders Dividend per share is PLN 5.40.

42. Events which occurred subsequently to the end of the interim period

Settlement of the issue of own bonds of Bank Zachodni WBK S.A.: F-series subordinated bonds

On 5.04.2018, the issue of 2,000 F-series subordinated bonds issued by Bank Zachodni WBK S.A. was settled. All the Bonds for a total amount of PLN 1,000,000 k were taken up by the bondholders.

The redemption date of the bonds is 5.04.2028, with the Bank having the right to redeem the bonds earlier than 5.04.2023, only after prior approval by the Polish Financial Supervision Authority (KNF) for early redemption of the bonds, if such consent is required. The bonds will pay a variable interest rate, based on the WIBOR rate for 6-month deposits plus a margin of 1.6%.

After obtaining the appropriate consent of the Polish Financial Supervision Authority (KNF), the Bonds will be the Bank's Tier II instruments.

The proposal regarding dividend

Detailed information are described in Note 41.

Convening the Annual General Meeting of Bank Zachodni WBK and providing the draft resolutions that will be considered by this Meeting

On 19.04.2018 the Management Board of Bank Zachodni WBK S.A. provided the information contained in the notice of the Annual General Meeting of Bank Zachodni WBK S.A. at 16.05.2018 in Warsaw, the draft resolutions with their appendices that will be considered by this Meeting.

Agenda of the annual general meeting:

1. Opening of the General Meeting.
2. Electing the Chairman of the General Meeting.
3. Establishing whether the General Meeting has been duly convened and has the capacity to adopt resolutions.
4. Adopting the agenda for the General Meeting.
5. Reviewing and approving the Bank's Zachodni WBK S.A. financial statements for 2017.
6. Reviewing and approving the consolidated financial statements of the BZ WBK Group for 2017.
7. Reviewing and approving the Management Board’s report on the Bank's Zachodni WBK S.A. activities in 2017 and the Management Board’s report on the BZ WBK Group activities in 2017.
8. Adopting resolutions on distribution of profit, the dividend day and dividend payment date.
9. Giving discharge to the members of the Bank Zachodni WBK S.A. Management Board.
10. Reviewing and approving the Supervisory Board's report on its activities in 2017 and the Supervisory Board’s report on the assessment of the financial statements of the Bank and the BZ WBK Group as well as the reports on the Bank's and the BZ WBK Group's activities; and applicable remuneration policy assessment.
11. Giving discharge to the members of the Bank Zachodni WBK S.A. Supervisory Board.
12. Amendments to the Bank’s Statute.
13. Change of the Bank’s name and the registered office and amendments to the Bank’s Statute.
14. Determination of remuneration of the member of the Bank Zachodni WBK S.A. Supervisory Board.
15. Amendments to the Terms of Reference of the General Meetings of Bank Zachodni WBK S.A.
16. Closing the General Meeting.

43. Description of external environment in 1Q 2018

Economic growth

First months of 2018 showed that the Polish economy continued to grow at a solid pace, probably close to levels seen in late 2017. After seasonal adjustment, in Q1 2018 industrial output increased by 6,3% YoY (vs. 8.0% YoY in Q4 2017), confirming the scenario that the economic cycle peak was reached in late 2017. Construction output rose by c. 26% YoY showing the strength of demand driven by the local government elections planned for autumn and stronger utilisation of EU funds than last year. However, in the next months, the construction output will be limited by the capacity constraints. Retail sales accelerated in early 2018, supporting the forecast of robust private consumption growth of approx. 5% YoY in Q1 2018. The upward trend in sales and private consumption in general is expected to continue in the upcoming months, supported by high consumer confidence and favourable labour market conditions. Based on the currently available data, we estimate that GDP growth in Q1 2018 is estimated to be similar or slightly below the level recorded in Q4 2017 (5.1% YoY).

Labour market

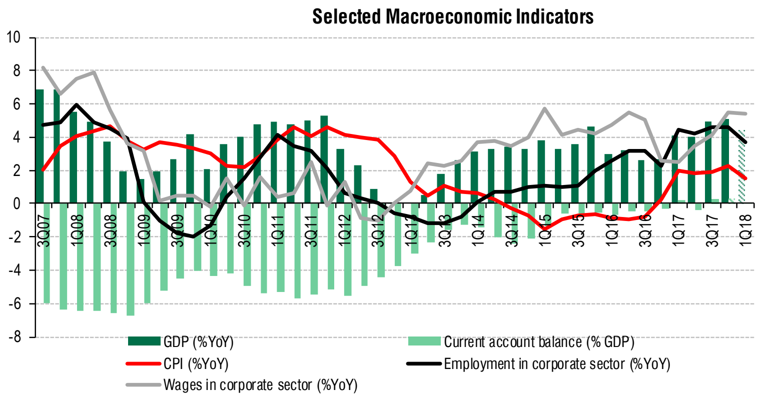
The beginning of 2018 saw slight correction of strong upside trend in corporate wages observed in 2017. Nominal wage growth in the enterprise sector fell to 6.7% YoY in March from 7.3% YoY in December despite further signs of labour shortages. To some extent, this might have been due to a change in timing of bonus payments in some sectors (like mining). It should be noted, however, that in the manufacturing sector alone wages accelerated and may increase even further later this year, contributing to the headline growth. We are still of the opinion that shortage of labour force is a serious risk factor for Polish GDP growth.

Inflation

Inflation rate decreased noticeably in Q1 2018 – in March, CPI fell to 1.3% YoY while only in November 2017 it was at the 2.5% YoY target. CPI inflation is expected to gradually rebound in the coming months and reach the local peak of around 2% YoY in June-July. After that, inflation should retreat below 2% again in the second half of the year, mainly due to the very high base effect in food and fuels. As regards core inflation, the trend should be only one way – up. However, the lower starting point can imply that reaching 2% by December may not be so easy.

Monetary policy

The surprising inflation drop in Q1 2018 has reassured the Polish Monetary Policy Council that its patient strategy of keeping interest rates unchanged at a record-low level and observing the economic reality was correct. Since the beginning of 2018, the MPC rhetoric has drifted towards even more dovish and the NBP governor suggested that the main reference rate might stay at 1.50% until 2020. The number of MPC members mentioning rate cuts rose in early 2018. At the same time, the MPC members that had been concerned about the trends in the labour market eased their attitude after the low inflation data. We expect that the first decision to change interest rates will be a hike but this will not happen earlier than the end of 2019.



Credit and deposit markets

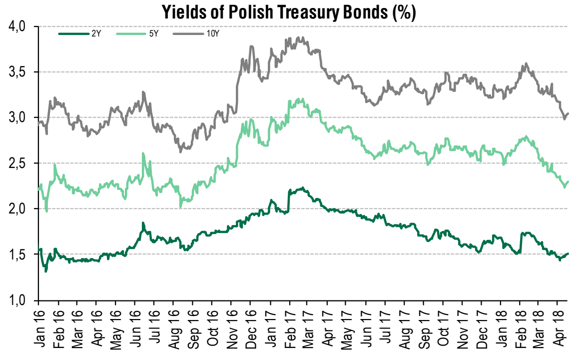
In the first months of 2018, loans for households and corporates grew at an accelerated rate of 2.7% YoY and 6.0% YoY, respectively, after a slowdown in late 2017. Some rebound was recorded also in deposits – to 4.1% for households and 3.8% YoY for companies. Pace of growth of mortgage loans stayed around 3.5% YoY (after adjusting for a FX effect), a level observed in late 2017.

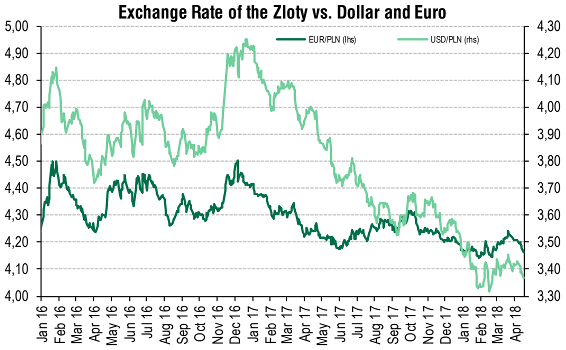
Financial market situation

In Q1 2018, the global financial market moods deteriorated. In February, stock market fell after the strong start of the year. The core debt markets were also under pressure since the beginning of Q1 2018. The drop in the stock markets was triggered by fears about interest rates hike by the Federal Reserve (faster than investors expected in Q4 2017), whereas the bond market sell-off was initiated by higher-than-expected US inflation data. Statements and minutes of the Fed and ECB meetings released in the first part of the quarter were interpreted as more hawkish than the previous ones. Market expectations of faster-than-expected monetary policy normalisation resulted from changes in the central banks' rhetoric on one hand and from faster-than-expected US inflation growth on the other. At the end of Q1 2018, the stock market stabilized, the rise of US bonds yields stopped, while German yields returned to the level from the beginning of the year. Investors in Europe lost faith in further rise of leading indicators, after the series of drops in Q1 2018 and the euro appreciation against US dollar. In the US, the fears about faster inflation growth (as a consequence of labor market tensions) eased. Moreover, the uncertainty of US trade policy (and the growing threat of the trade war between the US and China) negatively affected the markets. All these factors led to softer central banks' rhetoric. Despite this, FOMC increased the interest rates by 25 b.p. in March, while the ECB maintained its plan to limit the purchases of assets.

At the beginning of the quarter, the yields of Polish 10Y bonds increased to 3.60%, while the 5Y yields to 2.80%, the levels last seen in Q1 2017. In the second part of the quarter, the yields decreased to 3.17% for 10Y and 2.38% for 5Y bonds at the end of March. The unexpectedly low inflation reading, which postponed the first interest rate hike by the Monetary Policy Council, was the main driver for the yields downshift. Moreover, Polish treasury bonds were supported by good fiscal performance and hints about low debt supply in Q1 2018. In the case of 2Y bonds, yields were falling gradually amid high liquidity and low supply of short-term bonds. IRS rates moved in the same direction but at a smaller scale, which caused asset swap spreads to reduce between the beginning and end of the quarter from +35 b.p. to +31 b.p. for 10Y, from +18 b.p. to -2 b.p.for 5Y, and from -30 b.p. to -38 b.p. for 2Y.

After a relatively stable beginning of Q1 2018, the next months of the year saw negative reaction of the zloty to lower-than-expected inflation and dovish MPC rhetoric. Deterioration of global market sentiment also weighed on the zloty. In late Q1 2018, the Polish currency was recovering versus the euro amid data showing robust fiscal performance and outlook for improvement in Poland-EU relations. Overall, in Q1 2018, the zloty lost 0.9% vs the euro, 0.2% vs the CHF, 1.8% vs the GBP, and gained 1.7% vs the dollar.





44. Activities of Bank Zachodni WBK Group in Q1 2018

Retail Banking Division

Main development directions

In Q1 2018, the Retail Banking Division focused on:

- further improvement of customer service quality;
- development of consumer and mortgage loan portfolios;
- increase in net fee and commission income, in particular from the sale of investment and insurance products;
- growth of sales in remote channels.

In the analysed period, the sales of cash loans, mortgage loans and investment funds grew at a double digit rate compared to Q1 2017.

Development of business and products for retail customers

Consumer loans

In February and March 2018, Bank Zachodni WBK offered a range of special deals on cash loans, including:

- a cash loan for employees of the bank's business partner from the fuel sector;
- a cash loan at a lower fee available in electronic channels (BZWBK24 internet and BZWBK24 mobile);
- a Zero Gravity (Brak Ciążenia) III loan granted to repay debt with other banks and support the sale of consolidation loans;
- a loan offered to selected customers with a prelimit at a maximum amount of 30 times the income;
- a cash loan sold with an Account As I Want It (Konto Jakie Chcę): the second edition of the promotional campaign.

In the first quarter of 2018, cash loan sales increased by 16.0% YoY, reaching nearly PLN 1.2bn. The cash loan portfolio was up 9,8% YoY and totalled PLN 7,9bn at the end of March 2018.

Mortgage loans

Bank Zachodni WBK provided further support to CHF mortgage borrowers. In particular, it:

- reduced the currency spread to 2%;
- applied a negative CHF LIBOR interest rate, providing an opportunity to extend maturity, use interest-only option or reduce loan instalments free of charge for 3, 6 or 12 months;
- provided flexible loan restructuring options, waiving a fee for annexes;
- offered loan conversion to PLN at the mean NBP rate with no additional fees charged, ensuring a preferential credit margin thereafter;
- did not require customers to provide additional collateral if the acceptable LTV was exceeded as a result of the FX rate increase.

In Q1 2018, the mortgage lending processes were modified as follows:

- On 15 January 2018, the acceptable LDSR was increased from 60% to 65% for low risk borrowers.
- In January 2018, the model of cooperation with mortgage loan agents was modified based on outsourcing arrangements and the access to local and central channels for processing credit applications.

In February 2018, the bank introduced the following special deals on mortgage loans:

- an offer for employees of the bank's business partners, i.e. a group from the fuel sector and a retailer from the furniture industry;
- an offer called "Lower margins in spring" ("Obniżamy marże na wiosnę") for the minimum amount of PLN 200k.

During the first three months of 2018, the value of new mortgage loans totalled nearly PLN 1.6bn, up 22.2% YoY. The bank registered a considerable number of customer applications for subsidised loans as part of the last stage of the "Home for the Young" programme ("Mieszkanie dla Młodych"), gaining a market share of 26% in this segment.

The gross mortgage portfolio grew by 4.6% YoY, reaching PLN 35.5bn as at 31 March 2018. The value of PLN mortgage loans amounted to PLN 25.2bn, up 15.9% YoY.

Deposits and investment products

In Q1 2018, the management of deposit and investment products focused on:

- growing the deposit and investment portfolio;
- increasing the strength of relationship with deposit customers;
- further optimisation of the profitability of the portfolio.

The measures taken by the bank in a low and stable interest rate environment contributed to YoY growth in the balance of savings accounts and personal current accounts, further decrease in interest rate of the deposit portfolio and continued transfer of deposits to BZ WBK TFI investment funds. The portfolio of term deposits grew on a quarterly basis.

Deposits

In Q1 2018, the bank used a range of savings accounts to attract new funds from customers.

- The special offer covered:
  - ✓ new funds in a savings account in PLN (another eddition);
  - ✓ Mobile Savings Account (Mobilne Konto Oszczędnościowe) available only in remote channels (in the internet and mobile application).
- The bank continued to sell the Regular Savings Account (Konto Systematyczne) as part of a bundled offer of an Account as I Want It (Konto Jakie Chcę).

At the same time, the bank continued to reward active deposit customers, increasing product penetration as part of the following initiatives:

- New special offers launched using a mechanism called "Active Deposit" ("Aktywny Depozyt") which automatically increases an interest rate on savings accounts once the volume of transactions in a personal account (including online and debit card transactions) reaches a stated level.
- Bonus Deposit (Lokata Bonusowa) offered to customers using credit cards and insurance products and the e-Investor Deposit (e-Inwestor) available only via the internet banking platform to holders of investment products.

Aside from current and savings accounts, Q1 2018 witnessed a robust demand for negotiated deposits from VIP and Private Banking customers and for term deposits (1-month eDeposit (eLokata) and eInvestor Deposit (eInwestor)) available to investors via remote channels only.

As at the end of March 2018, the total balance of savings accounts was PLN 25.5bn, an increase of 10.2% YoY. The balance of other current accounts went up by 7% YoY to PLN 18bn. The total deposit base of the personal segment amounted to PLN 60.5bn, i.e. up 3.2% YoY.

Structured deposits

In Q1 2018, the bank continued to sell structured deposits including 12-, 18- and 24-month deposits with yields linked to exchange rates (EUR/PLN, USD/PLN) or stock indices (SXEE, SX5E) and 100% capital protection at maturity. The bank offered 19 products in the total of 9 subscriptions. In all, more than PLN 56.9m was collected as a result of the aforementioned subscriptions.

Investment funds

In February 2018, the range of Arka investment funds was extended to include nine new products:

- Five new subfunds were launched as part of the Arka Prestiż SFIO specialised open-end fund to enable investments in new classes of assets and geographical directions: Arka Prestiż Emerging Markets Equity (Arka Prestiż Akcji Rynków Wschodzących), Arka Prestiż US Equity (Arka Prestiż Akcji Amerykańskich), Arka Prestiż Technology and Innovation (Arka Prestiż Technologii i Innowacji), Arka Prestiż Global Corporate Bonds (Arka Prestiż Obligacji Korporacyjnych Globalny) and Arka Prestiż Alfa (a subfund focused on generating returns irrespective of the stock market conditions due to the appropriate selection of companies).
- Four new investment strategies: Arka Conservative Strategy (Arka Strategia Konserwatywna), Arka Stable Strategy (Arka Strategia Stabilna), Arka Dynamic Strategy (Arka Strategia Dynamiczna) and Arka Equity Strategy (Arka Strategia Akcyjna), were made available for portfolios comprising at least 70% of Arka BZ WBK FIO subfunds and designed to meet diverse investment needs of customers in terms of an investment horizon and acceptable volatility of returns.

On 5 March 2018, the range of subfunds offered as part of the Individual Pension Account (IKE) operated by Arka BZ WBK FIO was extended to include Arka BZ WBK Small and Medium Caps Equity subfund (Arka BZ WBK Akcji Małych i Średnich Spółek).

In Q1 2018, the highest net sales were reported by money market subfunds (Arka BZ WBK Gotówkowy, Arka Prestiż Gotówkowy) and corporate bond subfunds (Arka BZ WBK Obligacji Korporacyjnych, Arka Prestiż Obligacji Korporacyjnych). Higher demand for money market subfunds was determined by trends on global stock markets, in particular the volatility of equity markets.

As at 31 March 2018, the total net assets in investment funds managed by BZ WBK TFI were nearly PLN 16.4bn and up 17.2% YoY and 2.7% QoQ.

Accounts and payment cards

Personal accounts

In February 2018, Bank Zachodni WBK launched new websites presenting information about the Account As I Want It (Konto Jakie Chcę) in Polish, Ukrainian and Russian. It also offered a special deal on cross-border payment instructions (Western Union money transfers and SWIFT payment orders).

Measures were continued to implement a basic account and other requirements arising from the Payment Services Act to be enacted by 8 August 2018 at the latest.

The number of personal accounts grew by 2.6% YoY and reached 3.2m as at the end of March 2018. Including FX accounts, the personal accounts base totalled nearly 4m.

Debit cards

Bank Zachodni WBK was the first bank in Poland to offer contactless payments with Garmin Pay watches. This solution was provided on 14 March 2018 to holders of MasterCard cards.

As at the end of March 2018, the personal debit card portfolio of Bank Zachodni WBK (excluding prepaid cards) comprised over 3.4m items and increased by 4.4% YoY. Taking business cards into account, the total number of debit cards reached 3.6m, up 4.6% YoY.

Credit cards

In February 2018, credit card holders were provided with an option to change the type of a card via the BZWBK24 electronic banking platform.

In Q1 2018, the bank took further measures to increase sales of credit cards and accounts. In particular, it launched:

- another edition of the Referrals Programme for customers recommending a personal account with a card or a credit card offered by the bank;
- second edition of a promotional campaign of a credit card linked to the Account As I Want It (World MasterCard, 123, Visa Silver Akcja Pajacyk);
- a promotional campaign called “PLN 100 for anything you want” (“Stówa na co chcesz”) targeted at prospective credit card holders under 26.

As at 31 March 2018, the credit card portfolio of Bank Zachodni WBK comprised 802.9k instruments, an increase of 2.8% YoY.

Insurance products

Bank Zachodni WBK expanded its range of insurance products to include the following:

- a comprehensive motor insurance offered since 12 March 2018 in cooperation with Benefia Ubezpieczenia and TU Compensa S.A. Vienna Insurance Group via remote channels, i.e. the bank's website, the Multichannel Communication Centre or BZWBK24 mobile application;
- changes to the Worry-Free Loan (Spokojny Kredyt) insurance for cash loan borrowers introduced on 19 February 2018 arising from the new Insurance Distribution Act, KNF recommendations, feedback from the bank's advisors and analysis of customers' needs, including:
  - ✓ launch of new insurance options: Spokojny Kredyt - życie plus (life insurance available in all sales channels), Spokojny Kredyt - życie i praca (life and employment insurance available in all sales channels except for BZWBK24);
  - ✓ simplification of the insurance cover and product terms and conditions;
- changes in the sales process introduced on 19 February 2018 to address the requirements arising from the new Insurance Distribution Act to be enacted by October 2018.

Transformation of distribution model

Branch network

Pursuant to the retail business distribution strategy, in Q1 2018 the bank launched a pilot of four branches in an innovative format and a new distribution channel – customer acquisition stands in shopping centres. Furthermore, another three branches were transformed into partner outlets.

Remote channels

Along with the modernisation of a physical network, the bank continued to develop the functionality of digital contact channels and implemented new or modified processes in the Multichannel Communication Centre.

In January 2018, the bank launched a new process enabling customers to open an account during the meeting with a bank advisor at a place according to their choice. Customers are presented with product terms and conditions in the electronic banking platform and sign one document only – all regulations are provided by the bank in an electronic format.

In Q1 2018, Bank Zachodni WBK continued measures taken to develop self-service channels in order to reduce cashier-services in branches and enhance customer experience, including:

- installation of cash recyclers (devices enabling withdrawal of cash that is previously deposited in a recycler by other customers), which helped to reduce costs associated with cash services and increase accessibility of cash deposits and withdrawals;
- replacement of the legacy machines with new models and continued branch network rationalisation, including relocation of devices;
- initiatives taken to promote cash deposit machines and their functionality to increase the migration of cash deposits to these devices (as at the end of March 2018, more than 82% of all cash deposits to PLN accounts were made with the use of cash deposit machines).

Basic Distribution Channels of BZ WBK and SCB		
Bank Zachodni WBK	**31.03.2018**	**31.03.2017**
Branches (location)	565	631
Partner Outlets	111	108
Business and Corporate Banking Centres	12	12
ATMs	947	1 020
CDMs	13	17
Dual Function Machines (including cash recycles)	784	716
BZWBK24 - registered users (in thousands) [1)]	3 452	3 212
iBiznes24 - registered companies (in thousands) [2)]	15	16

1) *The BZWBK24 customer base includes the users of BZ WBK24 mobile application: 1,139k as at 31.03.2018 and 908k as at 31.03.2017. In March 2018, there were over 2.1m BZWBK24 customers who used the system at least once a month.*

2) *Only the users of iBiznes24 – a strategic electronic platform for business customers (the users of Moja Firma Plus and Mini Firma platforms are not included). The YoY decrease in the number of customers results from data cleaning.*

The BZ WBK network of self-service devices is ranked third among Polish banks in terms of the number of ATMs and second in terms of the number of cash deposit machines.

CRM development

At the beginning of the year, projects were launched as part of the second stage of the CRM system development project aimed at upgrading the functionality of CRM tools in distribution channels. The universal features available to all customer segments were enhanced and new solutions were put in place to support the new SME customer service model.

The bank launched first promotional campaigns (e.g. in relation to the Account As I Want It) using the mechanisms implemented in late 2017 and early 2018 enabling communication between remote channels (ATM network and the Multichannel Communication Centre) and between electronic channels and central CRM systems.

Wealth Management Programme

In Q1 2018, the following measures were taken to increase the share in the wealth management market:

- Wealth Management Programme was set up to define and introduce a dedicated wealth management business line outside the divisional structure which will include at least private banking and BZ WBK TFI.
- A project was started to define a new wealth management development strategy in relation to the business and operating model.
- Arrangements were made with respect to the planned acquisition of the demerged business of Deutsche Bank Polska along with a large base of private banking customers.

In Q1 2018, the range of wealth management services was expanded to include nine new Arka investment subfunds set up by BZ WBK TFI. For more on the above-mentioned subfunds, see “Investment funds” in the “Retail Banking Division” section.

In February 2018, private banking products offered by Bank Zachodni WBK were rated 4.5 (on a 5-point scale) by Forbes, which confirms the quality of services and the right direction of changes implemented by the bank in this area.

Small and Medium Enterprise Banking Division (SME Banking Division)

Main development directions

In Q1 2018, the bank continued the SME transformation process started in 2017 and focused on three customer segments identified on the basis of turnover and preferred way of banking: SME 1, SME 2 and SME Digital. To that end:

- The bank launched pilot grouping of SME 1 advisors in branches, introduced a new work schedule and incentive scheme for this employee group, and implemented a support strategy for bank customers engaged in foreign trade.
- Work was underway to implement remote advisor services for the SME Digital customers who prefer to bank remotely. In Q1 2018, a team of remote advisors was set up, first sales and after-sales processes were designed and a target group of customers was preliminarily selected.
- The bank continued to develop services for SME 1 customers in the Multichannel Communication Centre.
- After migrating SME 2 customers to remote channels in the SME Service Centre, the bank took measures to promote operations in this channel with a view to streamlining the execution of customer orders and reducing the workload for branch advisors.
- An increase was reported in the number of customers using voice biometrics as an authorisation tool during the contact with the bank over the phone. Furthermore, the bank implemented a fast, simple and secure process to sign agreements (e.g. in relation to a business account) via remote channels using video verification solutions: face recognition, verification of ID details in external databases and customer identification by the bank’s video-advisor.

Product range development

- In February 2018, micro and small companies were provided with an option to install BZ WBK POS terminal as part of a three-year Non-Cash Payments Initiative. Customers who qualify for the programme and sign an agreement may rent and use the payment terminal free of charge for the first 12 months.
- Customers who are not covered by the Non-Cash Payments Initiative may sign an agreement and rent the terminal free of charge for the first six months under the promotional campaign called “Spring with POS terminals” (“Wiosna z terminalami POS”).
- As part of the above-mentioned initiative and the promotional campaign, customers may set up a free-of-charge business account with the bank.
- Companies using internet banking services were provided with an opportunity to set up a trusted profile without the need to visit an office or the bank’s branch. This solution enables customers to attend to administrative matters remotely, using the password and login that protect access to their bank account.

- Leveraging the global presence of Santander Group, in March 2018 the bank launched a new solution to facilitate the execution of payment orders of bank's customers (exporters and importers) - instant transfers in GBP to accounts with Santander Bank in the UK. Transfers up to GBP 10k are automatically qualified as routed based on blockchain technology, which means that the payment amount is credited to the beneficiary's account almost immediately (depending on the option chosen: standard, fast-track or express). The solution uses innovative blockchain technology which is considered the most secure mode of payment execution in the foreign trade business.

Lease business

In accordance with the strategy of BZ WBK Leasing which envisages strong commitment to environmentally friendly initiatives, in mid-March 2018 the company launched a special deal, i.e. 100% lease of electric vehicles. The deal covers all new electric cars from approved dealers.

In Q1 2018, BZ WBK Leasing financed fixed assets of nearly PLN 1.2bn, an increase of 32.1% YoY. In the segment of machines and equipment, where BZ WBK Leasing has been the leader for years, the lease volumes came in at almost PLN 0.5bn, up 35.2% YoY. In the cars segment, the lease volumes grew by 32.2% YoY and reached PLN 0.6bn.

In the reporting period, the general lease terms and conditions offered by BZ WBK Leasing were ranked first by independent experts as the safest ones in the market.

Business and Corporate Banking Division

Main development directions

2018 is the fourth year in a row when the Export Development Programme is organised in Bank Zachodni WBK. It is a flagship project providing an effective platform to share knowledge and experience and promote networking among business partners.

- In Q1 2018, a meeting was organised in Poznań during which food and agri wholesalers and importers from the Mercamadrid, the largest food market in Europe, met with entrepreneurs from Poland. The event provided an opportunity to establish business relationships and learn about prospects of international expansion.
- In March 2018, the bank signed a letter of intent with the Agency for Special Economic Zone in Mexico to provide professional support to Polish companies looking to expand into the Latin America.

The Business and Corporate Banking Division and the SME Banking Division continued the development of cross-segment sector strategy focused on sector expertise and know-how through:

- active participation in conferences and seminars (including eight seminars for farmers presenting the situation of the food and agri sector and financing opportunities for local farmers);
- organisation of seminars for corporate and SME customers from the meat and TSL sectors to discuss the industry trends, business connections and opportunities.

Furthermore, the bank held eight meetings with customers (another four meetings are pending) to present solutions related to the VAT Act (such as the split payment mechanism).

The bank continued to develop the functionality of digital channels for customers of the Business and Corporate Banking Division:

- The bank launched automated online safes, cash deposit machines and bill payment machines which enable corporate customers to make cash deposits at their headquarters in a convenient and secure way (including online posting).
- The self-service zone in the iBiznes24 platform was developed to enhance customer experience in remote channels (fast, secure, paperless, 24/7 banking services).
- The functionality of eRequest (eWniosek) was further upgraded along with the introduction of a new user-friendly layout.
- BZ WBK was the first bank to launch "External Banks" service, as part of which accounts held by corporate customers with other banks may be managed in the iBiznes24 platform, including balance reports and initiation of domestic and cross-border payments. In recognition of the above solution, the bank was awarded the first position and the Leader 2017 accolade by *Gazeta Bankowa*.
- e-Guarantee solution was implemented in the Trade Finance module.
- The following features were added to iBiznes24 mobile:
  - ✓ an option to log into iOS devices using face recognition;
  - ✓ registration of domestic transactions with partners listed in the counterparties base.

Factoring business

In Q1 2018, the receivables purchased by BZ WBK Faktor came in at PLN 6.1bn, up 15% YoY. This gave the company a market share of 11.5% and second position in the ranking of members of the Polish Association of Factoring Companies. As at the end of March 2018, the company's credit exposure was PLN 3.9bn, higher by 26% YoY.

Global Corporate Banking Division

As at 31 March 2018, the active GCB customer base included nearly 250 of the largest companies and groups (allocated to that segment based on the turnover) representing all economic sectors in Poland.

In Q1 2018, the Global Corporate Banking Division focused on:

- enhancing customer service quality through:
  - ✓ continuous improvement of the FX Kantor BZWBK24 currency exchange platform regarded as best practice model at the Santander Group level in terms of IT, marketing, CRM, product range and incentive scheme;
  - ✓ development of new products in the area of securities and derivatives, which will be gradually implemented over the next three years;
  - ✓ steady increase in the range of underwriting solutions offered by the Credit Markets Department;
  - ✓ expansion of transactional banking solutions, particularly in the area of cash management through the implementation of the host-to-host service and solutions for financial institutions;
  - ✓ optimisation of the structure of the income statement and the balance sheet by growing the fee-generating business and sale of selected credit exposures;
- implementation of new regulations (MIFID II, FRTB, PRIIPs, IFRS 9, EMIR) through cooperation with other organisational units.

Main business directions

- Credit Markets Department:
  - ✓ provided funding towards medium and long-term investment projects delivered by GCB customers (companies from economically-important sectors such as food, construction or technology sectors) through loans and corporate bond issues, including funding extended in cooperation with other units, both within its Division (e.g. with Global Transactional Banking and Financial Markets) and outside it (e.g. with the Business and Corporate Banking Division);
  - ✓ optimised its balance sheet position through the sale of selected credit exposures.
- Capital Markets Department:
  - ✓ provided analytical and advisory services to customers;
  - ✓ was engaged as a financial/transactional advisor for companies from the biotechnology, financial and food sectors.
- Global Transactional Banking Department:
  - ✓ closed a number of deals in relation to financing, guarantees and supply chain finance with companies from the electronic, energy, clothing, production, mining and railway sectors;
  - ✓ took further measures to develop cash management solutions for banks and financial institutions, including instant payments.
- Treasury Services Department:
  - ✓ launched a number of development projects (significant from the perspective of top quality customer service) including design of an innovative educational tool for corporate and SME customers;
  - ✓ continued measures to develop distribution channels for treasury products to ensure higher level of digitalisation, increased penetration of the customer base and greater competitive advantage (e.g. an upgrade of the Kantor BZWBK24 currency exchange platform).
- Financial Market Transactions Department:
  - ✓ continued to develop the portfolio of global customers in cooperation with the London branch of Global Corporate Banking of Banco Santander;
  - ✓ organised road-shows abroad to attract global financial institutions, including banks, hedge funds and other asset management companies;
  - ✓ sold products and services offered by the bank and Santander Group in Poland (including government bonds issued by Eurozone peripheral and South American countries);
  - ✓ focused on the further development of products, mainly in relation to hedging instruments;

- ✓ joined the global foreign exchange platform and became one of the leaders of the global electronic trading platforms for Polish treasury bonds;
- ✓ grew its portfolio of corporate customers using the global know-how of Santander Group;
- ✓ organised a number of road-shows to encourage customers from Western European, American and Asian markets to invest in Poland.

- Institutional Sales Department:
  - ✓ focused on further development of systems to automate processes connected with brokerage services offered to business customers;
  - ✓ launched works in relation to a new product offering new investment opportunities both in Poland and abroad.
- Equity Research Department:
  - ✓ implemented a new channel for distribution of equity research products: an online platform which will be launched for business customers this year;
  - ✓ prepared BZ WBK Investors' Open Day to be held in early April, during which investors can meet the representatives of stock exchange companies.

Largest deals of the Global Corporate Banking Division

The bank maintains a leadership position in such areas as: public offerings, mergers and acquisitions and supply chain finance.

The largest deals completed by the GCB Division in Q1 2018 include:

- Financing the acquisition of a company from the food sector;
- Issuance of bonds in the Polish market for customers from the construction and technology sectors;
- Secondary offering of shares in a company from the biotechnology sector;
- Private placement of shares in a biotechnology company in the US;
- Sale of stake in a company from the financial sector as part of the accelerated book building;
- Optimisation of the balance sheet position through the sale of selected credit exposures;
- Significant loan agreements signed with customers from the technology, railway and mining sectors;
- Supply chain finance with companies from the electronic, energy, clothing and production sectors;
- Tender offer for shares of a company from the food sector.

In the Global Corporate Banking Segment, the growth in credit receivables was mainly driven by the supply chain finance which supports the core business of customers. The value of those transactions increased by a third compared to the last year as the number of programmes and suppliers went up.

Santander Consumer Bank Group

Other development directions

In Q1 2018, Santander Consumer Bank (SCB) focused on:

- maintaining the Group's leadership position in the hire purchase market, with a stable share in traditional sales and a growing share in online sales, as well as identifying new sales growth opportunities and maintaining the profitability of collaboration with trade partners;
- delivering on the objectives in the area of car finance, including in relation to new business, profitability and Key Performance Indicators (KPI);
- delivery of a campaign for customers to inform them about their rights arising from the General Data Protection Regulation;
- developing products and services:
  - ✓ successful delivery of implementation tests with respect to digital signature on instalment loan agreements;
  - ✓ extension of the maximum lending period of the cash loan to 72 months along with an increase in the maximum credit limit to PLN 50k for customers who meet specific credit assessment criteria;
  - ✓ introduction of changes to CPI insurance which is now available at more attractive terms.

Core business portfolios

Loans and advances to customers

As at 31 March 2018, gross loans and advances granted by SCB Group amounted to PLN 16.4bn and were 6.6% higher YoY due to growth in cash loans, credit cards and lease facilities. The increase in the balance of cash loans and credit cards was achieved due to higher sales supported by an extensive marketing campaign. Growth of lease receivables was attributed to market trends and competitive product range.

Deposit from customers

As at the end of March 2018, deposits from customers of SCB Group (excluding intercompany transactions) totalled PLN 8.1bn and increased by 3.7% YoY driven by higher volume of deposits from corporate customers combined with a slight decrease in deposits from retail customers.

Other significant events

In Q1 2018, Santander Consumer Bank issued two series of bonds for the total amount of PLN 160m as part of the debt securities issuance programme, guaranteed by Santander Consumer Finance. The funds raised were allocated to finance the bank's working capital needs in accordance with the strategy in place.

In February 2018, SCB sold the written-off portfolio of cash loans, instalment loans, credit cards and car loans of PLN 232.6m in total.

Development of distribution channels of SCB

In Q1 2018, SCB took further measures to increase the effectiveness of the distribution network, including the review of the structure of branches and partner outlets, taking into account customers' needs. The bank's customers had access to steadily developed electronic and mobile banking services.

Santander Consumer Bank	31.03.2018	31.03.2017
Branches	155	161
Partner Outlets	165	152
Registered Electronic Banking Users (in thousands) 1)	111	30

1) *Users who signed an agreement with SCB and at least once used the bank's electronic banking system.*

Aside from branches, franchise outlets and electronic channels, the distribution network of SCB as at 31 March 2018 included:

- a mobile sales channel for car loans and corporate deposits;
- a remote channel for car loans;
- a network of external partners offering the bank's car loans (676) as well as instalment loans and credit cards (10,285).

Awards, recognitions and positions in rankings

- 1st place in the cash loans ranking published by bankier.pl (January and February 2018);
- Top Employer Poland (February 2018);
- 1st place in the cash loans ranking published by comperia.pl (March 2018);
- Service Quality Star (March 2018).

Other strategic transformation programmes of Bank Zachodni WBK

Selected Digital Transformation projects

- New after-sales processes were launched in electronic channels, including special service zone for retail customers enabling them to request changes in relation to cards and loans or an option for corporate customers to generate statements by click. Work was underway to develop new automated solutions in this respect.
- New transactional, after-sales and back-office processes were automated in the RPA platform implemented in 2017. Robots were put in place to support anti-money laundering, product termination as well as credit process and complaint handling.

Agile Transformation

- In Q1 2018, measures were taken to set up first teams in the Retail Banking Division operating in an agile way, including the following domains: Omnichannel, Retail Customers, Consumer Loans and Risk Engineering.
- The main reasons for transforming the bank into an agile organisation are as follows:
  - ✓ to reduce turnaround and commercialisation times;
  - ✓ to increase customer satisfaction;
  - ✓ to facilitate cooperation between organisational units, mainly business and IT;
  - ✓ to enhance development opportunities for employees;
  - ✓ to extend the range of valuable financial tools;
  - ✓ to strengthen financial performance.

Organisational Development

Changes in the Group structure

Compared with 31 December 2017, the structure of the associated entities of Bank Zachodni WBK changed as a result of the following developments:

- Registration of ownership changes in BZ WBK F24 in the National Court Register on 12 January 2018, as a consequence of which the company became fully controlled by BZ WBK Finanse (previously it was 99.99% owned by Bank Zachodni WBK). The above changes included the stock swap between Bank Zachodni WBK and BZ WBK Finanse (in-kind contribution of BZ WBK F24 shares held by the bank in exchange for shares of BZ WBK Finanse) and the purchase by BZ WBK Finanse of an outstanding share ensuring a 100% stake in the share capital of BZ WBK F24.
- Removal of Giełdokracja from the National Court Register on 5 March 2018 following its liquidation approved by the Extraordinary General Meeting held on 29 November 2017.

Planned acquisition of a demerged business of Deutsche Bank Polska

Transaction agreement on the purchase of a demerged business of Deutsche Bank Polska by Bank Zachodni WBK

Pursuant to the transaction agreement of 14 December 2017 signed by Bank Zachodni WBK and Banco Santander with Deutsche Bank AG (DB AG), Bank Zachodni WBK (acquiring bank) intends to purchase a carve-out of Deutsche Bank Polska (DB Polska/bank being divided), consisting of retail banking, private banking, business banking, SME banking and DB Securities. The transaction involves, among other things, the takeover of branch network and external sales channels of DB Polska (agents and intermediaries) and the transfer of asset management agreements with customers. Corporate and investment banking business and foreign-currency mortgage portfolio are excluded from the transaction and will remain in DB Polska (retained business).

Demerger agreement between Bank Zachodni WBK and Deutsche Bank Polska

On 23 February 2018, Bank Zachodni WBK and DB Polska signed a demerger agreement setting out the terms and conditions of the demerger in accordance with Article 529(1)(4), Article 530(2) and Article 531(1) of the Code of Commercial Companies.

The demerged business will be transferred to Bank Zachodni WBK on the date of registration of an increase of PLN 27,548,240 in the bank's share capital (adjusted for a dilution adjustment ratio where necessary) by way of the issuance of 2,754,824 demerger shares to be alloted to DB AG (demerger effective date). The exchange ratio under which DB AG will be alloted demerger shares will be 1,836.549(3) demerger shares of the acquiring bank for 1,000,000 reference shares (i.e. shares of the acquiring bank held by DB AG), adjusted for a dilution adjustment ratio where necessary.

The acquiring bank will take measures to ensure the demerger shares are admitted and introduced to trading on the regulated market operated by the WSE.

As a result of the demerger, the share capital of DB Polska will be reduced by way of cancellation of all shares of that bank held by Bank Zachodni WBK. After the decrease in the share capital, the acquiring bank will cease to be a shareholder of DB Polska, whereas DB AG will remain the sole shareholder of DB Polska holding 100% shares and 100% votes at the General Meeting of DB Polska.

Regulatory and corporate consents required to close the transaction

On 2 March 2018, the Office of Competition and Consumer Protection (UOKiK) granted clearance to integrate the demerged business of DB Polska into the structures of Bank Zachodni WBK. Accordingly, the demerger now requires:

- the following consents from the KNF:
  - ✓ a decision confirming there are no grounds for objecting to the parent entity of the acquiring bank exceeding the following thresholds (through the acquiring bank):
    - 10% of share capital and votes at the General Meeting of DB Polska;
    - 50% of share capital and votes at the General Meeting of DB Securities.
  - ✓ consent for the bank being divided and the acquiring bank to execute the demerger and change their statutes accordingly.
- adoption of resolutions by the General Meetings of both banks giving consent to:
  - ✓ the demerger plan;
  - ✓ amendment of the statutes in connection with the demerger.

In view of the economic and financial benefits for both banks and their shareholders, the Management Board of Bank Zachodni WBK recommended that the General Meeting of BZ WBK adopt relevant resolutions giving consent to the implementation of the demerger plan and amendment of the bank's Statutes.

Economic justification of the demerger

The intended acquisition of the demerged business is a strategic response of Bank Zachodni WBK to the consolidation trends in the Polish banking sector.

From the perspective of the acquiring bank, the main business and operational objectives of the acquisition of the demerged business are as follows:

- extension of the range of products and services, improvement of customer service quality and enhancement of customer experience;
- growth of the customer base and business volumes;
- development of sales network – improvement of operational efficiency, capitalising on the potential of both banks, best practices of the acquiring bank and economies of scale;
- significant increase in value with limited impact on capital ratios.

The transaction will strengthen the bank's market position in terms of the value of assets and share in the credit and customer deposit markets. Furthermore, the bank is expected to achieve synergies and savings and leverage new competences and skills in terms of relationships with high net worth, private banking and business banking customers.

The existing retail and business customers of DB Polska will gain access to one of Poland's largest network of branches and innovative sales channels, including mobile banking. At the same time, the customers of Bank Zachodni WBK will get access to a broad range of private banking products and an unparalleled network of financial agents, intermediaries and partners cooperating with the bank being divided.

The acquisition of the demerged business of DB Polska will bring benefits to the shareholders of the acquiring bank such as increased stock liquidity (increase in free float as a result of the new issue), return on investment in excess of the bank's cost of equity until 2021 and growth in earnings per share after 2021.

Integration process

Bank Zachodni WBK plans to close the transaction in Q4 2018, subject to the required regulatory and corporate consents. The demerged assets of DB Polska will be transferred to Bank Zachodni WBK once the demerger of DB Polska is registered by the registry court as provided for by law. The bank will subsequently assume all rights and obligations of DB Polska related to the demerged business.

The legal merger, branch rebranding and operational merger (including data migration) will be completed during the migration weekend. Until that time, the banks will operate as two competing institutions (with separate products and services, branch network, service standards, IT systems and processes), while ensuring compliance with data protection regulations.

The integration process will be executed in such a way as to ensure that the bank is fully operational once the demerged business of DB Polska is incorporated into its structures and that customer service is not affected. After the details of customers of the demerged part of DB Polska are transferred to the platform of Bank Zachodni WBK, they will be serviced according to the processes of the acquiring bank, while keeping the account numbers unchanged.

Transactions connected with the acquisition of the demerged business of Deutsche Bank Polska

On 16 February 2018, Banco Santander sold 1,200,000 shares of Bank Zachodni WBK to Deutsche Bank AG, London Branch. As a result, the number of shares held by Banco Santander reduced from 68,880,774 to 67,680,774, which means a decrease in the share in the registered capital and voting power at the BZ WBK General Meeting from 69.34% to 68.13%.

Adoption of a resolution by the Management Board of Bank Zachodni WBK on the intention to establish a mortgage bank

On 7 March 2018, the Management Board of Bank Zachodni WBK adopted a resolution on the intention to set up a mortgage bank operating as BZ WBK Bank Hipoteczny S.A. with its registered office in Warsaw (mortgage bank). On 8 March 2018, the bank's Supervisory Board gave consent to the establishment of the foregoing entity.

The share capital of the mortgage bank will be PLN 22m and Bank Zachodni WBK will be the sole shareholder.

As part of its business profile, the mortgage bank will:

- handle mortgage loans for retail customers;
- purchase receivables arising from mortgage loans of retail customers to its own portfolio on the basis of a strategic cooperation with the bank;
- issue covered bonds.

The mortgage bank will ensure a stable, long-term source of financing for BZ WBK's mortgage lending activity in the form of covered bonds. It will enhance the stability and security of BZ WBK Group, and indirectly, the entire banking sector.

The process requires the KNF consent for establishment of the mortgage bank and for the launch of operations. The relevant application has been submitted to the KNF.

Other information

Individual recommendation of the KNF re dividend payment from profit for 2017 and retained profit for 2016

On 16 March 2018, Bank Zachodni WBK received an individual recommendation from the KNF to increase own funds by retaining the entire profit earned by the bank for the period from 1 January to 31 December 2017.

At the same time, the KNF did not make any reservations as to the potential payment of dividend from retained profit for 2016.

KNF decision on the amount of an additional own funds requirement for Bank Zachodni WBK in relation to the buffer of other systemically important institution

On 4 January 2018, the Management Board of Bank Zachodni WBK received the KNF decision dated 19 December 2017 regarding the identification of the bank as other systematically important institution (issued on the basis of assessment of the systemic importance of the bank) and imposing on the bank a buffer equivalent to 0.50% of total amount of the risk exposure calculated in accordance with Article 92(3) of the EU Regulation No. 575/2013.

As at the date of the report, the bank met the KNF requirements with respect to the minimum capital ratios on a stand-alone and consolidated basis.

Update of rating by Moody's Investors Service

On 29 January 2018, Moody's Investors Service changed the outlook on Bank Zachodni WBK long-term deposit rating from stable to positive and affirmed the ratings. The above change reflects improving asset quality, resilient capitalisation and strong profitability of the bank. It also factors in positive implications of BZ WBK's acquisition of the carve-out of Deutsche Bank Polska and estimated costs associated with the legislation regarding foreign currency mortgage portfolio.

Category of Moody's Ratings	Ratings updated as at 29.01.2018
Bank Deposit	A3/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa2
Outlook	positive
Counterparty Risk Assessment	A2 (cr)/ P-1 (cr)

Issuance of own bonds by Bank Zachodni WBK

On 5 April 2018, 2,000 F-series subordinated bonds issued by Bank Zachodni WBK S.A. on the terms specified below were settled.

- Total nominal value: PLN 1bn
- Nominal value per bond: PLN 500k
- Type: unsecured variable-rate bearer bonds with a 10-year maturity and a call option enabling the issuer to redeem all instruments after five years of their issuance (subject to the KNF consent)
- Interest rate: variable interest rate equal to the sum of 6M WIBOR and the margin of 1.6%
- Issue price: equal to the nominal value
- Issue date: 5 April 2018
- Form: dematerialised bonds (to be registered on the issuance date in the securities depository kept by KDPW)
- Purpose: to increase the bank's supplementary funds (subject to the KNF consent)
- Target secondary market: alternative trading system on the Catalyst market.

All the bonds for a total amount of PLN 1bn were taken up by the bondholders.

Recommendation of the Management Board re dividend payment

Relevant information is provided in Note 41.

Convening of the Annual General Meeting of Bank Zachodni WBK

Relevant information is provided in Note 42.

Shares of Bank Zachodni WBK held by the Supervisory and Management Board members

As at the release dates of the Report of Bank Zachodni WBK for Q1 2018 and the annual report for 2017, none of the members of the Supervisory Board held any Bank Zachodni WBK shares or conditional rights.

The table below represents Bank Zachodni WBK shares and conditional rights held by the Management Board members as at the dates of publication of reports for the periods ended 31 March 2018 and 31 December 2017.

Management Board Members	24.04.2018		13.02.2018	
	No. of BZ WBK shares	Rights (6th Incentive Scheme)	No. of BZ WBK shares	Rights (6th Incentive Scheme)
Michał Gajewski	-	5 420	-	5 420
Andrzej Burliga	4 389	2 820	4 389	2 820
Artur Chodacki	790	2 030	790	2 030
Michael McCarthy	1 528	3 250	1 528	3 250
Carlos Polaino Izquierdo	631	2 820	631	2 820
Juan de Porras Aguirre	1 397	2 240	1 397	2 240
Marcin Prell	1 250	2 540	1 250	2 540
Arkadiusz Przybył	-	3 390	-	3 390
Maciej Reluga	505	2 030	505	2 030
Mirosław Skiba	2 474	2 880	2 474	2 880
Dorota Strojkowska	635	2 370	635	2 370
Feliks Szyszkowiak	1 621	2 880	1 621	2 880
Total	**15 220**	**34 670**	**15 220**	**34 670**

45. Overview of BZ WBK Group Performance in Q1 2018

Overview of activities of Bank Zachodni WBK Group in Q1 2018

Bank Zachodni WBK Group applied new accounting principles for classification and measurement of financial instruments in consolidated financial statements for the period ended 31 March 2018 in accordance with IFRS 9 Financial Instruments. Data for prior periods have not been restated, which affects the comparability and presentation of the analysed periods in terms of the selected profit and loss and balance sheet positions (mainly related to loans and advances from customers and the investment financial instruments). For the purposes of analysis, the tables included in this part of the report juxtapose aggregates from the current and comparative periods that have similar characteristcis but are not quite the same in terms of classification and measurement.

	Key financial and business highlights of BZ WBK Group for Q1 2018
Total income	• Total income of Bank Zachodni WBK Group for Q1 2018 increased by 8.3% YoY to PLN 2,002.3m.
Total costs	• Total costs went up by 12.1% YoY to PLN 971.2m, including an increase of 22.5% YoY and 3.4% YoY in general and administrative expenses and staff expenses, respectively. Assuming a stable level of BFG charges on a YoY basis (i.e. adjusting the cost base for an annual increase of PLN 58.3m in contributions to BFG), total underlying costs increased by 5.4% YoY while general and administrive expenses went up by 7.2% YoY, reflecting the scale of ongoing development projects.
Profit	• Profit before tax amounted to PLN 712.7m, down 3.7% YoY. Adjusting costs as above, the underlying profit before tax went up by 4.2% YoY. • Profit attributable to the shareholders of Bank Zachodni WBK was PLN 438.7m and 3.2% lower YoY (9.7% YoY higher on a comparable basis).
Capital ratio	• Capital ratio stood at 16.67% (16.69% as at 31 December 2017 and 15.67% as at 31 March 2017), ensuring security of operations and a stable growth.
ROE	• Return on Equity (ROE) was 11.4% (12.2% as at 31 December 2017 and 11.5% as at 31 March 2017).
Costs/Income	• Cost to income ratio (C/I) was 48.5% (45.6% adjusting the costs as above) vs 46.8% in Q1 2017.
Net impairment allowances	• Net impairment allowances for loans and advances amounted to PLN 222.9m compared with PLN 145.5m in Q1 2017.
Credit quality	• NPL ratio was 6.0% (5.8% as at 31 December 2017 and 6.4% as at 31 March 2017), while the ratio of impairment allowances to the average gross credit volumes was 0.68% (0.63% as at 31 December 2017 and 0.73% as at 31 March 2017).
Loans and advances to customers	• Gross loans to customers increased by 5.1% YoY to PLN 114,406.0m due to the growth of 5.5% YoY in personal loans and 3.8% YoY in loans to enterprises and the public sector to PLN 59,094.0m and PLN 48,215.5m, respectively.
Deposits from customers	• Deposits from customers grew by 4.7% YoY to PLN 113,576.6m as a result of an increase of 2.8% YoY in personal deposits to PLN 66,073.7m and 7.6% in deposits from enterprises and the public sector to PLN 47,502.9m.
Loans/Deposits	• Customer loans to deposit ratio was 96.0% as at 31 March 2018 compared with 96.7% as at 31 December 2017 and 95.9% as at 31 March 2017.
Net assets under management	• Net value of assets in investment funds and portfolios managed by BZ WBK TFI totalled PLN 16.9bn, up 17.6% YoY.
Electronic banking	• The number of customers using BZWBK24 electronic banking services totalled 3.5m (+7.5% YoY), including over 1.1m customers with access to mobile services (+25.4% YoY). • The number of “digital” customers (those who used the BZWBK24 platform at least once a month) was 2.1m (+5.5% YoY). • The BZ WBK Group payment card base (excluding prepaid cards) included more than 3.6m debit cards (+4.6% YoY) and nearly 1.3m credit cards of BZ WBK and SCB (+3.8% YoY).
Customer base	• The total customer base was close to 6.5m, including 4.4m BZ WBK customers.

Factors and events, especially untypical ones, significantly affecting financial results of the bank in 1Q 2018	
Economic growth	• Surprisingly robust economic growth. Private consumption growing by nearly 5% YoY and consumer confidence indexes at an all-time high. • Economic data abroad point to the continued positive economic trends, although economic sentiment indexes fell in recent months after a noticeable rise seen in 2017.
Labour market	• Exceptionally good situation of the labour market with record-low unemployment and accelerating wage growth in support of private consumption. • Shortage of workforce, making it difficult for companies to expand. Growing labour costs.
Inflation	• Higher costs and still low inflation (limiting the possibility to increase prices of final goods) which led to lower corporate margins.
Monetary policy	• The NBP rates remaining at historical lows. Subdued market expectations for rate hikes in the near future despite the US and, in our region, the Czech Republic and Romania, already increasing interest rates.
Credit market	• Slight acceleration of credit growth in the banking sector after deceleration in late 2017. • A decline in current account balances and an increase in term deposits amid continued growth of cash in circulation.
Financial market	• Changes of mood in international financial markets influenced by the expected policy orientation of the main central banks (the Fed, the ECB), incoming macroeconomic data, worries about geopolitical situation, including concerns about the results of negotiations between the UK and the EU, impact of trade wars on global growth and situation in Syria. • Depreciation of the Polish zloty versus foreign currencies and further drop in domestic bond yields.

Income Statement of Bank Zachodni WBK Group

Structure of Bank Zachodni WBK Group profit before tax

PLN m

Condensed Consolidated Income Statement of BZ WBK Group (for analytical purposes)	Q1 2018	Q4 2017	Q1 2017	QoQ Change	YoY Change
Total income	**2 002,3**	**2 010,3**	**1 848,7**	**-0,4%**	**8,3%**
- Net interest income	1 389,8	1 379,5	1 254,0	0,7%	10,8%
- Net fee & commission income	515,1	515,4	475,2	-0,1%	8,4%
- Other income [1]	97,4	115,4	119,5	-15,6%	-18,5%
Total costs	**(971,2)**	**(870,2)**	**(866,0)**	**11,6%**	**12,1%**
- Staff, general and administrative expenses	(862,5)	(755,3)	(763,7)	14,2%	12,9%
- Depreciation/amortisation	(82,5)	(84,7)	(74,3)	-2,6%	11,0%
- Other operating expenses	(26,2)	(30,2)	(28,0)	-13,2%	-6,4%
Impairment losses on loans and advances	**(222,9)**	**(212,9)**	**(145,5)**	**4,7%**	**53,2%**
Profit/loss attributable to the entities accounted for using the equity method	11,0	19,7	8,6	-44,2%	27,9%
Tax on financial institutions [2]	(106,5)	(107,0)	(105,8)	-0,5%	0,7%
Consolidated profit before tax	**712,7**	**839,9**	**740,0**	**-15,1%**	**-3,7%**
Tax charges	(180,5)	(215,5)	(212,8)	-16,2%	-15,2%
Net profit for the period	**532,2**	**624,4**	**527,2**	**-14,8%**	**0,9%**
- Net profit attributable to BZ WBK shareholders	**438,7**	**549,0**	**453,0**	**-20,1%**	**-3,2%**
- Net profit attributable to non-controlling shareholders	93,5	75,4	74,2	24,0%	26,0%

1) *Other income covers all of non-interest and non-fee income. It comprises the following items of the full income statement: dividend income, net gains/losses on shares in subordinate entities, net trading income and revaluation, gains on other financial instruments, other operating income.*

2) *The banking tax is calculated in accordance with the Act of 15 January 2016 on tax imposed on certain financial institutions.*

In Q1 2018, Bank Zachodni WBK Group posted a profit before tax of PLN 712.7m, down 3.7% YoY. Despite significant growth in net income from the core business (i.e. an increase of 10.8% YoY and 8.4% YoY in net interest income and net fee and commission income, respectively), the Group's profit was under pressure from development initiatives, regulatory environment and volatility of financial markets. It is reflected in the following movements in the income statement:

- Decrease of 64.0% YoY in net trading income and revaluation amid lower gains on derivatives and interbank FX transactions (-58.5% YoY).
- Increase of 22.5% YoY in general and administrative expenses in connection with the project of the acquisition of a demerged business of Deutsche Bank Polska and higher contributions to the bank guarantee and resolution funds operated by the Bank Guarantee Fund (BFG) (+PLN 58.3m YoY).
- Increase of 53.2% YoY in net impairment allowances due to a low base effect attributed to the sale of a significant portfolio of matured receivables in the corresponding period, isolated cases of deterioration of credit risk of corporate customers and first-time application of the expected credit loss model under IFRS 9.

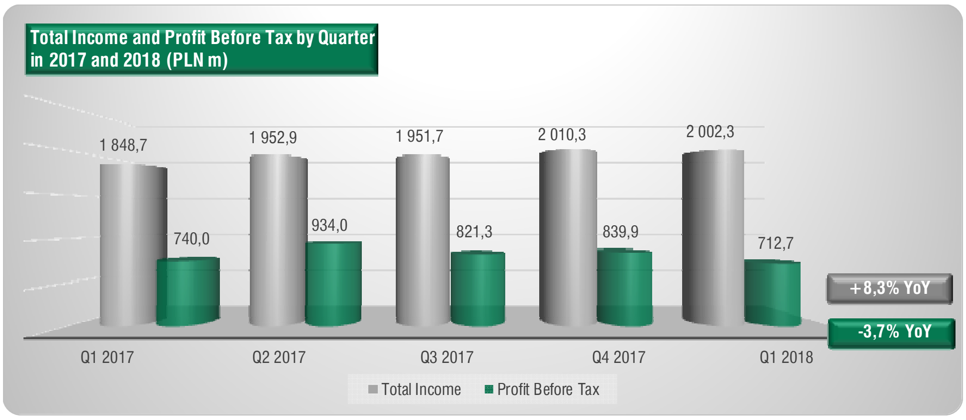
Profit attributable to the shareholders of Bank Zachodni WBK was PLN 438.7m and decreased by 3.2% YoY due to a lower effective tax rate attributed to immaterial loss incurred on the sale of credit receivables compared to the previous year.

Assuming a stable level of contributions to BFG in both periods (i.e. excluding an increase of PLN 58.3m based on the Group's estimatations), the underlying profit before tax of Bank Zachodni WBK Group increased by 4.2% YoY, and the underlying profit attributable to the shareholders of Bank Zachodni WBK went up by 9.7% YoY.

Comparability of periods

	Application of new IFRS
IFRS 9	• Pursuant to IFRS 9 Financial Instruments, effective since 1 January 2018, BZ WBK Group changed the classification and measurement of financial instruments on the basis of a detailed analysis of business models used for managing financial assets and characteristics of cash flows arising from existing agreements. • The financial impact of the changed approach to classification and measurement of financial assets, allowances for expected credit losses and provisions for liabilities is presented in Note 2 "Basis of preparation of condensed interim consolidated financial statement". The value of other assets and liabilities has not changed significantly as a result of implementation of IFRS 9. • BZ WBK Group elected to use an option for exemption of the obligation to restate comparative information for prior periods in relation to the changes arising from classification, measurement and impairment. Differences in the carrying amounts of financial assets and liabilities resulting from the application of IFRS 9 are reported in retained earnings in equity and in revaluation reserve as at 1 January 2018 (-PLN 254.5m).
IFRS 15	• Pursuant to IFRS 15 Revenue from Contracts with Customers, effective since 1 January 2018, a new 5-step model was applied to revenue-generating contracts with customers, excluding the contracts which are subject to separate standards. The application of IFRS 15 did not require any significant changes in presentation.

Items of the income statement	Selected items affecting the comparability of periods in the income statement of BZ WBK Group for Q1 2018 vs Q1 2017 (excluding the impact of implemented IFRS)	
	Q1 2018	Q1 2017
Income on sale or liquidation of fixed assets and assets held for sale	• PLN 44.3m (sale of property)	• PLN 220k
Gains on equity instruments	• no sales recognised in the income statement	• PLN 10.8m on account of the sale of all shares of Polimex-Mostostal
Contributions to BFG	• PLN 160.3m, including a preliminarily estimated contribution to the bank resolution fund of PLN 132.3m and a contribution to the bank guarantee fund of PLN 28.0m	• PLN 102m, including for a preliminarily estimated contribution to the bank resolution fund of PLN 77.1m and contribution to the bank guarantee fund of PLN 24.9m
Profit before tax on the sale of credit receivables	• PLN 19.7m	• PLN 113.9m



Structure of profit before tax earned by BZ WBK Group by contributing entities

PLN m

Components of Bank Zachodni WBK Group Profit Before Tax by contributing entities	Q1 2018	Q1 2017	YoY Change
Bank Zachodni WBK S.A.	**403,1**	**511,8**	**-21,2%**
Existing subsidiary undertakings:	**298,6**	**215,8**	**38,4%**
Santander Consumer Bank and its subsidiaries [1)]	216,0	178,9	20,7%
BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.	61,2	18,4	232,6%
BZ WBK Finanse Sp. z o.o., BZ WBK Leasing S.A., BZ WBK Faktor Sp. z o.o., BZ WBK F24 S.A. [2)]	21,4	18,6	15,1%
Other subsidiary undertakings [3)]	0,0	(0,1)	-
Equity method valuation	**11,0**	**8,6**	**27,9%**
Elimination of dividends received by BZ WBK	**-**	**-**	**-**
Other eliminations and consolidation adjustments [4)]	**-**	**3,8**	**-100,0%**
Profit before tax	**712,7**	**740,0**	**-3,7%**

1) *As at 31 March 2018, SCB Group comprised Santander Consumer Bank and the following entities: Santander Consumer Multirent, Santander Consumer Finanse, SC Poland Consumer 15-1 and SC Poland Consumer Finance 16-1, PSA Finance Polska and PSA Consumer Finance Polska. AKB Marketing Services was liquidated and removed from the court register on 20 November 2017. The amounts provided above represent profit before tax (after intercompany and consolidation adjustments) of SCB Group for the periods indicated.*

2) *On 28 February 2017, BZ WBK leasing companies merged. BZ WBK Leasing, an acquiring company, assumed all rights and obligations of BZ WBK Lease, an acquired company, which was removed from the court register. BZ WBK Nieruchomości was renamed as BZ WBK 24F, and as a result of ownership changes (an exchange of shares between BZ WBK and BZ WBK Finanse, and the repurchase of shares from the other shareholder), it became 100%-owned by BZ WBK Finanse.*

3) *Other subsidiaries, i.e. BZ WBK Inwestycje and Giełdokracja in liquidation (removed from the court register on 5 March 2018), disclosed a total profit of PLN 34.4k vs loss of PLN 44.3k for Q1 2017.*

4) *The consolidation adjustment for Q1 2017 represents a gain of PLN 3.8m arising from the settlement of liquidation of AKB Marketing Services (member of SCB Group).*

Bank Zachodni WBK (parent entity of Bank Zachodni WBK Group)

In Q1 2018, the unconsolidated profit before tax of Bank Zachodni WBK decreased by 21.2% YoY to PLN 403.1m as a combined effect of the following:

- A major improvement of 9.4% YoY in net interest income driven by lending to retail and corporate customers and the optimisation of a deposit range focused on the development of current account balances;
- A decrease of 2.0% YoY in net fee and commission income on account of lower net income from brokerage fees, distribution fees (suspended remuneration by BZ WBK TFI for investment fund distribution in the wake of the law revision) and account maintenance and cash management services was largely offset by increases in such business lines as: electronic banking and payments, foreign exchange transactions, credit delivery, insurance, guarantees and sureties;
- An increase of 73.7% YoY in impairment allowances due to the sale of a lower amount of matured receivables from retail and corporate customers, isolated cases of deterioration of credit risk of entities and first-time application of the expected credit loss model under IFRS 9;
- An increase of 12.6% YoY in total operating expenses driven by general and administrative expenses (+12.9% YoY) connected with the project of acquisition of a demerged business of Deutsche Bank Polska and higher contributions to the bank guarantee and resolution funds operated by the Bank Guarantee Fund (BFG) (+PLN 44.8m YoY);
- A decrease in net trading income (-63.0% YoY) mainly in relation to derivatives and interbank FX transactions;
- Lower gains on other financial instruments (-96.6% YoY) amid lower gains on trading in securities.

Excluding an increase of PLN 44.8m in contributions to BFG, the underlying profit before tax of Bank Zachodni WBK decreased by 12.5% YoY.

Subsidiaries

The subsidiaries consolidated by Bank Zachodni WBK reported an increase of 38.4% YoY in their total profit before tax as a result of higher profitability of SCB Group and BZ WBK TFI.

SCB Group

The contribution of SCB Group to the consolidated profit before tax of Bank Zachodni WBK Group for Q1 2018 was PLN 216.0m (after intercompany transactions and consolidation adjustments) and increased by 20.7% YoY due to the following factors:

- An increase of 14.4% YoY in net interest income to PLN 363.0m, driven by a higher net interest margin, steady growth of the credit portfolio and favourable changes in its structure (e.g. a bigger share of high-margin products such as cash loans and credit cards);
- An increase of 13.6% YoY in net fee and commission income to PLN 43.6m due to higher net income from credit cards fuelled by the growing card portfolio and larger other fee and commission income, including lower bonuses for the key hire purchase partners;
- Higher net impairment allowances of PLN 36.9m (+15.6% YoY) resulting from the implementation of IFRS 9;
- An increase of PLN 6.7m YoY to PLN 11.7m in other operating income;
- An increase of 9.9% YoY in total operating expenses to PLN 158.1m driven by higher contributions to BFG, slight growth of staff expenses and outlays on modification and development of the bank's IT systems.

Other subsidiaries

The 232.6% YoY rise in profit before tax reported by BZ WBK TFI resulted primarily from the decision reached at the start of 2018 to suspend remuneration to Bank Zachodni WBK (the main distributor of the company's investment funds) until EU directives of MIFID II become fully transposed into the Polish law and a revised settlement model is established. A decline in the distribution fee expense was accompanied by a fast increase in fee and commission income from asset management driven by higher average net assets.

Total profit before tax posted by companies controlled by BZ WBK Finanse increased by 15.1% YoY.

- The profit before tax earned by BZ WBK Faktor went up by 118.6% YoY to PLN 7.5m due to a positive balance of impairment allowances for collectively assessed factoring receivables and an increase in net interest income on credit exposures which grew by 26% YoY.
- The total profit before tax of BZ WBK Leasing, BZ WBK Finanse and BZ WBK F24 declined by 8.8% YoY to PLN 13.9m as a result of negative measurement of instruments hedging a fixed-rate lease portfolio and higher costs of financing credit exposures. The rapid development of the lease business in that period caused a 16% YoY increase in the performing portfolio and a double digit growth in interest income. The quality of the credit portfolio continued at a satisfactory level, with a stable value of impairment allowances.

Structure of Bank Zachodni WBK Group profit before tax

Total income

Total income of Bank Zachodni WBK Group for Q1 2018 increased by 8.3% YoY to PLN 2,002.3m.

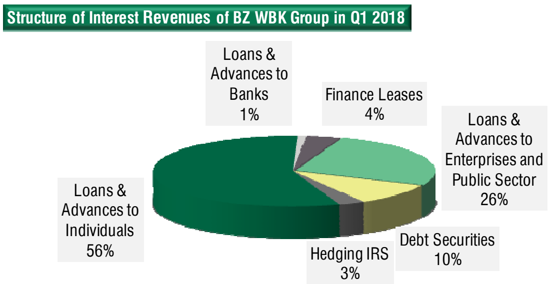
Net interest income

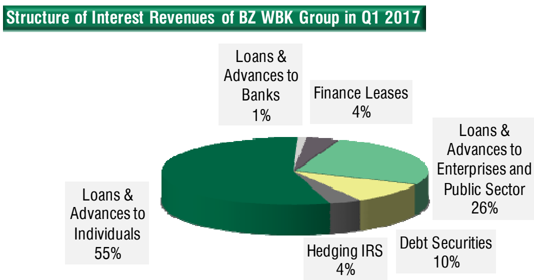
In Q1 2018, net interest income amounted to PLN 1,389.8m and increased by 10.8% YoY.

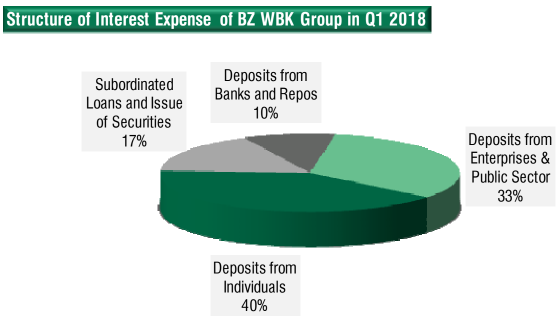
The Group reported higher interest income (up 8.3% YoY to PLN 1,688.5m) alongside a decline in interest expense (down 2.3% YoY to PLN 298.7m).

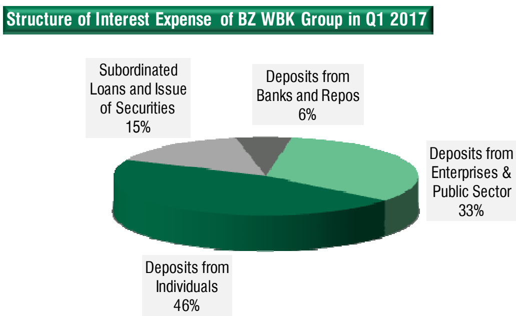
The growth rate of interest income was driven by loans to retail and corporate customers, lease receivables, repurchase transactions and debt securities but slowed down by loans to banks and CIRS/IRS transactions hedging cash flows.

The continued decline in interest expense was driven by deposits from retail customers and the enterprise sector. It was partly offset by increasing interest expense connected with the issue of securities, obligations on account of repurchase transactions and bank deposits.



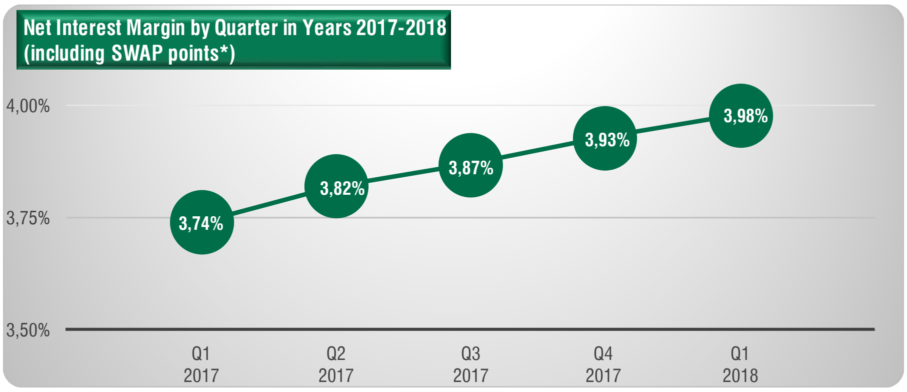






In a stable, record-low interest rate environment, the Group's quarterly net interest margin (annualised on a quarterly basis) sustained its upward trend all along the way from 3.74% in Q1 2017 to 3.98% in Q1 2018. Similarly to the previous quarters, during the first three months of 2018, the margin increase was supported by effective management of price parameters of deposit and credit products, measures and tools designed to improve their quality, accessibility and competitiveness, and favourable sales developments affecting the balance sheet structure. The Group reported positive changes (from the perspective of a net interest margin) in core business volumes such as a YoY increase in loans and advances to retail customers (notably cash loans), a significant rise in low-cost current account balances of individuals and companies and a drop in term deposits from personal customers.

An increase in the quarterly net interest margin by 0,05 p.p. from Q4 2017 level reflects among others a good sales rate of retail loans and lower cost of retail term deposits.



* *The calculation of the net interest margin of Bank Zachodni WBK takes account of swap points allocation from derivative instruments used for the purpose of liquidity management but excludes interest income from the debt trading portfolio.*

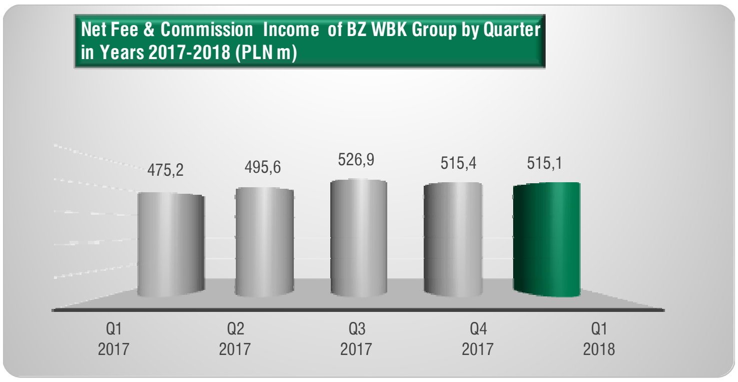
Net fee and commission income

In Q1 2018, net fee and commission income amounted to PLN 515.1m and increased by 8.4% YoY driven by the performance of business lines of the bank and its subsidiaries.

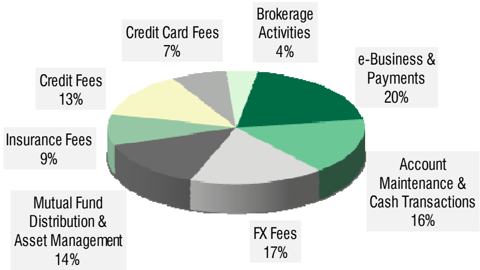
PLN m

Net Fee and Commission Income of BZ WBK Group	Q1 2018	Q1 2017	YoY Change
E-Business and payments [1)]	101,8	94,6	7,6%
FX fees	89,1	78,1	14,1%
Account maintenance and cash transactions	81,5	83,4	-2,3%
Asset management and distribution	74,9	65,5	14,4%
Credit fees [2)]	66,3	51,0	30,0%
Insurance fees	47,4	49,2	-3,7%
Credit cards	34,4	31,1	10,6%
Brokerage activities	15,4	18,9	-18,5%
Other [3)]	4,3	3,4	26,5%
Total	**515,1**	**475,2**	**8,4%**

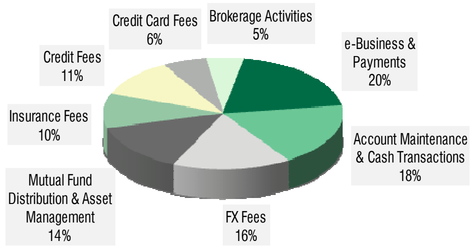
1) Fees for foreign and mass payments, Western Union transfers, trade finance, debit cards, services for third party institutions as well as other electronic and telecommunications services.
2) Fee and commission income from lending, factoring and lease activities which is not amortised to net interest income. This line item includes inter alia the cost of credit agency fees.
3) Fees on guarantees, issue arrangement and other.



Net Commission Income Structure of BZ WBK Group for Q1 2018



Net Commission Income Structure of BZ WBK Group for Q1 2017



The lending business contributed to growth of 30.0% YoY in net fee and commission income on account of higher income from fees connected with corporate credit exposures and a significant decrease in one-off credit agency fees paid by SCB in order to maintain and develop its sales network.

The higher net fee and commission income from fund distribution and asset management (+14.4% YoY) reflects an increase in the average net value of assets under management in BZ WBK TFI arising from an inflow of funds driven by the bullish stock market prevailing throughout 2017 (until February 2018) and increased competitiveness of investment funds (as an alternative to traditional bank deposits) in a record low interest rate environment.

An improvement in FX fee income (+14.1% YoY) is attributed to steady increase in turnover driven by the Group's comprehensive measures taken to support foreign trade and develop e-FX services in iBiznes24.

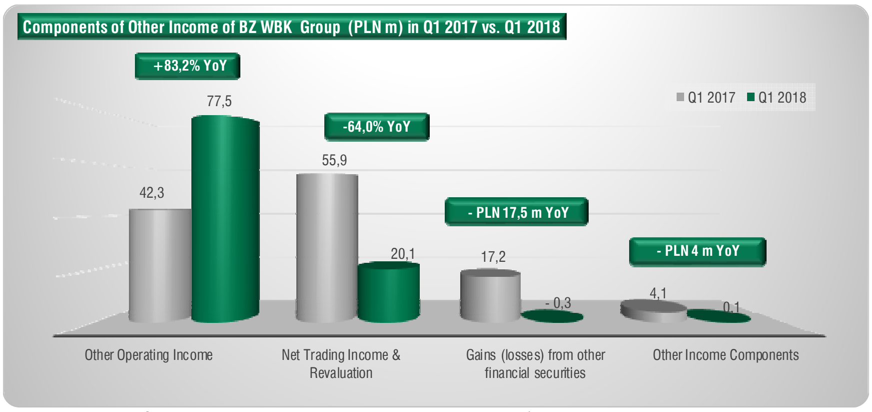
Net fee and commission income aggregated under the "eBusiness and payments" line item rose by 7.6% YoY as a result of an increase in income from issuance and management of debit cards driven by the growth of this instrument base (+4.6% YoY) and non-cash transactions made with such cards in Poland and abroad. Growth was also reported in net fee and commission income from management of cards and ATM network for third-party financial institutions.

Net fee and commission income from issuance and management of credit cards went up by 10.6% YoY on account of a 3.8% YoY increase in the size of the combined credit card portfolio of Bank Zachodni WBK and SCB and higher volume of credit card transactions.

Brokerage fees reduced by 18.5% YoY along with trading in the secondary stock market amid deteriorating investor sentiments.

The decline of 3.7% YoY in net fee and commission income from insurance business was due to lower share of SCB in the insurance premium and smaller insurance coverage of the Group's cash loans, which was partly offset by growing sales of non-linked insurance products (e.g. Locum Insuranace and Family Care (Opiekun Rodziny) Insurance).

Other income of the Group



* *Other components include dividend income and gains/losses on subordinate entities.*

Other income of the Group presented above totalled PLN 97.4m and decreased by 18.5% YoY.

Net trading income and revaluation ("Net trading income")

Net trading income and revaluation reported by Bank Zachodni WBK Group for Q1 2018 was PLN 20.1m, down 64.0% YoY.

In the market of derivatives and FX interbank transactions the Group generated profit of PLN 17.0m vs. PLN 41.0m in Q1 2017. The above component of net trading income excludes net interest income from the CIRS and IRS transactions designated as hedging instruments under the cash flow hedge accounting (PLN 52.7m for Q1 2018 vs. PLN 60.0m for Q1 2017), which are disclosed under "Interest income".

Other FX trading related income was PLN 5.6m and declined by 48.6% YoY.

Trading in debt and equity securities measured at fair value through profit or loss brought in a total loss of PLN 2.6m compared to a gain of PLN 3.9m in the corresponding period last year.

Gains/losses on other financial instruments

The Group incurred a loss of PLN 0.3m on other financial instruments vs. profit of PLN 17.2m in Q1 2017. Unlike in the corresponding period, in Q1 2018 sales of debt and equity securities were marginal.

Other operating income

Other operating income totalled PLN 77.5m and increased by 83.2% YoY, mainly on account of the profit of PLN 44.3m from the sale of the bank's real estate.

Impairment allowances

PLN m

Impairment losses on loans and advances	Measured at amortised cost			Total IFRS 9 [1]	Total IAS 39 [2]
	Stage 1	Stage 2	Stage 3	Q1 2018	Q1 2017
Impairment charge on loans and advances to customers	(14,6)	26,2	(249,9)	(238,3)	(175,6)
Recoveries of loans previously written off	-	-	17,7	17,7	31,3
Off-balance sheet credit related facilities	(2,5)	2,1	(1,9)	(2,3)	(1,2)
Total	**(17,1)**	**28,3**	**(234,1)**	**(222,9)**	**(145,5)**

1) *Valuation of impairment allowances on loans and advances in accordance with IFRS 9, based on the expected loss model. The portfolio measured at fair value through profit or loss was excluded due to its immaterial impact on the value of allowances.*
2) *Valuation of impairment allowances on loans in accordance with IAS 39, based on the incurred loss model.*

In Q1 2018, the loan impairment charge to the income statement of Bank Zachodni WBK Group was PLN 222.9m vs. PLN 145.5m in Q1 2017. SCB Group posted allowances of PLN 36.9m vs. PLN 31.9m a year ago.

The increase in impairment allowances on loans to the Group's customers reflects the difference in sales of credit receivables in both periods under review, isolated cases of deterioration of credit assessment of business customers and the change in approach to estimating impairment allowances on loans in complianace with IFRS 9 Financial Instruments.

In accordance with the guidelines for the above standard, on 1 January 2018 Bank Zachodni WBK Group replaced the impairment estimation model based on incurred losses with an expected loss model. The new approach results in earlier provisioning for credit losses as these are estimated after the initial recogniton of respective assets on the balance sheet (based on credit risk movements). It makes it possible to recognize credit lossess even if the probablity of such an event is relativly low. The model relies on estimations and assumptions for impairment measurement, including the identification of a significant increase in the credit risk of an exposure and the ensuing calculation of multi-year expected credit loss over the life of the respective instrument. The IFRS 9 application increases the impairment allowance and its volatility due to the use of current and forward looking information (including macroeconomic projections) in the estimation process.

In Q1 2018, Bank Zachodni WBK sold non-performing receivables of PLN 66.2m vs. PLN 356.6m in the corresponding period (including the principal amount of PLN 66.2m and PLN 337.2m, respectively), which contributed PLN 0.06m and PLN 81.9m to the profit before tax in both periods, respectively. Receivables sold included claims on business customers.

SCB sold the written-off portfolio of cash loans, instalment loans, credit cards and car loans of PLN 232.6m, which brought in a profit before tax of PLN 19.6m. Last year, SCB sold the credit portfolio of PLN 206.8m, generating a profit before tax of PLN 32m.

Bank Zachodni WBK Group's NPL ratio decreased considerably from 6.4% as at 31 March 2017 to 6.0% as at 31 March 2018. The cost of credit for Q1 2018 totalled 0.68% vs. 0.73% in Q1 2017.

Total costs

PLN m

Total costs of BZ WBK Group	Q1 2018	Q1 2017	YoY Change
Staff, general and administrative expenses, of which:	(862,5)	(763,7)	12,9%
- Staff expenses	(396,0)	(382,8)	3,4%
- General and administrative expenses	(466,5)	(380,9)	22,5%
Depreciation/amortisation	(82,5)	(74,3)	11,0%
Other operating expenses	(26,2)	(28,0)	-6,4%
Total costs	**(971,2)**	**(866,0)**	**12,1%**

The total costs of BZ WBK Group for Q1 2018 amounted to PLN 971.2m, and were 12.1% higher YoY, which is attributed mainly to contributions to BFG and costs of strategic development initiatives. Staff expenses increased by 3.4% YoY and depreciation and amortisation went up by 11.0% YoY due to the extension of IT infrastructure. Other operating expenses declined by 6.4% YoY, reflecting lower provisions for legal disputes.

Assuming a stable level of contributions to BFG on a YoY basis (i.e. adjusting the cost base for an annual increase of PLN 58.3m in contributions to BFG), total underlying costs increased by 5.4% YoY while general and administrive expenses went up by 7.2% YoY.

Along with the total cost base, the Group's cost to income ratio grew from 46.8% in Q1 2017 to 48.5% in Q1 2018. Excluding an increase in contributions to BFG from the current period, the total cost to income ratio improved on a YoY basis, reaching 45.6%.

Staff expenses

Staff expenses of Bank Zachodni WBK Group for Q1 2018 totalled PLN 396.0m and increased by 3.4% YoY. SCB Group's contribution to the above figure was PLN 62.7m and up 4.4% YoY.

The key staff expense line items, i.e. "Salaries and bonuses" and "Statutory deductions from salaries" increased by 3.5% YoY to PLN 384.2m in total as a result of higher amounts payable under the existing incentive programme, salary review in H2 2017 and costs connected with the optimisation of headcount (decrease in the number of FTEs of BZ WBK Group by 369 YoY to 14,330 as at the end of March 2018, including 2,673 FTEs in SCB Group).

General and administrative expenses

In Q1 2018, general and administrative expenses of Bank Zachodni WBK Group went up by 22.5% YoY to PLN 466.5m. Costs incurred by SCB Group totalled PLN 78.2m and were 19.0% higher YoY.

The growth was driven mainly by BZ WBK and SCB contributions to bank guarantee fund and bank resolution fund operated by BFG, which went up by PLN 58.3m YoY (from PLN 102.0m in Q1 2017 to PLN 160.3m in Q1 2018) and caused total fees payable to market regulators to rise by 55.6% YoY to PLN 163.6m.

Excluding an annual increase in BFG contributions, the total general and administrative expenses of the Group rose by 7.2% on account of:

- IT usage costs (+11.7% YoY) and consultancy and advisory fees (+41.7% YoY) connected with the project of acquisition of a demerged part of Deutsche Bank Polska;
- cost of other third party services (+73.4% YoY) resulting from document processing in accordance with the General Data Protection Regulation, modification of the system of settlements with ultimate parent and gradual relocation of the Business Support Centre in Wrocław to a new building;
- cost of repairs (+201.3% YoY) arising from the purchase of equipment for the new format branches and the new building of the Business Support Centre.

At the same time, the cost of marketing and entertainment went down due to lower number of promotional campaigns (-16.8% YoY), as did the cost of vehicles, transport and other services (-7.1% YoY) following the reduction of cash management services.

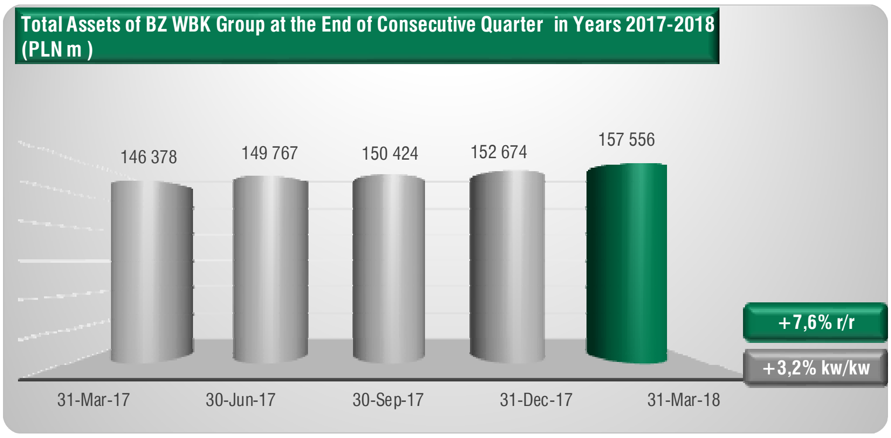
Effective tax rate

In Q1 2018, the effective tax rate was 25.3% vs. 28.8% in the corresponding period, due to lower loss on non-tax deductible debt sale.

Statement of Financial Position of Bank Zachodni WBK Group

Consolidated assets

As at 31 March 2018, the total assets of Bank Zachodni WBK Group were PLN 157,556.4m, an increase of 3.2% QoQ. The value and structure of the Group's financial position is determined by the parent entity, which accounts for 87.3% of the consolidated total assets vs. 87.0% as at the end of December 2017.



Structure of consolidated assets

PLN m

Assets of BZ WBK Group (condensed presentation for analytical purposes)	31.03.2018 (under IFRS 9)	Structure 31.03.2018	31.12.2017 (under IAS 39)	Structure 31.12.2017	31.03.2017 (under IAS 39)	Structure 31.03.2017	Ytd Change	YoY Change
	1	2	3	4	5	6	1/3	1/5
Loans and advances to customers 1)	109 077,8	69,2%	107 839,9	70,6%	104 018,2	71,1%	1,1%	4,9%
Investment financial assets 2)	29 001,0	18,4%	28 415,8	18,6%	26 500,8	18,1%	2,1%	9,4%
Financial assets held for trading and hedging derivatives	5 965,3	3,8%	3 634,1	2,4%	2 660,8	1,8%	64,1%	124,2%
Cash and operations with Central Banks	5 202,8	3,3%	4 146,2	2,7%	4 150,5	2,8%	25,5%	25,4%
Fixed assets, intangibles and goodwill	3 097,0	2,0%	3 133,1	2,1%	3 000,2	2,1%	-1,2%	3,2%
Loans and advances to banks	1 810,6	1,1%	2 136,5	1,4%	2 618,1	1,8%	-15,3%	-30,8%
Other assets 3)	3 401,9	2,2%	3 368,8	2,2%	3 429,7	2,3%	1,0%	-0,8%
Total	**157 556,4**	**100,0%**	**152 674,4**	**100,0%**	**146 378,3**	**100,0%**	**3,2%**	**7,6%**

1) *Net loans and advances to customers, as presented according to IFRS 9, contain portfolios measured at amortised cost and fair value, and take into account a different treatment of interest income and a new methodology for estimating allowances (based on expected credit losses)..*

2) *Investment financial assets, as presented according to IFRS 9, take into account a default valuation of equity instruments at fair value through profit or loss except for valuation of strategic investments from the portfolio of assets available for sale measured at fair value through other comprehensive income.*

3) *Other assets include the following items of the full version of financial statements: investments in associates, net deferred tax assets, assets classified as held for sale and other assets.*

In the above statement of financial position as at 31 March 2018, net loans and advances to customers were the key item of consolidated assets. They totalled PLN 109,077.8m, up 1.1% QoQ, mainly on account of credit delivery to retail customers. SCB Group contributed PLN 14,527.4m to this line (after intercompany and consolidation adjustments), up 1.4% compared with the end of 2017.

During Q1 2018, the aggregated line “Financial assets held for trading and hedging derivatives” increased significantly (+64.1% QoQ) along with expansion of the bonds portfolio. The value of investment financial assets increased by 2.1% QoQ due to the higher share of treasury bonds in the portfolio of debt securities and a reduced share of NBP bills. SCB Group contributed PLN 2,488.9m to this item, which is a decline of 4.6% YoY.

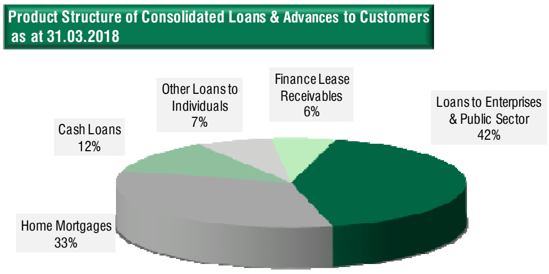
As part of the Group’s ongoing liquidity management, the balance of funds deposited with NBP was increased, which caused the cash and operations with central banks to rise by 25.5% QoQ, while the loans and advances to banks decreased by 15.3% QoQ driven by the volume of deposits and loans.

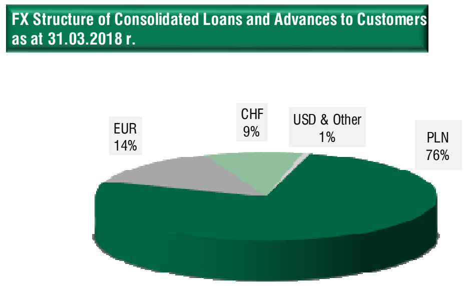
Credit portfolio of Bank Zachodni WBK Group

PLN m

Gross Loans and Advances to Customers of BZ WBK Group	31.03.2018 1) under IFRS 9	31.12.2017 under IAS 39	31.03.2017 under IAS 39	Ytd Change	YoY Change
	1	2	3	1/2	1/3
Loans and advances to individuals	59 094,0	57 822,4	55 996,6	2,2%	5,5%
Loans and advances to enterprises and public sector customers	48 215,5	48 005,2	46 450,6	0,4%	3,8%
Finance lease receivables	7 086,8	6 849,0	6 171,3	3,5%	14,8%
Other	9,7	9,4	215,3	3,2%	-95,5%
Total	**114 406,0**	**112 686,0**	**108 833,8**	**1,5%**	**5,1%**

1) Gross loans and advances to customers, as presented in accordance with IFRS 9, are not fully comparable with the previous periods as the balance now contains portfolios measured at fair value and reflects the effect of changes in the recognition of interest income.

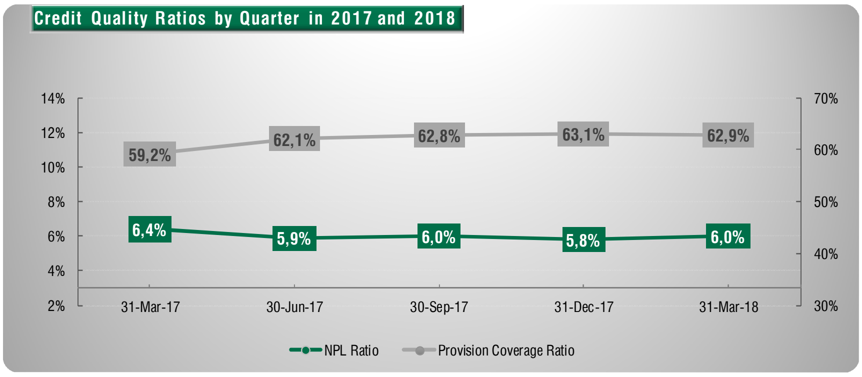




As at 31 March 2018, consolidated gross loans and advances to customers were PLN 114,406.0m and increased by 1.5% QoQ.

Loans and advances to individuals increased by 2.2% QoQ to PLN 59,094.0m as at 31 March 2018. Home loans, which represent the major portion of loans and advances to individuals, increased by 1.8% QoQ to PLN 37,974.3m, with home loans of Bank Zachodni WBK growing by 2.2% QoQ and SCB's mortgage portfolio decreasing by 2.1% QoQ. The second significant constituent item, i.e. cash loans, went up by 3.6% QoQ to PLN 13,527.3m.

Loans and advances to enterprises and public sector entities were PLN 48,215.5m, 0.4% higher QoQ, mainly driven by lending to SME and large corporate customers. Finance leases, which include the portfolios of BZ WBK Leasing, Santander Consumer Multirent and PSA Finance Polska, increased by 3.5% to PLN 7,086.8m on account of dynamic growth in the sales of machines and equipment and of vehicles. Loans granted by BZ WBK Leasing to finance machines and vehicles for business customers, which totalled PLN 2,084.0m as at 31 March 2018 (vs. PLN 2,027.7m as at 31 December 2017), are disclosed outside the lease portfolio, as loans and advances to enterprises.



As at 31 March 2018, non-performing (impaired) loans to customers accounted for 6% of the gross portfolio of Bank Zachodni WBK Group vs. 5.8% three months before and 6.4% twelve months before. The provision coverage ratio for impaired loans was 62.9% as at 31 March 2018 compared with 63.1% as at 31 December 2017 and 59.2% as at 31 March 2017.

Structure of consolidated equity and liabilities

PLN m

Liabilities & Equity of BZ WBK Group S.A. (condensed presentation for analytical purposes)	31.03.2018	Structure 31.03.2018	31.12.2017	Structure 31.12.2017	31.03.2017	Structure 31.03.2017	Ytd Change	YoY Change
	1	2	3	4	5	6	1/3	1/5
Deposits from customers	113 576,6	72,1%	111 481,1	73,0%	108 452,4	74,1%	1,9%	4,7%
Subordinated liabilities and debt securities in issue	6 665,6	4,2%	7 384,4	4,9%	6 315,6	4,3%	-9,7%	5,5%
Sell-buy-back transactions	5 378,7	3,4%	2 650,9	1,7%	1 529,2	1,1%	102,9%	251,7%
Deposits from banks	3 838,1	2,5%	2 783,1	1,8%	2 635,6	1,8%	37,9%	45,6%
Financial liabilities held for trading and hedging derivatives	1 597,2	1,0%	1 816,5	1,2%	3 127,4	2,1%	-12,1%	-48,9%
Other liabilities [1)]	2 734,6	1,7%	3 214,8	2,1%	2 626,7	1,8%	-14,9%	4,1%
Total equity	23 765,6	15,1%	23 343,6	15,3%	21 691,4	14,8%	1,8%	9,6%
Total	**157 556,4**	**100,0%**	**152 674,4**	**100,0%**	**146 378,3**	**100,0%**	**3,2%**	**7,6%**

1) *Other liabilities include current income tax, provisions for off-balance sheet liabilities subject to credit risk, other provisions and other liabilities.*

The total liabilities of consolidated statement of financial position of Bank Zachodni WBK Group as at 31 March 2018 show major movements in liabilities due to repo transactions (+102.9% QoQ) and deposits from banks (+37.9% QoQ). In turn, a downward trend was continued in financial liabilities held for trading and hedging derivatives, which fell 12.1% QoQ under the impact of derivative transactions (FX and interest rate swaps).

As the level of subordinated liabilities was stable, the total value of subordinated liabilities and debt securities in issue decreased by 9.7% QoQ as a result of:

- repurchase of securities on maturity at PLN 890m (including series F certificates of deposit of PLN 750m and SCB bonds of PLN 140m);
- issue of two series of bonds by Santander Consumer Bank for the total amount of PLN 160m as part of the debt securities issuance programme guaranteed by Santander Consumer Finance.

The contribution of SCB Group to this line item was PLN 3,975.7m, up 0.5% QoQ.

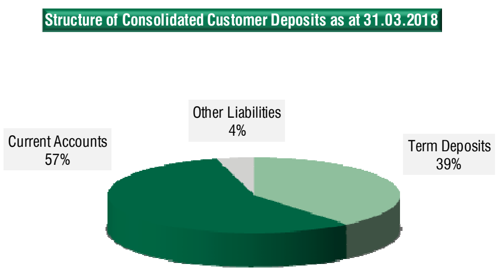
The total equity of Bank Zachodni WBK Group increased by 1.8% QoQ as the bank's profit generated in the current period and the whole profit for 2017 were retained in accordance with guidelines issued by the regulator. The retained profits and the revaluation reserve reflect the differences in the carrying amounts of financial assets and liabilities as at 1 January 2018 arising from adoption of IFRS 9, in the total amount of PLN -254.5m.

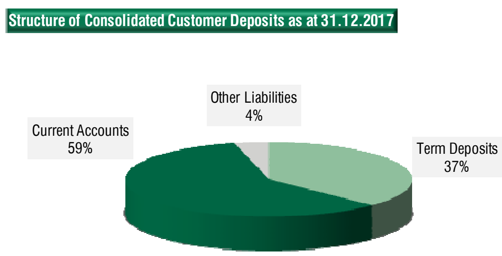
Deposit base of Bank Zachodni WBK Group

PLN m

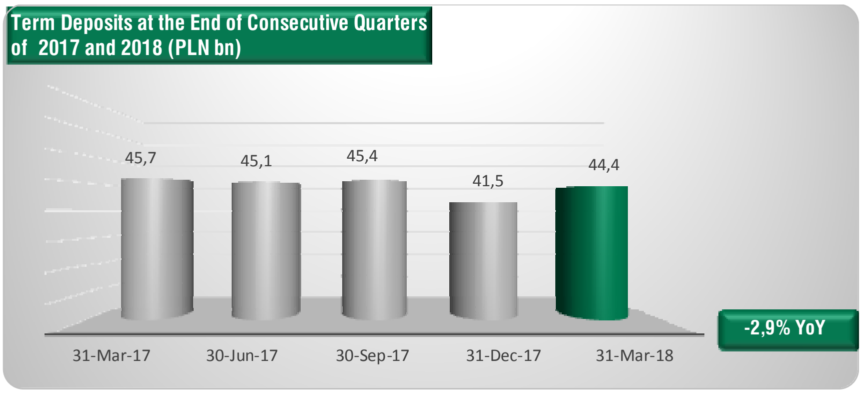
Deposits of BZ WBK Group from Customers	31.03.2018	31.12.2017	31.03.2017	Ytd Change	YoY Change
	1	2	3	1/2	1/3
Deposits from individuals	66 073,7	64 987,7	64 290,4	1,7%	2,8%
Deposits from enterprises and public sector customers	47 502,9	46 493,4	44 162,0	2,2%	7,6%
Total	**113 576,6**	**111 481,1**	**108 452,4**	**1,9%**	**4,7%**

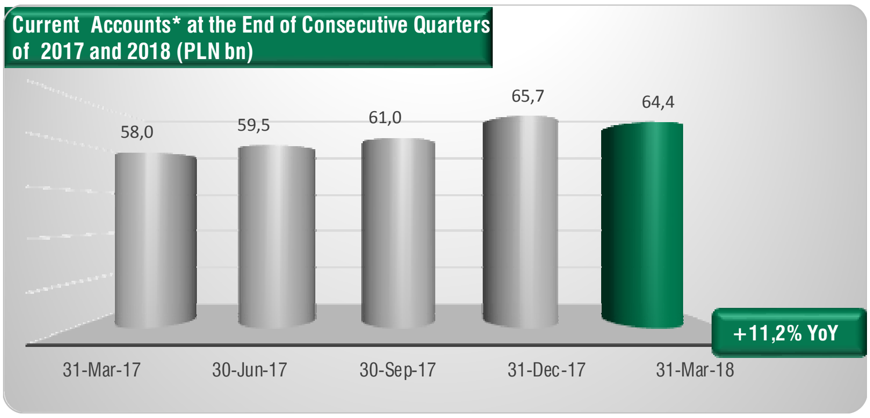
Consolidated deposits from customers increased by 1.9% QoQ to PLN 113,576.6m as at 31 March 2018, including PLN 8,119.3m relating to SCB Group after intercompany transactions (vs. PLN 8,148.6m as at the end of December 2017).





The Group's total term deposits from customers amounted to PLN 44,405.6m and increased by 7.0% QoQ. Current account balances decreased by 1.9% QoQ to PLN 64,442.8m, and other liabilities were PLN 4,728.2m, up 9.1% on 31 December 2017.





* *Including savings accounts*

The retail deposit base stood at PLN 66,073.7m, higher by 1.7% QoQ as a result of an increase in current account balances (+1.2% QoQ) and term deposits (+2.3% QoQ). During the first quarter, the acquisition of new money was supported by special deals on savings accounts, including the Max Savings Account (Konto Max Oszczędnościowe) and the Regular Savings Account (Konto Systematyczne) sold along with the Account As I Want It (Konto Jakie Chcę), as well as tools rewarding customer activity with a higher interest rate.

During the first three months of 2018, deposits from enterprises and the public sector increased by 2.2% QoQ to PLN 47,502.9m, driven by the growth of term deposits (+12.3% QoQ), which was higher than the fall in current account balances (-7.7% QoQ).

The largest constituent of other liabilities were loans and advances (PLN 3,736.0m vs. PLN 3,552.4m as at 31 December 2017), reported under deposits from enterprises which included loans granted by international financial organisations (the European Investment Bank, the European Bank for Reconstruction and Development and the Council of Europe Development Bank) to finance the bank's credit delivery and the lease business of the bank's subsidiaries. The increase in loans and advances result from loan of EUR 50m provided to BZ WBK Leasing by the European Bank for Reconstruction and Development.

Selected financial ratios of Bank Zachodni WBK Group

Selected Financial Ratios of BZ WBK Group	Q1 2018	Q1 2017
Total costs/Total income	48,5%	46,8%
Net interest income/Total income	69,4%	67,8%
Net interest margin [1)]	3,98%	3,74%
Net commission income/Total income	25,7%	25,7%
Customer net loans/Customer deposits	96,0%	95,9%
NPL ratio	6,0%	6,4%
NPL coverage ratio	62,9%	59,2%
Credit risk ratio [2)]	0,68%	0,73%
ROE [3)]	11,4%	11,5%
ROTE [4)]	13,4%	13,3%
ROA [5)]	1,4%	1,4%
Capital ratio [6)]	16,67%	15,67%
Tier I ratio [7)]	15,31%	14,70%
Book value per share (in PLN)	239,3	218,6
Earnings per share (in PLN) [8)]	4,4	4,6

1) *Annualised net interest income (excluding interest income from the portfolio of trading securities) to average net interest-bearing assets as at the beginning and end of the reporting period (excluding the trading portfolio).*
2) *Net impairment allowance (for four consecutive quarters) to average gross loans and advances to customers (as at the beginning and end of the reporting period).*
3) *Profit attributable to the parent's shareholders (for four consecutive quarters) to average equity (as at the beginning and end of the reporting period), net of non-controlling interests, current period profit, dividend declared/paid and undistributed portion of the profit.*
4) *Profit attributable to the parent's shareholders (for four consecutive quarters) to average tangible equity (as at the beginning and end of the reporting period) defined as common equity attributable to the parent's shareholders less revaluation reserve, current period profit, dividend declared/paid, undistributed portion of the profit, intangible assets and goodwill.*
5) *Profit attributable to the parent's shareholders (for four consecutive quarters) to average total assets (as at the beginning and end of the reporting period).*
6) *The capital adequacy ratio was calculated on the basis of own funds and the total capital requirements established for the individual risk types by means of the standardised approach, in line with the CRD IV/CRR package.*
7) *Tier I ratio is Tier I capital expressed as a percentage of risk weighted assets for credit, market and operational risk.*
8) *Profit for the period attributable to shareholders of the parent entity (excluding one-off items) divided by the number of ordinary shares.*

Capital ratios

The table below presents calculation of the total capital ratio and Tier I ratio of Bank Zachodni WBK Group as at 31 March 2018 and 31 March 2017.

	BZ WBK Group	31.03.2018	31.03.2017
I	Total capital requirement	9 660,8	8 940,9
II	Own funds after reductions	20 131,5	17 514,4
	Total Capital Ratio [II/(I*12.5)]	**16,67%**	**15,67%**
	Tier I Ratio	**15,31%**	**14,70%**

The table below presents the total capital ratio and Tier I ratio of Bank Zachodni WBK and Santander Consumer Bank as at 31 March 2018 and 31 March 2017.

BZ WBK Capital Ratios	31.03.2018	31.03.2017
Total Capital Ratio	18,94%	17,17%
Tier I Ratio	17,36%	16,15%

SCB Capital Ratios	31.03.2018	31.03.2017
Total Capital Ratio	16,52%	16,68%
Tier I Ratio	16,52%	16,68%

46. Factors which may affect future financial results of the bank and the capital group in the perspective of at least next quarter

The following external developments may have a significant impact on the financial performance and activity of Bank Zachodni WBK Group in the future:

- Stabilisation of economic growth in Poland at a relatively high level.
- Growth in real disposable income of households on account of the continued employment and wage growth.
- Further rise of labour market tension due to lack of qualified workforce and lower retirement age.
- Low financing costs for households and companies, which should stimulate the demand for bank loans. At the same time, low interest on deposits should encourage bank customers to seek alternative savings/investing options.
- Further developments in the global stock markets and their impact on demand for investment fund units or safe bank accounts.
- Changes in asset funding costs dependent on the pace and degree of changes in base interest rates, movements in PLN exchange rate, liquidity position of the banking sector and the degree of price competition between the banks seeking to attract customer deposits.
- A possible increase in volatility in financial markets in the event of a more negative outlook for global economic growth, growing concerns about potential monetary policy tightening by the Fed, geopolitical factors and trade wars.
- Possible changes in the ECB and Fed monetary policy.
- Effect of UK-EU negotiations about the “Brexit”.
- Fluctuations in commodity prices.
- Regulatory changes.

Signatures of the persons representing the entity			
Date	Name	Function	Signature
20.04.2018	Carlos Polaino Izquierdo	Member of the Management Board	
20.04.2018	Wojciech Skalski	Financial Accounting Area Director	