CONDENSED INTERIM FINANCIAL STATEMENT OF BANK ZACHODNI WBK S.A. FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

2018

Bank Zachodni WBK

Grupa Santander

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In thousands of PLN

Condensed income statement of Bank Zachodni WBK

for reporting period:		01.04.2018-30.06.2018	01.01.2018-30.06.2018	01.04.2017-30.06.2017	01.01.2017-30.06.2017
Interest income		1 235 224	2 436 562	1 172 708	2 298 498
Interest income on financial assets measured at amortised cost		1 040 307	2 083 306	-	-
Interest income on financial assets measured at fair value through other comprehensive income		162 774	314 750	-	-
Income similar to interest - financial assets measured at fair value through profit or loss		32 143	38 506	-	-
Interest expenses		(254 019)	(468 393)	(235 890)	(459 579)
Net interest income	Note 6	**981 205**	**1 968 169**	**936 818**	**1 838 919**
Fee and commission income		503 427	963 219	501 988	968 386
Fee and commission expenses		(94 335)	(160 858)	(71 957)	(137 038)
Net fee and commission income	Nota 7	**409 092**	**802 361**	**430 031**	**831 348**
Dividend income		490 891	491 070	271 266	271 606
Net gains/(losses) on subordinated entities		-	(65)	-	-
Net trading income and revaluation	Note 8	51 522	71 489	34 541	88 482
Gains (losses) from other financial securities	Note 9	7 572	8 077	8 896	23 915
Other operating income	Note 10	54 290	116 727	13 880	48 884
Impairment losses on loans and advances	Note 11	(139 836)	(320 484)	(106 052)	(210 043)
Operating expenses incl.:		(739 811)	(1 522 649)	(656 076)	(1 351 009)
Bank's staff, operating expenses and management costs	Note 12,13	(596 582)	(1 292 116)	(575 096)	(1 191 344)
Depreciation/amortisation		(67 262)	(137 563)	(68 029)	(132 684)
Other operating expenses	Note 14	(75 967)	(92 970)	(12 951)	(26 981)
Tax on financial institutions		(102 283)	(198 964)	(96 384)	(193 386)
Profit before tax		**1 012 642**	**1 415 731**	**836 920**	**1 348 716**
Corporate income tax	Note 15	(129 805)	(252 042)	(151 143)	(308 987)
Profit for the period		**882 837**	**1 163 689**	**685 777**	**1 039 729**
Net earnings per share (PLN/share)					
Basic earnings per share		8,14	11,71	6,91	10,48
Diluted earnings per share		8,13	11,70	6,90	10,47

Notes presented on pages 9 - 68 constitute an integral part of these financial statements.

In thousands of PLN

Condensed statement of comprehensive income of Bank Zachodni WBK

for reporting period:	01.04.2018-30.06.2018	01.01.2018-30.06.2018	01.04.2017-30.06.2017	01.01.2017-30.06.2017
Profit for the period	**882 837**	**1 163 689**	**685 777**	**1 039 729**
Other comprehensive income which can be transferred to the profit and loss account:	**(38 298)**	**98 011**	**137 644**	**251 769**
Available-for sale financial assets valuation, gross	-	-	176 015	334 294
Deferred tax	-	-	(33 443)	(63 516)
Cash flow hedges valuation, gross	32 867	22 309	(6 084)	(23 468)
Deferred tax	(6 245)	(4 239)	1 156	4 459
Debt securities measured at fair value through other comprehensive income	(80 148)	98 692	-	-
Deferred tax	15 228	(18 751)	-	-
Other comprehensive income which can't be transferred to the profit and loss account	**52 841**	**54 976**	**-**	**-**
Equity securities measured at fair value through other comprehensive income	51 665	54 216	-	-
Deferred tax	(9 816)	(10 301)	-	-
Profit on sale of equity securities measured at fair value through other comprehensive income	-	86	-	-
Current tax	(14)	(31)	-	-
Provision for retirement allowances – actuarial gains/losses, gross	13 588	13 588	-	-
Deferred tax	(2 582)	(2 582)	-	-
Other comprehensive income for the period, net of income tax	**14 543**	**152 987**	**137 644**	**251 769**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**897 380**	**1 316 676**	**823 421**	**1 291 498**

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In thousands of PLN

Condensed statement of financial position of Bank Zachodni WBK

	as at:	30.06.2018	31.12.2017
ASSETS			
Cash and balances with central banks	Note 16	4 628 487	4 114 801
Loans and advances to banks	Note 17	1 630 756	2 012 118
Financial assets held for trading	Note 18	6 093 283	3 421 547
Hedging derivatives	Note 19	62 114	146 724
Loans and advances to customers incl.:	Note 20	95 928 701	90 537 003
- measured at amortised cost		94 850 590	-
- measured at fair value through profit or loss		1 078 111	-
Buy-sell-back transactions		60 756	-
Financial assets available for sale	Note 21	-	25 784 029
Investment securities incl.:		32 049 672	-
- debt securities measured at fair value through other comprehensive income		31 115 505	-
- equity securities measured at fair value through other comprehensive income		934 167	-
Investments in subsidiaries and associates	Note 22	2 376 937	2 377 037
Intangible assets		458 422	459 976
Goodwill		1 688 516	1 688 516
Property, plant and equipment		793 348	821 532
Net deferred tax assets		771 849	709 867
Assets classified as held for sale	Note 23	12 702	8
Other assets		1 055 015	790 110
Total assets		**147 610 558**	**132 863 268**
LIABILITIES AND EQUITY			
Deposits from banks	Note 24	1 646 744	1 414 448
Hedging derivatives	Note 19	943 673	578 798
Financial liabilities held for trading	Note 18	1 260 526	1 263 859
Deposits from customers	Note 25	112 142 543	102 155 522
Sell-buy-back transactions		4 282 455	1 479 667
Subordinated liabilities	Note 26	2 565 314	1 488 602
Debt securities in issue	Note 27	1 001 950	1 240 244
Current income tax liabilities		60 782	61 143
Provisions for off balance sheet credit facilities	Note 28	40 597	25 384
Other provisions	Note 29	106 203	57 216
Other liabilities	Note 30	1 938 375	2 259 548
Total liabilities		**125 989 162**	**112 024 431**
Equity			
Share capital		993 335	993 335
Other reserve capital		17 140 576	16 176 183
Revaluation reserve		850 896	712 303
Retained earnings		1 472 900	1 040 860
Profit for the current period		1 163 689	1 916 156
Total equity		**21 621 396**	**20 838 837**
Total liabilities and equity		**147 610 558**	**132 863 268**

Notes presented on pages 9 - 68 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
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)
Balance as at 01.01.2018 (restated)	**993 335**	**16 176 183**	**697 964**	**2 738 550**	**20 606 032**
Coverage of negative impact of IFRS 9 implementation*	-	-	-	218 466	218 466
Total comprehensive income	-	-	152 987	1 163 689	1 316 676
Profit for the period	-	-	-	*1 163 689*	*1 163 689*
Other comprehensive income	-	-	*152 987*	-	*152 987*
Profit on sale of equity securities measured at fair value through other comprehensive income	-	-	(55)	55	-
Profit allocation to other reserve capital	-	958 078	-	(958 078)	-
Profit allocation to dividends	-	-	-	(307 627)	(307 627)
Profit allocation to cover negative impact of IFRS 9 implementation*	-	-	-	(218 466)	(218 466)
Share scheme charge	-	6 315	-	-	6 315
As at 30.06.2018	**993 335**	**17 140 576**	**850 896**	**2 636 589**	**21 621 396**

*On 16.05.2018 General Meeting of Bank Zachodni WBK decided to allocate part of the retained earnings to cover the negative impact of the implementation of IFRS 9.

As at the end of the period revaluation reserve in the amount of PLN 850,896 k comprises of debt securities and equity shares classified as available for sale of PLN 317,215 k and PLN 595,711 k respectively and additionally cash flow hedge activities of PLN (73,359) k and accumulated actuarial gains - provision for retirement allowances of PLN 11,329 k.

Statement of changes in equity	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total
Balance as at 31.12.2016	**992 345**	**15 132 993**	**281 754**	**2 622 428**	**19 029 520**
Total comprehensive income	-	-	251 769	1 039 729	1 291 498
Profit for the period	-	-	-	*1 039 729*	*1 039 729*
Other comprehensive income	-	-	*251 769*	-	*251 769*
Profit allocation to other reserve capital	-	1 045 702	-	(1 045 702)	-
Profit allocation to dividends	-	-	-	(535 866)	(535 866)
As at 30.06.2017	**992 345**	**16 178 695**	**533 523**	**2 080 589**	**19 785 152**

As at the end of the period revaluation reserve in the amount of PLN 533,523 k comprises of debt securities and equity shares classified as available for sale of PLN 116,279 k and PLN 540,009 k respectively and additionally cash flow hedge activities of PLN (130,591) k and accumulated actuarial gains - provision for retirement allowances of PLN 7,826 k.

Notes presented on pages 9 - 68 constitute an integral part of these financial statements.

In thousands of PLN

Condensed statement of cash flows of Bank Zachodni WBK

for reporting period:	01.01.2018-30.06.2018	01.01.2017-30.06.2017
Profit before tax	**1 415 731**	**1 348 716**
Total adjustments:		
Depreciation/amortisation	137 563	132 684
Profit from investing activities	(49 433)	(26 237)
	1 503 861	**1 455 163**
Changes in:		
Provisions	64 200	(6 348)
Trading portfolio financial instruments	(2 675 069)	(3 432 577)
Hedging derivatives	449 485	(783 659)
Loans and advances to banks	(99 183)	142
Loans and advances to customers	(5 391 698)	(1 939 610)
Deposits from banks	441 756	4 140
Deposits from customers	9 718 285	(2 823 166)
Buy-sell/ Sell-buy-back transactions	2 802 729	2 803 224
Other assets and liabilities	(694 863)	(409 406)
	4 615 642	**(6 587 260)**
Interest accrued excluded from operating activities	(266 228)	(284 303)
Dividend	(491 044)	(271 445)
Paid income tax	(295 680)	(193 697)
Net cash flows from operating activities	**5 066 551**	**(5 881 542)**
Inflows	**1 507 998**	**2 074 627**
Sale of investments in subsidiaries	35	-
Sale/maturity of financial assets available for sale	-	1 803 768
Sale/maturity of investment securities	990 612	-
Sale of intangible assets and property, plant and equipment	53 561	1 161
Dividend received	295 446	113 611
Interest received	168 344	156 087
Outflows	**(5 056 164)**	**(1 788 130)**
Purchase of financial assets available for sale	-	(1 733 054)
Purchase of investment securities	(4 925 848)	-
Purchase of intangible assets and property, plant and equipment	(130 316)	(55 076)
Net cash flows from investing activities	**(3 548 166)**	**286 497**
Inflows	**2 334 104**	**1 238 789**
Debt securities in issue	2 000 000	1 238 789
Drawing of loans	334 104	-
Outflows	**(1 859 127)**	**(1 380 518)**
Debt securities buy out	(1 235 000)	(285 000)
Repayment of loans	(275 104)	(525 841)
Dividends and other payments to shareholders	(307 627)	(535 866)
Interest paid	(41 396)	(33 811)
Net cash flows from financing activities	**474 977**	**(141 729)**
Total net cash flows	**1 993 362**	**(5 736 774)**
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	**9 499 389**	**5 817 781**

Notes presented on pages 9 - 68 constitute an integral part of these financial statements.

Additional notes to condensed interim 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.

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

Bank Zachodni WBK S.A. 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,
- distribution insurance services,
- trading in stock and shares of commercial companies,
- brokerage activity.

2. Basis of preparation of financial statement

In comparison with annual financial statement content of a condensed interim financial statement of Bank Zachodni WBK S.A. for the 6-month period ended 30 June 2018 is condensed, therefore it should be read in conjunction with the financial statement of Bank Zachodni WBK S.A. for the year 2017 and with the condensed interim consolidated financial statement of BZ WBK Group for the 6-month period ended 30 June 2018.

Financial statement of Bank Zachodni WBK S.A. for the year 2017 is available at the Bank's Zachodni WBK S.A. official website: www.bzwbk.pl

2.1. Statement of compliance

The condensed interim financial statement of Bank Zachodni WBK S.A. for the period of six months ended 30 June 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), Bank Zachodni WBK S.A. is required to publish the financial results for the six months ended 30 June 2018 which is deemed to be the current interim financial reporting period.

These unconsolidated financial statements have been approved for publication by Bank Zachodni WBK S.A. Management Board on 24.07.2018.

Unconsolidated financial statement of Bank Zachodni WBK S.A. is published on the same date as the consolidated report of the BZ WBK Group.

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 Bank Zachodni WBK S.A. which are not yet binding and which were not previously introduced

IFRS	Nature of changes	Effective from	Influence on Bank Zachodni WBK S.A.
Conceptual Framework for Financial Reporting	The IASB issued the Conceptual Framework in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows: • Chapter 1 – The objective of financial reporting • Chapter 2 – Qualitative characteristics of useful financial information • Chapter 3 – Financial statements and the reporting entity • Chapter 4 – The elements of financial statements • Chapter 5 – Recognition and derecognition • Chapter 6 – Measurement • Chapter 7 – Presentation and disclosure • Chapter 8 – Concepts of capital and capital maintenance The Conceptual Framework is accompanied by a Basis for Conclusions. The Board has also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the Conceptual Framework. In most cases, the standard references are updated to refer to the Conceptual Framework. There are exemptions in developing accounting policies for regulatory account balances for two standards, namely, IFRS 3 Business Combinations and for those applying IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.	Effective immediately for the IASB and the IFRS IC. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.	The amendment will not have a significant impact on financial statements.
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	Bank Zachodni WBK S.A. 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 below.
Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures *	The amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests. The Board also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures. To illustrate how entities apply the requirements in IAS 28 and IFRS 9 with respect to long-term interests, the Board also published an illustrative example when it issued the amendments.	1 January 2019	Bank Zachodni WBK S.A. is currently in the process of analysing the amendment of the Standard and the assessment of impact of the amendment

In thousands of PLN

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.
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.
2015-2017 Cycle	Following is a summary of the amendments from the 2015-2017 annual improvements cycle: **IFRS 3 Business Combinations** - Previously held Interests in a joint operation • The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. • In doing so, the acquirer remeasures its entire previously held interest in the joint operation. • An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. **IFRS 11 Joint Arrangements** - Previously held Interests in a joint operation • A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. • An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.	1 January 2019	The amendment will not have a significant impact on financial statements.

In thousands of PLN

2015-2017 Cycle	Following is a summary of the amendments from the 2015-2017 annual improvements cycle: **IAS 12 Income Taxes** - Income tax consequences of payments on financial instruments classified as equity • The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. • An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. **IAS 23 Borrowing Costs** - Borrowing costs eligible for capitalisation • The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. • An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. • An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.	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.

IFRS 16 Leases

Description of changes

The new standard presents the overall model for identification and accounting for leases in financial statements of lessors and lessees. It supersedes IAS 17 Leases and the related interpretations.

IFRS 16 adapts the control model for the identification of leases by differentiating between leases and service agreements depending on the existence of an asset controlled by the lessee.

Significant changes have been introduced to lessee accounting, e.g. the distinction between operating and finance lease is no longer applied. Assets and liabilities are recognised for all leases, except for short-term leases and leases of low-value assets.

IFRS 16 approach to lessor accounting is not substantially changed. Lessors continue to classify leases as operating or finance and recognise them as two different types of lease.

Status

The project assuming implementation of IFRS 16 in Bank Zachodni WBK S.A. was launched in the second half of 2017 and was divided into two stages:

- gap analysis and
- operational implementation of necessary changes identified in the first stage in internal documents, policies, internal procedures, accounting schemes and IT systems that allow to address the new standard requirements.

Bank Zachodni WBK S.A. is currently at the stage of finalizing the first stage of the implementation of IFRS 16 and is gradually introducing changes which address gaps identified.

The project involves representatives of departments responsible for accounting policy, property management, administration of contracts with suppliers, reporting, taxes and cost management. Supervision over the timely delivery of the project and its high quality is exercised by the member of the Management Board responsible for the Accounting and Financial Control Division.

Below is a description of the progress towards implementation of IFRS 16 in Bank Zachodni WBK S.A. vs. the end of 2017. In January–June 2018, Bank Zachodni WBK S.A. focused on:

- conducting procedures to ensure completeness of the list of assets held under a lease;
- analysing the lease term to be adopted for the measurement of the right-of-use asset and its corresponding financial liability, taking into account extension and termination options and the likelihood that the parties to the lease use those options;
- developing an approach to the calculation of the incremental borrowing rate;
- identifying the necessary changes in the existing processes, procedures, chart of accounts and contract registers maintained by Bank Zachodni WBK S.A.;
- developing and implementing an effective internal control environment to ensure appropriate differentiation between service contracts and lease contracts, including contracts that contain a lease component;

- analysing reporting requirements and provisions regulating capital adequacy assessment.

As part of the ongoing work, Bank Zachodni WBK S.A. carefully analysed the following contracts:

- Technological, IT, telecommunication contracts whereby a contractor provides Bank Zachodni WBK S.A. with specialist external services and, to ensure correct performance and high quality of the service, leaves its own property, plant and equipment with Bank Zachodni WBK S.A. Bank Zachodni WBK S.A. is now analysing whether or not, in the context of the contract and market practice, the rights to use the underlying assets have been conveyed to Bank Zachodni WBK S.A., and above all if Bank Zachodni WBK S.A. has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use (e.g. by having an exclusive right to use that asset throughout that period) and the right to control the use of the identified asset.
- Contracts containing a lease component and non-lease components, which predominantly applies to property lease contracts under which the rent and service charges have been, in some cases, expressed as lump sums, without distinguishing between lease and non-lease components.

Bank Zachodni WBK S.A. still expects to use the expedients available for first-time adopters, described in detail in the 2017 financial statements.

Impact of IFRS 16 on the assets and financial position of Bank Zachodni WBK S.A.

Bank Zachodni WBK S.A. expects that the application of the new standard will affect the recognition, presentation, measurement and disclosure of assets under operating lease and their corresponding liabilities in financial statements of Bank Zachodni WBK S.A. as a lessee.

The implementation of the new standard is not expected to have a significant impact on recognition of finance lease in the financial statements of Bank Zachodni WBK S.A.

In the light of the ongoing analyses, including analyses of completeness of the assets held under a lease, Bank Zachodni WBK S.A. does not present any expected impact of implementation of IFRS 16 on the assets and financial position of Bank Zachodni WBK S.A. However, Bank Zachodni WBK S.A. believes that the value of the operating lease payments disclosed in the 2017 financial statements has not changed materially over the first half of 2018 and is a reliable approximation of the expected impact of implementation of the standard.

In thousands of PLN

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 Bank Zachodni WBK S.A.
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 "Accounting policy"
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 "Accounting policy"

In thousands of PLN

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 "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

Condensed interim financial statement is presented in PLN, rounded to the nearest thousand.

The condensed intermin financial statements of Bank Zachodni WBK S.A. have been prepared in accordance with the International Accounting Standard 34 “Interim Financial Reporting” as adopted by the European Union.

Bank Zachodni WBK S.A. prepared the condensed intermin financial statements 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 (since 01.01.2018)	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	According to IFRS 2 "Share-based payment" requirements
Equity investment securities (since 01.01.2018)	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.

Bank Zachodni WBK S.A. applied the same accounting principles as in the preparation of the financial statement for the year ended 31.12.2017, excluding the changes resulting from the implementation of IFRS 9 "Financial Instruments" starting from 1.01.2018 and IFRS 15 "Revenue from contracts with customers" described later in the statement and income tax liability, which was calculated in accordance with the principles set out in IAS 34.30c. In accordance with the provision of paragraph 30c of IAS 34, the income tax charge is recognized in each interim period based on the best estimatation of the annual income tax rate that Bank Zachodni WBK S.A. expects in the whole financial year. If the estimated annual income tax rate changes, there is a need for the amounts included in the income tax charge in one interim period to be adjusted in the next interim period of the same financial year.

The standards applied to the preparation of the condensed interim financial statement are consistent with the standards used and described in the interim condensed consolidated financial statement of BZ WBK Group for the first half year 2018.

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.

Main estimates made by Bank Zachodni WBK S.A.

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 Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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. Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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 Corporate and Investment 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.

Bank Zachodni WBK S.A. 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.

Bank Zachodni WBK S.A. makes the method of recognizing expected losses dependent on the change in the level of risk that occurred since the exposure was recognized. Bank Zachodni WBK S.A., in reference to the standard, introduced three main stages for recognising expected credit losses:
- stage 1 – exposures with no significant increase in risk since initial recognition, i.e. the likelihood of the exposure being downgraded to the impaired portfolio (Stage 3 exposures) has not increased. For such exposures, 12-month expected credit losses is recognised.
- stage 2 – exposures with a significant increase in risk since initial recognition, but with no objective evidence of default. For such exposures, lifetime expected credit losses is recognised.
- stage 3 – exposures for which the risk of default has materialised. For such exposures, lifetime expected credit losses is recognised.

In addition, for exposures classified as POCI (purchased or originated credit impaired), expected losses are recognized over the remaining life time horizon.

Net impairment allowances on loans and advances are presented in Note 11.

Revenue from Contracts with Customers

IFRS 15 introduces the five-step revenue recognition model and its assumptions as well as the impact on revenue recognition method are described in part 2.7. "Accounting principles".

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 Bank Zachodni WBK S.A., 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 Bank Zachodni WBK S.A.'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 Bank Zachodni WBK S.A. or provide for the minimum level of remuneration during the term of the contract until a certain condition is met, thus entitling Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. combines these items with other promised goods or services until it identifies a bundle of goods or services that is distinct. Consequently, Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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).

Fair value of the financial instruments which do not meet the contractual cash flows test

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

Bank Zachodni WBK S.A. has developed a methodology for measuring the fair value of credit exposures and debt instruments which, as a result of non-fulfilment of the contractual cash flows test, on 1 January 2018 have been reclassified from the group of assets measured at amortised cost to the group of assets measured at fair value through profit or loss.

In the case of the instruments with distinguishable on-balance sheet and off-balance sheet components, the extent of fair value measurement will depend on the nature of the underlying exposure, and:

- the on-balance sheet portion will be measured at fair value;
- the off-balance sheet portion will be measured at fair value only if at least one of the following conditions is met:
  a) condition 1: the exposure has been designated as measured at fair value (option) or
  b) condition 2: the exposure may be settled net in cash or through another instrument or
  c) condition 3: Bank Zachodni WBK S.A. sells the obligation immediately after its sanction or
  d) condition 4: the obligation was sanctioned below the market conditions.

Bank Zachodni WBK S.A. measures fair value with the use of valuation techniques appropriate in the circumstances and for which sufficient data are available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Three widely used valuation techniques are:

- *market approach* – uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or a group of assets and liabilities (e.g. a business unit)
- *cost approach* – reflects the amount that would be required currently to replace the service capacity of an asset

- *income approach* – converts future amounts (cash flows or income and expenses) to a single current (discounted) amountWhen the income approach is used, the fair value measurement reflects the current market expectations as to the future amounts.

Bank Zachodni WBK S.A. uses the income approach for fair value measurement relating to financial instruments which do not meet contractual cash flows test.

The following arguments support the use of the income approach:

- no active market;
- the cost approach is not used in the case of financial assets (it usually applies to property, plant and equipment and property investments).

In the case of credit exposures and debt instruments, the present value method within income approach is typically used. In this method, the expected future cash flows are estimated and discounted using a relevant interest rate. In the case of the present value method, Bank Zachodni WBK S.A. uses the following elements in the valuation:

- expectations as to the future cash flows;
- expectations as to potential changes in cash flow amounts and timing (uncertainties are inherent in cash flow estimates);
- the time value of money, estimated using risk-free market rates;
- the price of uncertainty risk inherent in cash flows (risk premium) and
- other factors that market participants would take into account in the circumstances.

The present value measurement approach used by Bank Zachodni WBK S.A. is based on the following key assumptions:

- cash flows and discount rates reflect the assumptions that market participants would adopt in the measurement of an asset;
- cash flows and discount rates reflect only the factors allocated to the subject to measurement;
- discount rates reflect the assumptions which are in line with the cash flow assumptions;
- discount rates are consistent with the key economic factors relating to the currency in which the cash flows are denominated.

The fair value determination methodology developed by Bank Zachodni WBK S.A. provides for adaptation of the fair value measurement model to the characteristics of the financial asset subject to measurement. When determining the need for adaptation of the model to the features of the asset subject to measurement, Bank Zachodni WBK S.A. takes into account the following factors:

- approach to the measurement (individual/ collective) given the characteristics of the instrument subject to measurement;
- whether the asset is impaired;
- whether a schedule of payments is available;
- whether the asset subject to measurement is still offered by Bank Zachodni WBK S.A. and whether the products recently provided to customers can be a reference group for that asset.

The fair value measurement models are reviewed periodically.

Changes in judgements and estimates

In 2018, the scope of data covered by estimates changed in comparison with Bank Zachodni WBK S.A. financial statements for 2017, due to:

- obligatory assessment of business model, introduced under IFRS 9 Financial Instruments (previously not required under IAS 39 Financial Instruments: Recognition and Measurement), and a change in approach to estimating losses on the credit exposures measured at amortised cost or at fair value through other comprehensive income and introduction of the mandatory rule that financial assets which do not meet the contractual cash flow test are measured at fair value through profit or loss, 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.

2.6. Evaluations that may significantly affect the amounts recognized in the financial statement

When applying the accounting principles, the management of Bank Zachodni WBK S.A., in addition to assessments that require estimates, makes various subjective assessments that may significantly affect the amounts recognized in financial statements.

Assessment whether contractual cash flows are solely payments of principal and interest

The key issue for Bank Zachodni WBK S.A. business, is to assess whether the contractual terms related to financial assets component indicate the existence of certain cash flow dates, which are only the repayment of the nominal value and interest on the outstanding nominal value.

For the purposes of this assessment, 'principal' is defined as the fair vaule of the financial asset on initial recognition and 'interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, Bank Zachodni WBK S.A. considers the contractual terms of the instrument. This includes assessing whether the financial assets contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment Bank Zachodni WBK S.A. considers:

- contingent events that would change the amount and timing of cash flows,
- leverage features,
- prepayment and extension terms,
- terms that limit Bank Zachodni WBK S.A. claim to cash flows from specified assets (e.g. non-recourse asset arrangements)
- features that modify consideration for the time value of money.

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

In the process of applying Bank Zachodni WBK S.A. 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.

Whereas contractual terms related to a financial asset indicate that there are specific cash flow terms that are not solely payments of principal and interest on the principal outstanding due to the existence in the construction of interest rate increasing the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest. Therefore, the portfolios of financial assets containing the leverage in interest rate construction were reclassified from portfolio measured at amortized cost to portfolio measured at fair value through profit or loss.

Business Model Assessment

Business models at Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. management regarding a particular instrument, which is why the model is assessed at a higher level of aggregation.

The business model refers to how Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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.

Bank Zachodni WBK S.A. expects that such changes will take place rarely. They are determined by Bank Zachodni WBK S.A. senior management as a result of external or internal changes and must be significant to Bank Zachodni WBK S.A. operations and demonstrable to external parties.

2.7. Accounting principles

The accounting principles applied by Bank Zachodni WBK S.A. until the end of 2017 remain relevant and are available in the annual report for 2017.

Except for the changes presented below, Bank Zachodni WBK S.A. applied the accounting policies consistently both to the period presented in the financial statement and to the comparable period.

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

Bank Zachodni WBK S.A. applied new accounting principles regarding the classification and measurement of financial instruments in the preparation of the condensed financial statements of Bank Zachodni WBK S.A. for the period ended 30.06.2018.

IFRS 9 Financial Instruments was published by the International Accounting Standards Board on 24.07.2014 and approved by virtue of the Commission Regulation (EU) 2016/2067 of 22.11.2016 for application in the EU member states. The standard applies to financial statements for annual reporting periods beginning on or after 1.01.2018, except for insurers which may apply the standard starting from 1.01.2021. 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

Bank Zachodni WBK S.A. 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. As a result of the analysis, changes in the classification and measurement of financial assets were made and 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

Standalone financial statement's line for 2017 Financial assets	Measurement category - IAS 39	Carrying amount	Measurement category - IFRS 9	Carrying amount
Cash and balances with central banks	Amortized cost (loans and advances)	4 114 801	Amortized cost	4 114 801
Loans and advances to banks	Amortized cost (loans and advances)	2 012 118	Amortized cost	2 012 118
Financial assets held for trading	Fair value through profit and loss	3 421 547	Fair value through profit and loss	3 421 547
Hedging derivatives	Hegde accounting	146 724	Hegde accounting	146 724
Loans and advances to customers	Amortized cost (loans and advances)	90 412 680	Amortized cost	90 184 397
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	24 889 479	Wartość godziwa przez inne dochody całkowite	24 889 479
Financial asstes available for sale - Equity instruments	Fair value through other comprehensive income	846 404	Fair value through other comprehensive income - option	846 404
Financial asstes available for sale - Equity instruments	Historical cost	48 146	Fair value through other comprehensive income - option	32 428
Other assets	Amortized cost (loans and advances)	790 110	Amortized cost	790 110
TOTAL		**126 806 332**		**126 543 409**

The table above presents changes in the classification and measurement of financial assets as at the effective date of IFRS 9 without considering the reclassification of the credit card portfolio made in the second quarter of 2018 described in the section "Comparability with the results of previous periods".

The comparison of the category of valuation and the carrying amount of liabilities as at 1.01.2018 is as follows:

Standalone financial statement's line for 2017 Liabilities	Measurement category	Carrying amount	Measurement category	Carrying amount
Deposits from banks	Amortized cost	1 414 448	Amortized cost	1 414 448
Hedging derivatives	Hegde accounting	578 798	Hegde accounting	578 798
Financial liabilities held for trading	Fair value through profit and loss	1 263 859	Fair value through profit and loss	1 263 859
Deposits from customers	Amortized cost	102 155 522	Amortized cost	102 155 522
Sell-buy-back transactions	Amortized cost	1 479 667	Amortized cost	1 479 667
Subordinated liabilities	Amortized cost	1 488 602	Amortized cost	1 488 602
Debt securities in issue	Amortized cost	1 240 244	Amortized cost	1 240 244
Provisions for off-balance sheet credit facilities	IAS 37	25 384	IFRS 9	49 873
Other liabilities	Amortized cost	2 259 548	Amortized cost	2 259 548
RAZEM		**111 906 072**		**111 930 561**

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 1.01.2018, is presented below.

In thousands of PLN

The table below presents the impact of IFRS 9 implementation on financial assets as at 1.01.2018:

No.	Reference to change description	Item	Carrying amount 01.01.2018 before amendments	Change of presentation method	Valuation update		Carrying amount 01.01.2018 after amendments
					Classification and measurement	Impairment	
		Financial assets measured at amortised cost					
1		***Loans and advances to customers***					
		Closing balance	90 537 003	-	-	-	-
	Adjustment 1	ECL allowance	-	-	-	(199 978)	-
	Adjustment 2	Change of recognition of interest income	-	-	-	(28 306)	-
	Adjustment 3	Presentation adjustment – adjustment to impairment interest	-	-	26 565	(26 565)	-
	Adjustment 4	Reclassification to the category of financial assets measured at fair value through profit or loss	-	(124 323)	-	-	-
		Closing balance after amendments	-	-	-	-	90 184 396
		Financial assets measured at amortised cost – TOTAL					**90 184 396**
		Financial assets measured at fair value through other comprehensive income					
2		***Financial assets available for sale***					
		Closing balance	25 784 029	-	-	-	-
	Adjustment 6	Reclassification to the category of debt investment financial assets measured at fair value through other comprehensive income	-	(24 889 479)	-	-	-
	Adjustment 6	Reclassification to the category of equity investment financial assets measured at fair value through other comprehensive income	-	(894 550)	-	-	-
		Reclassification to the category of equity investment financial assets measured at fair value through profit or loss	-	-	-	-	-
		Closing balance after amendments	-	-	-	-	-
3		***Investment securities, including:***					
		Closing balance					
		– debt investment financial assets measured at fair value through other comprehensive income	-	24 889 479	-	-	-
		– equity investment financial assets measured at fair value through other comprehensive income – option	-	846 404	-	-	-
	Adjustment 5	– equity investment financial assets measured at fair value through other comprehensive income – option	-	48 146	(17 702)	1 984	-
		Closing balance after amendments					25 768 311
		Financial assets measured at fair value through other comprehensive income – TOTAL					**25 768 311**
		Financial assets measured at fair value through profit or loss					
4		***Loans and advances to customers***					
		Closing balance	-	-	-	-	-
	Adjustment 1 and 4	Reclassification from the category of financial assets measured at amortised cost	-	124 323	(80 729)	61 807	-
		Closing balance after amendments	-	-	-	-	105 401
		Financial assets measured at fair value through profit or loss – TOTAL					**105 401**
		Deferred tax assets, net					
		Deferred tax assets, net					
		Closing balance	709 867	-	-	-	-
		Valuation update	-	-	18 702	35 906	-
		Closing balance after amendments	-	-	-	-	-
		Deferred tax assets, net – TOTAL					764 475
		TOTAL ASSETS	**117 030 899**	**-**	**(53 164)**	**(155 152)**	**116 822 583**

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

In thousands

The table below presents the impact of IFRS 9 implementation on liabilities as at 1.01.2018:

No.	Reference to change description	Item	Carrying amount 01.01.2018 before amendments	Change of presentation method	Valuation update: Classification and measurement	Valuation update: Impairment	Carrying amount 01.01.2018 after amendments
		Equity					
1		**Revaluation reserve**					
	Adjustment 7	Closing balance	712 303	-	-	-	-
		Impact of implementing IFRS 9 – gross	-	-	(17 702)	-	-
		Impact of implementing IFRS 9 – deferred tax	-	-	3 363	-	-
		Closing balance after amendments	-	-	-	-	697 964
2		**Retained earnings**					
	Adjustment 7	Closing balance	1 040 860	-	-	-	-
		Impact of implementing IFRS 9 – gross	-	-	(80 729)	(188 982)	-
		Impact of implementing IFRS 9 – deferred tax	-	-	15 339	35 906	-
		Closing balance after amendments	-	-	-	-	822 394
		Equity – TOTAL					**1 520 358**
		Provisions					
3		***Provisions***					
	Adjustment 1	Closing balance	25 384	-	-	-	-
		Reclassification to “Provisions for off-balance sheet liabilities subject to credit risk”	-	(25 384)	-	-	-
		Closing balance after amendments	-	-	-	-	-
		Provisions – TOTAL					**-**
		Provisions for off-balance sheet liabilities subject to credit risk					
4		***Provisions for off-balance sheet liabilities subject to credit risk***					
	Adjustment 1	Closing balance	-	-	-	-	-
		Reclassification from “Provisions”	-	25 384	-	-	-
		Valuation update	-	-	-	24 489	49 873
		Closing balance after amendments	-	-	-	-	-
		Provisions for off-balance sheet liabilities subject to credit risk – TOTAL					**49 873**
		TOTAL LIABILITIES AND EQUITY	**1 778 547**	**-**	**(79 729)**	**(128 587)**	**1 570 231**

The value of other liablilities and equity components presented in the 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 financial statements for 2017, Bank Zachodni WBK S.A. 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 (28,306) 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: Bank Zachodni WBK S.A. 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 items "Loans and advances to customers".

Changes in the classification and measurement of financial assets presented in the tables above result from following reasons.

- Adjustment 1: Allowances for expected credit losses (ECL). The total value of additional impairment charges recognised in retained earnings for previous years is PLN 162,660 k, without the deferred tax effect, of which PLN 199,978 k relates to balance sheet items, PLN 24,489 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.
- Adjustment 2: Change in interest revenue 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 1.01.2018 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, Bank Zachodni WBK S.A. recognised an interest income adjustment of PLN (28,306) k without deferred tax effect.
- Adjustment 3: changes in the presentation of the impairment interest adjustment for stage 3. Until the end of 2017 Bank Zachodni WBK S.A. treated the impairment interest adjustment as the element of exposure's gross carrying amount. Bank Zachodni WBK S.A. 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.
- Adjustment 4: reclassification of financial instruments that do not meet the contractual cash flow test to the category of financial assets at fair value through profit or loss.

Bank Zachodni WBK S.A. identified in assets' portfolio financial instruments:

  – containing profit sharing clauses which are not compliant with contractual cash flow test criteria. The indicated clauses were identified in some tranches of debt financial instruments entitling Bank Zachodni WBK S.A. 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 through profit or loss. The adjustment to the fair-value measurement has been set at PLN (64 726) k, without the deferred tax effect.
  – whose contractual cash flows are not payments of principal and interest due to the interest rate construction. This applies to debt instrument 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 Bank Zachodni WBK S.A. 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,

- Adjustment 5: equity instruments' valuation at fair value. IFRS 9 significantly limited the ability to measure non-listed equity instruments classified as available for sale 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, Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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 (17,702) k and amount of reversed impairment charges at PLN 1,984 k, without the deferred tax effect.

In thousands of PLN

- Adjustment 6: as the category of financial assets available for sale has been removed and replaced with the category of investment financial assets, Bank Zachodni WBK S.A. reclassified debt instruments and equity instruments available for sale to the category of investment financial assets. This was merely a presentation change with not impact on the balance sheet total.
- Adjustment 7: impact of IFRS 9 adoption on the equity of Bank Zachodni WBK S.A. As at 1.01.2018, the total value of the impact of IFRS 9 implementation PLN (287,413) k, and the deferred tax effect in the form of deferred net tax asset increase PLN 54,608 k decreased the balance of retained earnings and revaluation reserve by the amount of PLN (232,805) k.

Additionally, the specification of the impact of individual titles on equity items is presented below:

No.	Equity item	Value as at 01/01/2018 before IFRS 9 implementation	Gross impact	Deferred tax impact	Value taking into account the impact of implementing IFRS 9
	Revaluation reserve				
	Revaluation reserve as at 1 January 2018 before IFRS 9 implementation	**712 303**	**-**	**-**	**-**
1	Reclassification of available-for-sale equity instruments measured at fair value through other comprehensive income – the effect of remeasuring to fair value	-	(17 702)	3 363	697 964
	Value as at 1 January 2018 taking into account the impact of implementing IFRS 9 – TOTAL	**-**	**-**	**-**	**697 964**
	Retained earnings				
	Retained earning as at 1 January 2018 before IFRS 9 implementation	**1 040 860**	**-**	**-**	**-**
1	Recognition of ECL allowances on financial assets and off-balance sheet liabilities subject to credit risk	-	(199 978)	37 996	-
2	Making a fair value adjustment for financial assets reclassified from the category of financial assets measured at amortised cost to the category of assets obligatorily measured at fair value through profit or loss	-	(80 729)	15 339	-
3	Reversal of allowances for financial assets reclassified from the category of financial assets measured at amortised cost to the category of assets obligatorily measured at fair value through profit or loss	-	61 807	(11 743)	-
4	Reclassification of available-for-sale equity instruments measured at fair value through other comprehensive income – reversal of impairment allowances for shares in other entities	-	1 984	(377)	-
5	Change in the presentation of interest income for the stage 1 and stage 2 exposures which had IBNR allowance calculated until the end of 2017	-	(28 306)	5 378	-
6	Recognition of ECL allowances on off-balance sheet liabilities subject to credit risk	-	(24 489)	4 653	-
	Retained earnings taking into account the impact of implementing IFRS 9 – TOTAL	**-**	**-**	**-**	**822 394**
	Impact of implementing IFRS 9 on the BZ WBK Group's equity – TOTAL	**-**	**(287 413)**	**54 608**	**(232 805)**

In the second quarter of 2018, Bank Zachodni WBK S.A. reclassified the portfolio of credit cards agreements that were signed with customers prior to 1.08.2016 and whose contractual structure of interest rate was based on four times the NBP Lombard rate and the contractual clauses did not include a direct reference to the Civil Code in terms of the maximum statutory interest through which the interest income was recognised. The description of the reclassification is included in the part "Comparability with the results from the previous periods".

As at 1.01.2018 Bank Zachodni WBK S.A. has not identified any financial assets which it would intend to designate 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. Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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 1.01.2018 taking into account the reclassification of the credit card portfolio described in the part " Comparability with the results from the previous periods".

Measurement category	Loss allowance under IAS 39/Provisions IAS 37	Reclassification	Remeasurement	Change in presentation in interest impaired adjustment	ECL impairment charge reversal due to credit cards reclassification	Loss allowance under IFRS 9
	Loans and receivables (IAS 39)/Financial assets at amortized cost (IFRS 9)					
Loans and advances from customers	3 032 126	(61 807)	199 978	26 565	(36 291)	3 160 571
Loans and receivables (IAS 39)/Financial assets at amortized cost (IFRS 9) - TOTAL	**3 032 126**	**(61 807)**	**199 978**	**26 565**	**(36 291)**	**3 160 571**
	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)	25 384	-	24 489	-	-	49 873
Provisions (MSR 37)/Loss allowance for expected credit losses (IFRS 9) - TOTAL	**25 384**	**-**	**24 489**	**-**	**-**	**49 873**
TOTAL	**3 057 510**	**(61 807)**	**224 467**	**26 565**	**(36 291)**	**3 210 444**

The application of the new guidelines in accordance with IFRS 9 contributed to the increase in impairment losses in Bank Zachodni WBK S.A. The total value of additional impairment charges recognised in retained earnings for previous years is PLN 162,660 k, without the deferred tax effect, of which PLN 199,978 k relates to balance sheet items, PLN 24,489 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.

The balance sheet value of allowances for expected credit losses has changed, in comparison to previous periods, due to the reclassification of credit cards and reversal of allowances for expected credit losses.

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 1.01.2018. 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, reporting entity 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 reporting entity 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.
- Reporting entity should decide whether to apply those transitional arrangements and inform the KNF accordingly.
- During the transitional period, Reporting entity 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.
- Reporting entities 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

In thousands of PLN

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, Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A.

Below, Bank Zachodni WBK S.A. has disclosed own funds, capital ratios, as well as the leverage ratio, both including and excluding application of transitional solutions stemming from Article 473a of Regulation (EU) No 575/2013:

	Available capital (amounts)	06.2018
1	Common Equity Tier 1 (CET1) capital	17 805 665
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17 667 980
3	Tier 1 capital	17 805 665
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17 667 980
5	Total capital	20 363 193
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	20 225 507
	Risk-weighted assets (amounts)	
7	Total risk-weighted assets	99 453 358
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	99 343 381
	Capital ratios	
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	17,90%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17,78%
11	Tier 1 (as a percentage of risk exposure amount)	17,90%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17,78%
13	Total capital (as a percentage of risk exposure amount)	20,48%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	20,36%
	Leverage ratio	
15	Leverage ratio total exposure measure	157 162 318
16	Leverage ratio	11,33%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	11,25%

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers was published on 28.05.2014 by the International Accounting Standards Board and applies to annual reporting periods beginning on or after 1.01.2018.

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 1.01.2018, 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.

As part of the analysis of the impact of IFRS 15 on Bank Zachodni WBK S.A., the following types of revenues have been identified, which in principle should be recognized in accordance with IFRS 15:

- commission income excluding revenues for issuing guarantees and sureties,
- income due to advisory services,
- income from the sale of fixed operating assets taken over for debts, which are presented together with the cost of fixed assets as a profit on sales in the line "Other operating income",
- loyalty programs,
- so called "success fee" - where success fee agreements are understood by Bank Zachodni WBK S.A. as agreements where Bank Zachodni WBK S.A. has no guaranteed remuneration or when it is insignificant during the lifetime of the agreement until a condition is fulfilled (for example in the form of finalization of a contractually agreed transactions), when Bank Zachodni WBK S.A. receives a remuneration of a significant value covering the effort put into the performance of the agreements in a longer, preceding time,
- income from asset management and
- income from the sale of insurance products showing a connection with financial instruments to an extent not covered by separate standards.

For the purpose of analyzing the impact of the implementation of IFRS 15, Bank Zachodni WBK S.A. took the advantage of the practical application of the portfolio approach to the analysis of contracts with clients under paragraph 4 of IFRS 15. This was due to the reasonable expectations of Bank Zachodni WBK S.A. that the impact on the financial statements, in connection with the standard application in the portfolio will not significantly differ from the standard applied in relation to individual contracts (or performance obligations) within this portfolio. Bank Zachodni WBK S.A. applied the portfolio approach in the majority of the identified revenue categories indicated above.

Bank Zachodni WBK S.A. applied the modified retrospective method referred to in paragraph C3 point b) of IFRS 15, reflecting the potential effect of the first application of IFRS 15 as an adjustment to retained earnings in the annual reporting period starting from January 1, 2018. As part of this interim method, Bank Zachodni WBK S.A. applied IFRS 15 retrospectively only to contracts that are not terminated as at the day of first application.

The implementation of IFRS 15 does not have significant impact on the financial standing and equity of Bank Zachodni WBK S.A. because revenue derived from financial instruments offered by Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A.

In thousands of PLN

Bank Zachodni WBK S.A. 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 1.01.2018.

As at 30.06.2018, Bank Zachodni WBK S.A. completed the analysis of the credit card portfolio, in terms of the portfolio passing the contractual cash flow test. The analysis resulted in a change in the classification and measurement of selected credit card portfolios due to implementation of IFRS 9. The change concerned credit cards sold by 1.08.2016 whose contractual structure of interest rate was based on four times the NBP Lombard rate and the contractual clauses did not include a direct reference to the Civil Code in terms of the maximum statutory interest through which the interest income was recognised. The above mentioned credit card portfolio was measured at fair value and classified in the statement of financial position as "loans and advances to customers measured at fair value through profit or loss". The interest income from such instruments is presented in "interest-like income from assets measured at fair value through profit or loss". Bank Zachodni WBK S.A. ceased to recognise impairment allowances on such portfolio and the assessment of credit risk for such products is now an integral part of the measurement at fair value.

Value of the credit card portfolio as at 1.01.2018:

Carrying amount - gross	Losses for expected credit losses	Carrying amount - net	Fair value	Difference between carrying amount net and fair value
1 063 207	36 291	1 026 916	1 030 118	3 202

Given the analysis underway, as at 31.03.2018, Bank Zachodni WBK S.A. continued to measure the discussed financial assets portfolio at amortised cost. Below is the restated financial information presented in the condensed financial statements for the period ended 31.03.2018, regarding the positions affected by the change, as if the change of classification and measurement of credit cards had been applied in the preceding reporting period.

The table below presents selected restated positions of the income statement:

Line subject to amendment	Value as at 31.03.2018 before amendment	Reclassification	Fair value meaurement as at 1.01.2018	Expected credit losses reversal as at 1.01.2018	Fair value measurement as at 31.03.2018	Value as at 31.03.2018 after amendment
Net trading income and revaluation	19 967	-	3 202		(5 363)	17 806
Impairment losses on loans and advances	(180 648)	-		6 133		(174 515)

Below are selected restated positions of statement of financial position:

Line subject to amendment	Value as at 31.03.2018 before amendment	Reclassification	Fair value meaurement as at 1.01.2018	Expected credit losses reversal as at 1.01.2018	Fair value measurement as at 31.03.2018	Value as at 31.03.2018 after amendment
Loans and advances to customers measured at amortised cost	91 342 682	(969 193)	-	-	-	90 373 489
Loans and advances to customers measured at fair value through profit or loss	106 400	969 193	3 202	6 133	(5 363)	1 079 565
Retained earnings	2 738 619					2 738 619
Profit for the current period	280 852		3 202	6 133	(5 363)	284 824

In view of the decision to change the classification and measurement of selected credit card portfolios after the implementation of IFRS 9, as at 1.01.2018, the Management Board of Bank Zachodni WBK S.A., following the materiality principle, recognised the amount resulting from the change in the classification and measurement of the above financial assets portfolio in profit for the current period rather than retained earnings. In the opinion of the Management Board, the above simplification does not significantly affect fair presentation of the financial position of Bank Zachodni WBK S.A.

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

Changes to accounting principles

Financial assets and liabilities

Recognition and derecognition

Initial recognition

Bank Zachodni WBK S.A. 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

Bank Zachodni WBK S.A. derecognises a financial asset when and only when, if:

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

Bank Zachodni WBK S.A. transfers a financial asset when and only when, if:

- Bank Zachodni WBK S.A. transfers contractual rights to the cash flows from that financial asset, or
- Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. treats the transaction as a transfer of a financial asset if, and only if, all of the following three conditions are met:

- Bank Zachodni WBK S.A. has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset,
- Bank Zachodni WBK S.A. 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,
- Bank Zachodni WBK S.A. has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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;
- Bank Zachodni WBK S.A. transfers substantially all the risks and rewards of ownership, then it shall continue to recognise the financial asset;
- Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. Bank Zachodni WBK S.A. 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. Bank Zachodni WBK S.A. 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.

Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. derecognises a part of financial asset (or a group of similar financial assets).

Derecognition of financial liabilities

Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. repurchases a part of a financial liability, Bank Zachodni WBK S.A. 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

Classification of financial assets which are not equity instruments

Unless Bank Zachodni WBK S.A. has made a prior decision to measure a financial asset at fair value through profit or loss, the Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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.

Bank Zachodni WBK S.A. 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.

Classification of financial assets which are equity instruments

The financial asset that is an equity instrument, Bank Zachodni WBK S.A. measures at fair value through the profit or loss, unless Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. key management regarding a particular instrument.

The business model refers to how Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. does not reasonably expect to occur, such as so-called "worst case" or "stress case" scenarios.

Bank Zachodni WBK S.A. 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. Bank Zachodni WBK S.A. uses judgement when it assesses its business model for managing financial assets and that assessment is not determined by a single factor or activity. Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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,

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

c) 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.

d) 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.

e) if the analysed asset portfolio has been designated as a portfolio held for trading.

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, Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A.:

- 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).

Presented below are characteristics of all business models, with an indication of the financial instruments assigned to each.

A business model whose objective is to hold assets in order to collect contractual cash flows.

Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. That is, Bank Zachodni WBK S.A. manages the assets held within the portfolio to collect those particular contractual cash flows (instead of managing the overall return on the portfolio by both holding and selling assets). In determining whether cash flows are going to be realised by collecting the financial assets' contractual cash flows, it is necessary to consider the frequency, value and timing of sales in prior periods, the reasons for those sales and expectations about future sales activity. However, sales in themselves do not determine the business model and therefore cannot be considered in isolation. Instead, information about past sales and expectations about future sales provide evidence related to how Bank Zachodni WBK S.A. stated objective for managing the financial assets is achieved and, specifically, how cash flows are realised. Bank Zachodni WBK S.A. each time considers information about past sales within the context of the reasons for those sales and the conditions that existed at that time as compared to current conditions. Although the objective of the business model may be to hold financial assets in order to collect contractual cash flows, Bank Zachodni WBK S.A. needs not hold all of those instruments until maturity. Thus, Bank Zachodni WBK S.A. business model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur or are expected to occur in the future.

A business model whose objective is to hold assets in order to collect contractual cash flows spans the entire spectrum of credit activity, including but not limited to mortgage and consumer loans, credit cards, loans granted and debt instruments (e.g. treasury bonds, corporate bonds), which are not held for liquidity management purposes. Financial assets on account of trading settlements are substantially also recognised under this model. Such assets are recognised in the books of Bank Zachodni WBK S.A. on the basis of an invoice issued payable within maximum 12 months.

A business model whose objective is achieved by both collecting contractual cash flows and selling financial assets

Bank Zachodni WBK S.A. may hold financial assets in a business model whose objective is achieved both by collecting contractual cash flows and by selling financial assets. In this type of business model, the key management personnel of Bank Zachodni WBK S.A. decided that both collecting contractual cash flows and selling financial assets are integral to achieving the business model's objective. There are various objectives that may be consistent with this type of business model. For example, the objective of the business model may be to manage everyday liquidity needs, to maintain a particular interest yield profile or to match the duration of the financial assets to the duration of the liabilities that those assets are funding. To achieve such an objective, Bank Zachodni WBK S.A. will both collect contractual cash flows and sell financial assets.

Compared to a business model whose objective is to hold financial assets to collect contractual cash flows, this business model will typically involve greater frequency and value of sales. This is because selling financial assets is integral to achieving the business model's objective instead of being only incidental to it. However, there is no specific frequency or sales value threshold that must be achieved in this business model as collecting contractual cash flows and selling financial assets are both integral to achieving the model's objective.

A business model whose objective is achieved by both collecting contractual cash flows and selling financial assets includes:

- financial assets acquired for the purpose of liquidity management, such as State Treasury bonds or NBP bonds;
- loans covered by the underwriting process, i.e. transactions whereby Bank Zachodni WBK S.A. undertakes to ensure financing with a planned promise to reduce the exposure of Bank Zachodni WBK S.A. within an agreed period, and;
- cash and cash equivalents.

Other/ residual business model

Financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. A business model that results in measurement at fair value through profit or loss is one in which Bank Zachodni WBK S.A. manages the financial assets with the objective of realising cash flows through the sale of the assets. Bank Zachodni WBK S.A. makes decisions based on the assets' fair values and manages the assets to realise those fair values. In this case, Bank Zachodni WBK S.A. objective will typically result in active buying and selling. Even though Bank Zachodni WBK S.A. will collect contractual cash flows while it holds the financial assets, the objective of such a business model is not achieved by both collecting contractual cash flows and selling financial assets. This is because the collection of contractual cash flows is not integral to achieving the business model's objective; instead, it is incidental to it.

A portfolio of financial assets that is managed and whose performance is evaluated on a fair value basis is neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. Bank Zachodni WBK S.A. is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. In addition, a portfolio of financial assets that meets the definition of held for trading is not held to collect contractual cash flows or held both to collect contractual cash flows and to sell financial assets. For such portfolios, the collection of contractual cash flows is only incidental to achieving the business model's objective. Consequently, such portfolios of financial assets must be measured at fair value through profit or loss.

Another, residual, model is used for classifying assets held by Bank Zachodni WBK S.A. but not covered by the first or second category of the business model. They include assets from the "held for trading" category in the financial statements, such as listed equity instruments, commercial bonds acquired for trading purposes and derivatives (e.g. options, IRS, FRA, CIRS, FX Swap contracts) which are not embedded derivatives.

The business model whose objective is to hold assets in order to collect contractual cash flows is the most frequent business model in Bank Zachodni WBK S.A. except in the case of:

- debt instruments measured at fair value through other comprehensive income that are maintained in the ALM segment and credits and loans covered by underwriting process described above; 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 bonds and derivative instruments which are not subject to hedge accounting; those instruments are covered by the other/ residual business model.

Changing the business model

Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. as a result of external or internal changes and must be significant to Bank Zachodni WBK S.A. operations and demonstrable to external parties. Accordingly, a change in the business model of Bank Zachodni WBK S.A. will occur only when Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. with different business models.

If Bank Zachodni WBK S.A. reclassifies a financial asset, it applies the reclassification prospectively from the reclassification date.

If Bank Zachodni WBK S.A. 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

Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. has designated that financial asset to be measured at fair value through profit or loss.

For this purpose, Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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.

Classification of financial liabilities

Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. (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, Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. are repaid after satisfaction of claims of all other Bank Zachodni WBK S.A. creditors. Financial liabilities are classified as subordinated liabilities by the decision of the Polish Financial Supervision Authority issued at the request of Bank Zachodni WBK S.A.

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, Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. applies the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

In subsequent reporting periods, Bank Zachodni WBK S.A. 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.

Gross carrying amount of a financial asset is the amortised cost of a financial asset, before adjusting for any loss allowance and without taking into account the value of penalty interest calculated on the overdue principal.

Modification of contractual cash flows

The concept of modification

Renegotiation or modification of the cash flows arising from the contract related to the financial assets component is recognized as the modification by Bank Zachodni WBK S.A.

If the terms of the financial asset agreement change, Bank Zachodni WBK S.A. assesses whether the cash flows generated by the modified asset differ significantly from cash flows generated by financial asset before modification of the terms of the asset agreement.

Modification criteria

When assessing whether a modification is substantial or minor, Bank Zachodni WBK S.A. takes into account both quantitative and qualitative criteria. Both criteria groups are each time analyzed together.

Quantitative criteria

To determine the significance of the impact of modifications, the so-called "10% test" is carried out which is based on a comparison of discounted cash flows of the modified financial instrument (using the original effective interest rate) with discounted (also with the original effective interest rate) cash flows of the financial instrument before modification, whose value should correspond to the value of non-available capital, increased by the value of unsecured interest and adjusted for the amount of unsettled commission.

The "10% test" is not the only criterion in assessing whether a modification leads to the removal of a financial asset from the accounting books or not, because the modified asset is subject to further qualitative analysis.

Qualitative criteria

During the qualitative analysis, Bank Zachodni WBK S.A. takes into account the following aspects:
- adding / removing a feature that violates the contractual cash flow test result,
- currency conversion - except for currency conversions resulting from the transfer of the contract for collection,
- change of the main debtor - change of the contractor results in a significant modification of contractual terms (in accordance with IFRS 9: 3.2.3 (a) - termination of contractual rights to cash flows) and
- consolidation of several exposures into one under an annex.

Substantial modification

A substantial modification resulting in the exclusion of a financial instrument from the statement of financial position occurs when:
- cash flows of the modified financial instrument are "materially different" from the original financial instrument, i.e. when the difference between discounted cash flows of the modified financial instrument (using the original effective interest rate) and the discounted (also with the original effective interest rate), cash flows of the financial instrument before the modification, is higher than 10%,
- at least one of the quality criteria described above has been breached.

If the modification of a financial asset results in derecognition of the existing financial asset and recognition of the modified financial asset, the modified asset is considered as a "new" financial asset. The new asset is recognized at fair value and the new effective interest rate applied to the new asset is calculated.

Minor modification

If the value of the difference between the value of future cash flows resulting from the changed financial assets, discounted with the original effective interest rate and the value of future cash flows resulting from the primary financial asset discounted with the same interest rate is at most 10% Bank Zachodni WBK S.A. considers the modification as minor. The quantitative criterion does not apply to loans subject to the restructuring process (i.e. minor modification is recognized for assets covered by the restructuring process).

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, Bank Zachodni WBK S.A. 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

Bank Zachodni WBK S.A. 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.

Bank Zachodni WBK S.A. writes off financial assets if at least one of the following conditions apply:

- The irrecoverability of the debt has been documented;
- there are no reasonable expectations of recovering the financial asset in full or in part;
- the debt is due and payable in its entirety and the value of the credit loss allowance corresponds to the gross value of the exposure, while the expected debt recovery proceeds are nil;
- the asset originated as a result of a crime and the perpetrators have not been identified or
- Bank Zachodni WBK S.A. has received:
    1) a decision on discontinuation of debt enforcement proceedings due to irrecoverability of the debt (in relation to all obligors), issued by a relevant enforcement authority pursuant to Article 824 § 1 (3) of the Polish Code of Civil Procedure, which is recognised by the creditor (Bank Zachodni WBK S.A.) as corresponding to the facts; or
    2) a court decision:
        a) dismissing a bankruptcy petition, if the insolvent debtor's assets are insufficient to cover the cost of the proceedings or suffice to cover this cost only; or
        b) discontinuing the bankruptcy proceedings or
        c) closing the bankruptcy proceedings.

Financial assets written off are them recorded off balance sheet.

Impairment

General approach

Bank Zachodni WBK S.A. 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.

Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. measures the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.

Bank Zachodni WBK S.A. 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.

Bank Zachodni WBK S.A. 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 as part of impairment for expected credit losses.

Financial assets measured at amortised cost

At the end of each reporting period, Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A., or

ii. economic developments on the domestic or local market which translate into non-repayments to Bank Zachodni WBK S.A.

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.

Bank Zachodni WBK S.A. 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. Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A.

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 Bank Zachodni WBK S.A.

Simplified approach for trade receivables and contract assets

In the case of trade receivables and contract assets, Bank Zachodni WBK S.A. 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:

- do not contain a significant financing component (or when Bank Zachodni WBK S.A. applies the practical expedient for contracts that are one year or less) in accordance with IFRS 15; or

- contain a significant financing component in accordance with IFRS 15, if Bank Zachodni WBK S.A. chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses.

Identifying a significant increase in credit risk

At each reporting date, Bank Zachodni WBK S.A. assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. 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.

Bank Zachodni WBK S.A. 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 combined with the materiality threshold consistent with classification into stage 3.

Purchased or originated credit-impaired financial assets

Purchased or originated credit-impaired financial asset is a purchased or originated financial asset that is credit-impaired on initial recognition.

At the reporting date, Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. recognises in profit or loss the amount of the change in lifetime expected credit losses as an impairment gain or loss. Bank Zachodni WBK S.A. 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

Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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

Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. 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). Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. to receive payment of the dividend is established,
- it is probable that the economic benefits associated with the dividend will flow to Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. 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

Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A.

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

Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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).

Bank Zachodni WBK S.A. 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.

Bank Zachodni WBK S.A. uses derivative financial instruments to hedge its exposure to FX risk and interest rate risk arising from Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. chose to continue to apply the hedge accounting requirements and hedging relationships arising from IAS 39.

Intangible assets

Development costs

Bank Zachodni WBK S.A. from 1.01.2018 capitalises direct costs and a justified part of indirect costs related to the design, construction and testing of a chosen alternative for new or improved processes, systems or services.

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

- 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. Bank Zachodni WBK S.A. indicates separately the costs from internal development and the costs acquired through business combinations.

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

Net interest income

Bank Zachodni WBK S.A. presents the interest income recognised at the effective interest rate in separate lines of the income statement – “Interest income from financial assets measured at amortised cost” and “Interest income from assets measured at fair value through other comprehensive income”.

In turn, the interest income from financial assets which do not meet the contractual cash flows test is presented in line “Income similar to interest - financial assets measured at fair value through profit or loss”.

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. Bank Zachodni WBK S.A. 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.
- Bank Zachodni WBK S.A. can identify each party's rights regarding the assets.
- Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. are expected to change as a result of the contract).
- It is probable that Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. takes into account both combination and modification of contracts as this may affect the method of recognising revenue from contracts with customers.

Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. is dealing with separate performance obligations.

Factors that indicate that Bank Zachodni WBK S.A. promise to transfer an asset to a customer is separately identifiable include, but are not limited to, the following:

- Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. combines that asset with other promised assets until it identifies a bundle of assets that is distinct. In some cases, that would result in Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. reviews it as at each balance sheet date.

If the consideration promised in a contract includes a variable amount, Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A., the indicators of the transfer of control include the following:

- Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. retains legal title solely as protection against the customer's failure to pay, those rights of Bank Zachodni WBK S.A. do not preclude the customer from obtaining control of an asset.
- Bank Zachodni WBK S.A. 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 Bank Zachodni WBK S.A. 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, Bank Zachodni WBK S.A. 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.
- Bank Zachodni WBK S.A. creates or enhances an asset that the customer controls as it is created or enhanced.
- Bank Zachodni WBK S.A. 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.

In thousands of PLN

3. Operating Segments reporting

Data regarding the respective business segments are presented in the interim condensed consolidated financial statement of Bank Zachodni WBK Group for H1 2018.

4. Risk management

Information on risk management included in condensed interim consolidated financial statement of BZ WBK Group fully stand in for notes to this condensed interim financial statement.

5. Capital Management

Information on capital management included in condensed interim consolidated financial statement of BZ WBK Group fully stand in for notes to this condensed interim financial statement.

6. Net interest income

	01.04.2018-30.06.2018			
Interest income	**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	429 769	-	510	430 279
Loans and advances to individuals, of which:	538 720	-	37 282	576 002
Home mortgage loans	275 074	-	-	275 074
Debt securities incl.:	-	162 774	(5 649)	157 125
Investment securities	-	*162 774*	-	*162 774*
Trading portfolio	-	-	*(5 649)*	*(5 649)*
Loans and advances to banks	8 040	-	-	8 040
Public sector	1 935	-	-	1 935
Reverse repo transactions	15 780	-	-	15 780
Interest recorded on hedging IRS	46 063	-	-	46 063
Total	**1 040 307**	**162 774**	**32 143**	**1 235 224**
	01.04.2018-30.06.2018			
Interest expenses	**Interest expenses on financial liabilities measured at amortised cost**	**Interest expenses on financial liabilities measured at fair value trought other comprehensive income**	**Expenses similar to interest - financial liabilities measured at fair value trought profit or loss**	**Total**
Deposits from individuals	(110 888)	-	-	(110 888)
Deposits from enterprises	(82 482)	-	-	(82 482)
Repo transactions	(17 622)	-	-	(17 622)
Deposits from public sector	(15 309)	-	-	(15 309)
Deposits from banks	(1 921)	-	-	(1 921)
Subordinated liabilities and issue of securities	(25 797)	-	-	(25 797)
Total	**(254 019)**	**-**	**-**	**(254 019)**
Net interest income	**786 288**	**162 774**	**32 143**	**981 205**

In thousands of PLN

Interest income	01.01.2018-30.06.2018 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	846 636	-	1 011	847 647
Loans and advances to individuals, of which:	1 095 972	-	37 282	1 133 254
Home mortgage loans	537 288	-	-	537 288
Debt securities incl.:	-	314 750	213	314 963
Investment securities	-	*314 750*	-	*314 750*
Trading portfolio	-	-	*213*	*213*
Loans and advances to banks	15 373	-	-	15 373
Public sector	3 883	-	-	3 883
Reverse repo transactions	29 433	-	-	29 433
Interest recorded on hedging IRS	92 009	-	-	92 009
Total	**2 083 306**	**314 750**	**38 506**	**2 436 562**

Interest expenses	01.01.2018-30.06.2018 Interest expenses on financial liabilities measured at amortised cost	Interest expenses on financial liabilities measured at fair value trought other comprehensive income	Expenses similar to interest - financial liabilities measured at fair value trought profit or loss	Total
Deposits from individuals	(201 399)	-	-	(201 399)
Deposits from enterprises	(154 223)	-	-	(154 223)
Repo transactions	(34 948)	-	-	(34 948)
Deposits from public sector	(27 933)	-	-	(27 933)
Deposits from banks	(7 209)	-	-	(7 209)
Subordinated liabilities and issue of securities	(42 681)	-	-	(42 681)
Total	**(468 393)**	**-**	**-**	**(468 393)**
Net interest income	**1 614 913**	**314 750**	**38 506**	**1 968 169**

Interest income	01.04.2017-30.06.2017	01.01.2017-30.06.2017
Loans and advances to enterprises	419 028	813 671
Loans and advances to individuals, of which:	528 889	1 034 135
Home mortgage loans	241 551	471 788
Debt securities incl.:	149 575	298 059
Investment securities	140 184	285 767
Trading portfolio	9 391	12 292
Loans and advances to banks	15 240	29 497
Public sector	1 495	3 189
Reverse repo transactions	6 082	9 175
Interest recorded on hedging IRS	52 399	110 772
Total	**1 172 708**	**2 298 498**

Interest expenses	01.04.2017-30.06.2017	01.01.2017-30.06.2017
Deposits from individuals	(114 877)	(223 786)
Deposits from enterprises	(71 687)	(150 924)
Repo transactions	(12 658)	(18 404)
Deposits from public sector	(13 989)	(23 835)
Deposits from banks	(3 825)	(8 257)
Subordinated liabilities and issue of securities	(18 854)	(34 373)
Total	**(235 890)**	**(459 579)**
Net interest income	**936 818**	**1 838 919**

In thousands of PLN

7. Net fee and commission income

Fee and commission income	01.04.2018-30.06.2018	01.01.2018-30.06.2018	01.04.2017-30.06.2017	01.01.2017-30.06.2017
eBusiness & payments	170 606	317 781	145 508	284 183
Current accounts and money transfer	78 338	157 712	83 444	164 609
Asset management fees	-	-	935	1 882
Foreign exchange commissions	100 549	189 640	84 907	163 038
Credit commissions	74 080	137 891	60 379	115 855
Insurance commissions	16 394	34 052	19 640	34 934
Brokerage activities	19 073	37 206	22 679	44 757
Credit cards	20 249	41 827	22 094	43 488
Off-balance sheet guarantee commissions	15 015	31 161	12 271	25 510
Issue arrangement fees	3 252	6 310	7 808	8 817
Distribution fees	3 814	7 629	40 516	78 393
Other commissions	2 057	2 010	1 807	2 920
Total	**503 427**	**963 219**	**501 988**	**968 386**
Fee and commission expenses	**01.04.2018-30.06.2018**	**01.01.2018-30.06.2018**	**01.04.2017-30.06.2017**	**01.01.2017-30.06.2017**
eBusiness & payments	(66 627)	(111 774)	(45 361)	(89 230)
Brokerage activities	(2 388)	(5 119)	(2 739)	(5 911)
Credit cards	(3 987)	(7 424)	(3 562)	(6 874)
Credit commissions paid	(5 812)	(7 727)	(3 424)	(6 053)
Insurance commissions	(2 234)	(4 224)	(2 550)	(3 597)
Finance lease commissions	(30)	(67)	(36)	(63)
Other	(13 257)	(24 523)	(14 285)	(25 310)
Total	**(94 335)**	**(160 858)**	**(71 957)**	**(137 038)**
Net fee and commission income	**409 092**	**802 361**	**430 031**	**831 348**

8. Net trading income and revaluation

Wynik handlowy i rewaluacja	01.04.2018-30.06.2018	01.01.2018-30.06.2018	01.04.2017-30.06.2017	01.01.2017-30.06.2017
Pochodne instrumenty finansowe oraz walutowe operacje międzybankowe	44 662	62 926	27 841	68 509
Pozostałe handlowe dochody z transakcji walutowych	(6 460)	(2 149)	10 295	19 693
Operacje kapitałowymi instrumentami finansowymi	-	-	697	4 053
Operacje dłużnymi instrumentami finansowymi	-	-	(4 292)	(3 773)
Operacje kapitałowymi inwestycyjnymi aktywami finansowymi wycenianymi w wartości godziwej przez wynik finansowy	(18)	(3 020)	-	-
Operacje dłużnymi inwestycyjnymi aktywami finansowymi wycenianymi w wartości godziwej przez wynik finansowy	11 114	11 508	-	-
Zmiana wartości godziwej należności kredytowych obowiązkowo wycenianych w wartości godziwej przez wynik finansowy	2 224	2 224	-	-
Razem	**51 522**	**71 489**	**34 541**	**88 482**

Net trading income and revaluation includes the change of the value of derivative instruments in the amount of PLN 2,422 k for H1 2018, PLN 5,951 k for 2Q 2018 and PLN (10,783) k for H1 2017 and PLN (5,935) k for 2Q 2017.

The above amounts included CVA and DVA adjustments in the amount of PLN 2,857 k for H1 2018, PLN 5,944 k for 2Q 2018 and PLN (10,744) k for H1 2017 and (5,947) k for 2Q 2017.

In thousands of PLN

9. Gains (losses) from other financial securities

Gains (losses) from other financial securities	01.04.2018-30.06.2018	01.01.2018-30.06.2018	01.04.2017-30.06.2017	01.01.2017-30.06.2017
Profit on sale of equity shares available for sale	-	-	-	10 775
Profit on sale of debt securities available for sale	-	-	9 700	15 204
Profit on sale of debt securities measured at fair value through other comprehensive income	7 498	7 708	-	-
Total profit (losses) on financial instruments	**7 498**	**7 708**	**9 700**	**25 979**
Change in fair value of hedging instruments	6 939	(2 393)	2 898	5 687
Change in fair value of underlying hedged positions	(6 865)	2 762	(3 702)	(7 751)
Total profit (losses) on hedging and hedged instruments	**74**	**369**	**(804)**	**(2 064)**
Total	**7 572**	**8 077**	**8 896**	**23 915**

10. Other operating income

Other operating income	01.04.2018-30.06.2018	01.01.2018-30.06.2018	01.04.2017-30.06.2017	01.01.2017-30.06.2017
Income on sale of services	3 884	13 810	6 919	10 492
Reimbursements of BGF charges	-	-	-	433
Release of provision for legal cases and other assets	46 722	48 017	1 243	2 515
Settlements of leasing agreements	95	186	253	613
Recovery of other receivables	1 841	4 137	1 102	2 592
Profit on sales or liquidation of fixed assets, intangible assets and assets for disposal	(2 768)	41 677	648	505
Received compensations, penalties and fines	230	1 607	172	470
Other income from legal cases	-	-	31	24 162
Other	4 286	7 293	3 512	7 102
Total	**54 290**	**116 727**	**13 880**	**48 884**

11. Impairment losses on loans and advances

Impairment losses on loans and advances measured at amortised cost for reporting period: 01.04.2018 - 30.06.2018	Stage 1	Stage 2	Stage 3	Total
Charge for loans and advances to banks	(67)	-	-	(67)
Charge for loans and advances to customers	10 121	15 166	(166 366)	(141 079)
Recoveries of loans previously written off	-	-	(2 719)	(2 719)
Off-balance sheet credit related facilities	1 126	3 481	(578)	4 029
Total	**11 180**	**18 647**	**(169 663)**	**(139 836)**

Impairment losses on loans and advances measured at amortised cost for reporting period: 01.01.2018 - 30.06.2018	Stage 1	Stage 2	Stage 3	Total
Charge for loans and advances to banks	(67)	-	-	(67)
Charge for loans and advances to customers	(6 397)	35 274	(353 863)	(324 986)
Recoveries of loans previously written off	-	-	(5 118)	(5 118)
Off-balance sheet credit related facilities	4 994	6 260	(1 567)	9 687
Total	**(1 470)**	**41 534**	**(360 548)**	**(320 484)**

In thousands of PLN

Impairment losses on loans and advances	01.04.2017-30.06.2017	01.01.2017-30.06.2017
Collective and individual impairment charge	(88 583)	(183 666)
Incurred but not reported losses charge	(17 757)	(31 137)
Recoveries of loans previously written off	(95)	1 744
Off-balance sheet credit related facilities	383	3 016
Total	**(106 052)**	**(210 043)**

12. Employee costs

Employee costs	01.04.2018-30.06.2018	01.01.2018-30.06.2018	01.04.2017-30.06.2017	01.01.2017-30.06.2017
Salaries and bonuses	(270 612)	(530 804)	(255 958)	(508 104)
Salary related costs	(46 670)	(94 062)	(44 950)	(91 982)
Staff benefits costs	(6 875)	(13 461)	(7 385)	(13 705)
Professional trainings	(3 356)	(5 408)	(3 829)	(5 726)
Retirement fund, holiday provisions and other employee costs	16 485	15 891	(594)	(1 188)
Total	**(311 028)**	**(627 844)**	**(312 716)**	**(620 705)**

13. General and administrative expenses

General and administrative expenses	01.04.2018-30.06.2018	01.01.2018-30.06.2018	01.04.2017-30.06.2017	01.01.2017-30.06.2017
Maintenance and rentals of premises	(70 566)	(140 894)	(71 069)	(142 291)
Marketing and representation	(25 682)	(35 423)	(15 407)	(31 222)
IT systems costs	(64 549)	(110 719)	(39 831)	(80 360)
Cost of BFG, KNF and KDPW	(8 446)	(149 970)	(54 892)	(151 367)
Postal and telecommunication costs	(10 880)	(20 291)	(7 715)	(16 505)
Consulting fees	(18 256)	(33 161)	(9 230)	(19 201)
Cars, transport expenses, carriage of cash	(14 767)	(27 995)	(14 588)	(28 937)
Other external services	(30 626)	(61 458)	(15 736)	(32 067)
Stationery, cards, cheques etc.	(3 055)	(6 960)	(3 733)	(7 419)
Sundry taxes	(7 880)	(14 807)	(6 918)	(13 826)
Data transmission	(2 717)	(5 509)	(2 976)	(5 806)
KIR, SWIFT settlements	(7 436)	(13 701)	(5 695)	(12 604)
Security costs	(7 413)	(14 195)	(6 791)	(13 172)
Costs of repairs	(7 532)	(18 215)	(2 579)	(5 976)
Other	(5 749)	(10 974)	(5 220)	(9 886)
Total	**(285 554)**	**(664 272)**	**(262 380)**	**(570 639)**

14. Other operating expenses

Other operating expenses	01.04.2018-30.06.2018	01.01.2018-30.06.2018	01.04.2017-30.06.2017	01.01.2017-30.06.2017
Charge of provisions for legal cases and other assets	(68 140)	(75 803)	(3 070)	(11 973)
Costs of purchased services	(2 341)	(7 946)	(3 826)	(4 830)
Other memebership fees	(301)	(440)	(145)	(283)
Paid compensations, penalties and fines	(327)	(380)	(1 804)	(2 099)
Donations paid	(2 700)	(2 700)	(850)	(2 350)
Other	(2 158)	(5 701)	(3 256)	(5 446)
Total	**(75 967)**	**(92 970)**	**(12 951)**	**(26 981)**

In thousands of PLN

15. Corporate income tax

Corporate income tax	01.04.2018-30.06.2018	01.01.2018-30.06.2018	01.04.2017-30.06.2017	01.01.2017-30.06.2017
Current tax charge in the income statement	(178 307)	(297 571)	(182 057)	(193 076)
Deffered tax	48 502	43 246	30 914	(116 080)
Adjustments from previeus years	-	2 283	-	169
Total tax on gross profit	**(129 805)**	**(252 042)**	**(151 143)**	**(308 987)**
Current tax charge in the retained earnings (capital)	(14)	(31)	-	-
Total income tax expense	**(129 819)**	**(252 073)**	**(151 143)**	**(308 987)**

Corporate total tax charge information	01.04.2018-30.06.2018	01.01.2018-30.06.2018	01.04.2017-30.06.2017	01.01.2017-30.06.2017
Profit before tax	1 012 642	1 415 731	836 920	1 348 716
Tax rate	-	19%	19%	19%
Tax calculated at the tax rate	(192 402)	(268 989)	(159 015)	(256 256)
Non-tax-deductible expenses	(2 930)	(5 010)	(30 083)	224
The fee to the Bank Guarantee Fund	(1 032)	(27 350)	17 799	(27 698)
Tax on financial institutions	(19 434)	(37 803)	(18 313)	(36 743)
Sale of receivables	(11)	(45)	(15 051)	(35 237)
Non-taxable income (dividends)	93 231	93 231	51 511	51 511
Non-tax deductible bad debt provisions	(6 423)	(6 041)	1 766	(3 136)
Adjustment of prior year tax	-	2 283	-	169
Other	(804)	(2 318)	243	(1 821)
Total tax on gross profit	**(129 805)**	**(252 042)**	**(151 143)**	**(308 987)**
Sale of equity investments measured at fair value through other comprehensive income	(14)	(31)	-	-
Total income tax expense	**(129 819)**	**(252 073)**	**(151 143)**	**(308 987)**

Deferred tax recognised in other comprehensive income	30.06.2018	31.12.2017
Relating to equity securities available-for-sale	-	(132 797)
Relating to debt securities available-for-sale	-	(55 657)
Relating to valuation of debt investments measured at fair value through other comprehensive income	(74 409)	-
Relating to valuation of equity investments measured at fair value through other comprehensive income	(139 734)	-
Relating to cash flow hedging activity	17 207	21 446
Relating to valuation of defined benefit plans	(2 657)	(75)
Total	**(199 593)**	**(167 083)**

16. Cash and balances with central banks

Cash and balances with central banks	30.06.2018	31.12.2017
Cash	1 957 837	2 249 508
Current accounts in central banks	2 649 650	1 857 293
Term deposits	21 000	8 000
Total	**4 628 487**	**4 114 801**

BZ WBK holds an obligatory reserve on a current account in the National Bank of Poland. The figure is calculated at a fixed percentage of the monthly average balance of the customers deposits, which in all the covered periods was 3.5%.

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

In thousands of PLN

17. Loans and advances to banks

Loans and advances to banks	30.06.2018	31.12.2017
Loans and advances	113 448	851 061
Current accounts	1 517 375	1 161 057
Gross receivables	**1 630 823**	**2 012 118**
Allowance for impairment	(67)	-
Total	**1 630 756**	**2 012 118**

18. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading	30.06.2018 Assets	30.06.2018 Liabilities	31.12.2017 Assets	31.12.2017 Liabilities
Trading derivatives	**1 505 941**	**1 200 443**	**1 231 990**	**1 263 859**
Interest rate operations	384 208	257 656	312 783	276 635
Transactions on equity instruments	6 394	6 394	6 053	6 053
FX operations	1 115 339	936 393	913 154	981 171
Debt and equity securities	**4 587 342**	**-**	**2 189 557**	**-**
Debt securities	**4 561 625**	**-**	**2 174 096**	**-**
Government securities:	4 556 561	-	2 170 048	-
- bonds	4 556 561	-	2 170 048	-
Other securities:	5 064	-	4 048	-
- bonds	5 064	-	4 048	-
Equity securities	**25 717**	**-**	**15 461**	**-**
Short sale	**-**	**60 083**	**-**	**-**
Total financial assets/liabilities	**6 093 283**	**1 260 526**	**3 421 547**	**1 263 859**

Financial assets and liabilities held for trading - trading derivatives include the change in the value of counterparty risk in the amount of PLN 2,536 k as at 30.06.2018 and PLN (28) k as at 31.12.2017.

19. Hedging derivatives

Hedging derivatives	30.06.2018 Assets	30.06.2018 Liabilities	31.12.2017 Assets	31.12.2017 Liabilities
Derivatives hedging fair value	277	146 817	2 283	115 496
Derivatives hedging cash flow	61 837	796 856	144 441	463 302
Total hedging derivatives	**62 114**	**943 673**	**146 724**	**578 798**

As at 30.06.2018 Hedging derivatives - derivatives hedging cash flow include value adjustments day first profit or loss for start forward CIRS transactions in the amount of PLN (9,092) k and PLN (9,613) k as at 31.12.2017.

For the valuation of hedging transactions, Bank uses a valuation model classified to the level II of fair value, in which data used for valuation are based on observable market parameters (directly or indirectly). The Bank treats differences that arise in the initial valuation it as the Day 1 profit or loss and amortises it in time and indicates the valuation effect in the profit and loss account. Amortisation of adjustment to the valuation of day 1 is recognized in Net trading income and revaluation.

In thousands of PLN

20. Loans and advances to customers

Loans and advances to customers	30.06.2018 Measured at amortised cost	30.06.2018 Measured at fair value trought profit or loss	31.12.2017
Loans and advances to enterprises	51 915 635	191 053	49 011 673
Loans and advances to individuals, of which:	45 944 360	887 058	44 322 763
Home mortgage loans	*35 798 067*	-	*33 723 865*
Loans and advances to public sector	297 443	-	227 389
Other	11 047	-	7 304
Gross receivables	**98 168 485**	**1 078 111**	**93 569 129**
Allowance for impairment	(3 317 895)	-	(3 032 125)
Total	**94 850 590**	**1 078 111**	**90 537 004**

Movements on impairment losses on loans and advances to customers for reporting period 01.01.2018 - 30.06.2018	Movements on impairment losses on loans and advances measured at amortised cost: Stage 1	Stage 2	Stage 3	Total
Balance as at 31.12.2017	-	-	-	**(3 032 125)**
Impact of the implementation of IFRS 9	-	-	-	(164 737)
Balance as at 01.01.2018 (restated)	**(263 441)**	**(307 129)**	**(2 626 292)**	**(3 196 862)**
Charge/write back of current period	(6 397)	35 274	(353 863)	(324 986)
Write off/Sale of receivables	106	-	182 407	182 513
Transfer (incl. impairment charge reversal due to credit cards reclassification)	6 164	1 068	32 136	39 368
F/X differences	(1 646)	(2 446)	(13 836)	(17 928)
Balance at the end of the period	**(265 214)**	**(273 233)**	**(2 779 448)**	**(3 317 895)**

Movements on impairment losses on loans and advances to customers	30.06.2017
Individual and collective impairment	
Opening balance as at 31.12.2016	(2 740 861)
Charge/write back of current period	(183 665)
Write off/Sale of receivables	334 995
Transfer	(15 795)
F/X differences	16 530
Balance at the end of the period	**(2 588 796)**
IBNR	
Opening balance as at 31.12.2016	(341 566)
Charge/write back of current period	(31 139)
Sale of receivables	3 246
Transfer	1 204
F/X differences	4 451
Balance at the end of the period	**(363 804)**
Allowance for impairment	**(2 952 600)**

Purchased or originated credit-impaired financial assets

The portfolio of loans and advances to customers of Bank Zachodni WBK S.A. includes purchased or originated credit-impaired assets (POCI) which are recognised in stage 2 or 3, depending on the assessment of the credit risk level.

Bank Zachodni WBK S.A. recognises as POCI the assets obtained through business combinations as a result of which the entity taken over loses its organisational and legal independence, and the assets with impairment identified as at the moment of taking control over another business entity which does not lose its organisational and legal independence.

The POCI assets concern exclusively financial assets such as loans, borrowings and leasing receivables measured at amortised cost. On no reporting day were there POCI assets recognised as financial assets measured at fair value through other comprehensive income.

Financial assets recognised as POCI at initial recognition are treated as POCI in all subsequent periods until their derecognition from the statement of financial position.

As at the implementation of IFRS 9, Bank Zachodni WBK S.A. measured POCI assets at fair value, whereas in each subsequent reporting period, it recognises in profit or loss the amount of the change in lifetime expected credit losses as an impairment gain or loss. Bank Zachodni WBK S.A. 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 at initial recognition.

In thousands of PLN

The table below presents the value of the POCI assets by reporting periods:

No.	Reporting period	Gross value of POCI assets	Expected credit losses	Fair value of POCI assets	Net value of POCI assets at amortised cost
1	1 January 2018	795 311	492 417	302 895	-
2	31 March 2018	780 347	502 154	-	278 194
3	30 June 2018	759 946	482 520	-	277 426

21. Investment securities

Investment securities	30.06.2018
Debt securities measured at fair value through other comprehensive income	**31 115 505**
Government securities:	25 704 449
- bonds	25 704 449
Central Bank securities:	3 279 363
- bills	3 279 363
Other securities:	2 131 693
-bonds	2 131 693
Equity securities measured at fair value through other comprehensive income	**934 167**
- unlisted	934 167
Total	**32 049 672**

Financial assets available for sale	31.12.2017
Debt securities	**24 889 479**
Government securities:	21 419 899
- bonds	21 419 899
Central Bank securities:	1 379 839
- bills	1 379 839
Other securities:	2 089 741
-bonds	2 089 741
Equity securities	**894 550**
- unlisted	894 550
Total	**25 784 029**

Movements on investment securities	Debt securities measured at fair value through other comprehensive income	Equity securities measured at fair value through other comprehensive income	Total
Balance as at 31.12.2017	**24 889 479**	**894 550**	**25 784 029**
Impact of the implementation of IFRS 9	-	(15 718)	(15 718)
Balance as at 01.01.2018 (restated)	**24 889 479**	**878 832**	**25 768 311**
Additions	51 649 845	1 207	51 651 052
Disposals (sale and maturity)	(45 808 409)	(89)	(45 808 498)
Fair value adjustment	98 363	54 217	152 580
Movements on interest accrued	188 148	-	188 148
Allowances for impairment	-	-	-
F/X differences	98 079	-	98 079
As at 30.06.2018	**31 115 505**	**934 167**	**32 049 672**

In thousands of PLN

Movements on financial assets available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 01.01.2017	**25 467 070**	**855 291**	**26 322 361**
Additions	26 204 594	936	26 205 530
Disposals (sale and maturity)	(29 091 422)	(8 537)	(29 099 959)
Fair value adjustment	312 311	13 661	325 972
Movements on interest accrued	178 501	-	178 501
Allowances for impairment	-	-	-
F/X differences	(83 646)	-	(83 646)
As at 30.06.2017	**22 987 408**	**861 351**	**23 848 759**

22. Investments in subsidiaries and associates

Investments in subsidiaries and associates	30.06.2018	31.12.2017
Subsidiaries	2 340 331	2 340 431
Associates	36 606	36 606
Total	**2 376 937**	**2 377 037**

23. Assets classified as held for sale

Assets classified as held for sale	30.06.2018	31.12.2017
Land and buildings	12 698	8
Other fixed assets	4	-
Total	**12 702**	**8**

24. Deposits from banks

Deposits from banks	30.06.2018	31.12.2017
Term deposits	198 749	64 023
Loans from other banks	439 365	628 107
Current accounts	1 008 630	722 318
Total	**1 646 744**	**1 414 448**

Movements in loans received from banks	30.06.2018	30.06.2017
As at the beginning of the period	**628 107**	**664 188**
Increase (due to:)	**22 049**	**2 286**
- drawing of loans	-	-
- interest on loans	1 331	2 286
- FX differences and other	20 718	-
Decrease (due to):	**(210 791)**	**(30 048)**
- repayment of loans	(208 480)	-
- interest repayment	(2 311)	(2 061)
- FX differences and other	-	(27 987)
As at the end of the period	**439 365**	**636 426**

In thousands of PLN

25. Deposits from customers

Deposits from customers	30.06.2018	31.12.2017
Deposits from individuals	**63 889 712**	**59 310 847**
Term deposits	19 372 021	16 321 736
Current accounts	44 418 448	42 948 226
Other	99 243	40 886
Deposits from enterprises	**43 344 873**	**38 702 801**
Term deposits	20 695 082	15 321 645
Current accounts	19 136 917	20 533 707
Loans	2 605 584	2 237 211
Other	907 290	610 238
Deposits from public sector	**4 907 958**	**4 141 874**
Term deposits	2 815 659	1 904 467
Current accounts	2 088 270	2 233 410
Other	4 029	3 997
Total	**112 142 543**	**102 155 522**

Movements in loans received from other financial institutions	30.06.2018	30.06.2017
As at the beginning of the period	**2 237 211**	**3 020 931**
Increase (due to:)	**437 323**	**3 524**
- drawing of loans	334 104	-
- interest on loans	3 582	3 524
- FX differences and other	99 637	-
Decrease (due to):	**(68 950)**	**(655 519)**
- repayment of loans	(66 624)	(525 841)
- interest repayment	(2 326)	(3 619)
- FX differences and other	-	(126 059)
As at the end of the period	**2 605 584**	**2 368 936**

26. 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
Tranche 4	05.04.2028	PLN	1 000 000

Movements in subordinated liabilities	30.06.2018	30.06.2017
As at the beginning of the period	**1 488 602**	**440 457**
Increase (due to):	**1 099 717**	**532 124**
- interest on subordinated loan	26 287	14 900
- FX differences	68 152	-
- reclassification *	1 005 278	517 224
Decrease (due to):	**(23 005)**	**(43 360)**
- interest repayment	(23 005)	(13 727)
- FX differences	-	(29 633)
Subordinated liabilities - as at the end of the period	**2 565 314**	**929 221**
Short-term	16 383	2 770
Long-term (over 1 year)	2 548 931	926 451

*Bonds issued by Bank Zachodni WBK and qualified with the consent of the Polish Financial Supervision Authority to subordinated liabilities.

In thousands of PLN

27. Debt securities in issue

Issuance of debt securities in 1H 2018 (non-matured securities)	Nominal value	Currency	Redemption date
Series G bank securities	500 000	PLN	26.04.2019
Series H bank securities	500 000	PLN	27.09.2019

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

Movements in debt securities in issue	30.06.2018	30.06.2017
As at the beginning of the period	**1 240 244**	**1 783 303**
Increase (due to:)	**2 015 738**	**1 262 978**
- debt securities in issue	2 000 000	1 238 788
- interest on debt securities in issue	15 738	19 331
- FX differences	-	4 859
Decrease (due to):	**(2 254 032)**	**(830 284)**
- debt securities buy out	(1 235 000)	(285 000)
- reclassification*	(1 005 278)	(517 224)
- FX differences	-	(13 656)
- interest repayment	(13 754)	(14 404)
As at the end of the period	**1 001 950**	**2 215 997**

*Bonds issued by Bank Zachodni WBK and qualified with the consent of the Polish Financial Supervision Authority to subordinated liabilities.

28. Provisions for off balance sheet credit facilities

Provisions for off balance sheet credit facilities	30.06.2018	31.12.2017
Provisions for financial liabilities to grant loans	28 167	15 069
Provisions for financial guarantees	10 778	8 755
Other provisions	1 652	1 560
Total	**40 597**	**25 384**

Change in provisions for off balance sheet credit facilities	30.06.2018
Balance as at 31.12.2017	**25 384**
Impact of the implementation of IFRS 9	24 489
Balance as at 01.01.2018 (restated)	**49 873**
Provision charge	66 897
Utilization	411
Write back	(76 584)
Balance at the end of the period	**40 597**
Short-term	27 622
Long-term	12 975

Change in provisions for off balance sheet credit facilities	30.06.2017
As at the beginning of the period	**28 706**
Provision charge	20 020
Utilization	(408)
Write back	(23 036)
Balance at the end of the period	**25 282**
Short-term	18 166
Long-term	7 116

In thousands of PLN

29. Other provisions

Change in provisions for legal claims	30.06.2018	30.06.2017
As at the beginning of the period	**57 216**	**37 639**
Provision charge	77 570	9 053
Utilization	(3 338)	(11 751)
Write back	(25 245)	(226)
Balance at the end of the period	**106 203**	**34 715**

30. Other liabilities

Other liabilities	30.06.2018	31.12.2017
Settlements of stock exchange transactions	26 696	25 851
Interbank settlements	587 972	946 867
Employee provisions	232 454	340 770
Other provisions	3 300	3 300
Sundry creditors	539 926	490 362
Other deferred and suspended income	170 687	168 180
Public and law settlements	83 953	79 254
Accrued liabilities	293 387	204 964
Total	**1 938 375**	**2 259 548**
of which financial liabilities *	1 683 735	2 012 114

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

Change in provisions 30.06.2018	Employee provisions	*of which: Provisions for retirement allowances*	Other provisions	Total
As at the beginning of the period	**340 770**	***67 225***	**3 300**	**344 070**
Provision charge	113 051	*1 849*	-	113 051
Utilization	(187 126)	-	-	(187 126)
Write back	(34 241)	*(31 328)*	-	(34 241)
Balance at the end of the period	**232 454**	***37 746***	**3 300**	**235 754**
Short-term	194 708	-	3 300	198 008
Long-term	37 746	*37 746*	-	37 746

Change in provisions 30.06.2017	Employee provisions	*of which: Provisions for retirement allowances*	Other provisions	Total
As at the beginning of the period	**311 687**	***55 737***	**3 300**	**314 987**
Provision charge	111 858	*2 219*	-	111 858
Utilization	(169 736)	-	-	(169 736)
Write back	(2 963)	-	-	(2 963)
Balance at the end of the period	**250 846**	***57 956***	**3 300**	**254 146**
Short-term	192 890	-	3 300	196 190
Long-term	57 956	*57 956*	-	57 956

In thousands of PLN

31. 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	30.06.2018		31.12.2017	
	Book Value	Fair value	Book Value	Fair value
Cash and balances with central banks	4 628 487	4 628 487	4 114 801	4 114 801
Loans and advances to banks	1 630 756	1 630 756	2 012 118	2 012 118
Financial assets held for trading	6 093 283	6 093 283	3 421 547	3 421 547
Hedging derivatives	62 114	62 114	146 724	146 724
Loans and advances to customers	95 928 701	97 122 381	90 537 003	91 349 827
Financial assets available for sale	-	-	25 784 029	25 784 029
Investment securities incl.:	32 049 672	32 049 672	-	-
- debt securities measured at fair value through other comprehensive income	31 115 505	31 115 505	-	-
- equity securities measured at fair value through other comprehensive income	934 167	934 167	-	-
LIABILITIES				
Deposits from banks	1 646 744	1 646 744	1 414 448	1 414 448
Hedging derivatives	943 673	943 673	578 798	578 798
Financial liabilities held for trading	1 260 526	1 260 526	1 237 859	1 237 859
Deposits from customers	112 142 543	112 142 410	102 155 522	102 170 483
Subordinated liabilities	2 565 314	2 579 923	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 Bank has financial instruments which in accordance with the IFRS are not carried at fair value in the 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 Bank has made an assumption that fair value of those securities is based on discounted cash flows methods incorporating adequate interest rate.

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

As at 30.06.2018 and in the comparable periods the Bank made the following classification of its financial instruments measured at fair value in the statement of financial position:

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

In thousands of PLN

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, debt securities and part of credit cards customer loans.

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 30.06.2018 and in the comparable periods the Bank classified its financial instruments to the following fair value levels:

30.06.2018	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	4 587 333	1 505 941	9	6 093 283
Hedging derivatives	-	62 114	-	62 114
Loans and advances to customers at fair value	-	-	1 078 111	1 078 111
Debt securities measured at fair value through other comprehensive income	31 087 030	-	28 475	31 115 505
Equity securities measured at fair value through other comprehensive income	-	-	934 167	934 167
Other investment securities measured at fair value through other profit or loss	-	-	-	-
Total	**35 674 363**	**1 568 055**	**2 040 762**	**39 283 180**
Financial liabilities				
Financial liabilities held for trading	60 083	1 200 443	-	1 260 526
Hedging derivatives	-	943 673	-	943 673
Total	**60 083**	**2 144 116**	**-**	**2 204 199**

31.12.2017	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	2 189 111	1 231 989	447	3 421 547
Hedging derivatives	-	146 724	-	146 724
Financial investment assets - debt securities	24 856 947	-	32 532	24 889 479
Financial investment assets - equity securities	-	-	894 550	894 550
Total	**27 046 058**	**1 378 713**	**927 529**	**29 352 300**
Financial liabilities				
Financial liabilities held for trading	-	1 263 859	-	1 263 859
Hedging derivatives	-	578 798	-	578 798
Total	**-**	**1 842 657**	**-**	**1 842 657**

In thousands of PLN

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

Level III	Financial assets			
30.06.2018	Financial assets held for trading	Financial investment assets - debt securities OCI	Financial investment assets - equity securities OCI	Loans and advances to customers measured at fair value
Beginning of the period	**447**	**32 532**	**894 550**	**-**
Impact of the implementation of IFRS 9			**(15 718)**	**105 586**
Profit or losses				
recognised in income statement	*(26)*	-	-	11 194
recognised in equity (OCI)	-	-	*54 217*	-
Purchase	-	-	1 207	-
Sale	(412)	-	(89)	-
Matured	-	(4 057)	-	(1 018)
Transfer	-	-	-	958 224
Other	-	-	-	4 125
At the period end	**9**	**28 475**	**934 167**	**1 078 111**

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**	**842 647**	**-**
Profit or losses				
recognised in income statement	(29)	-	-	-
recognised in equity	-	-	*68 267*	-
Purchase	1 057	-	2 036	-
Sale	(832)	-	(18 400)	-
Matured	-	-	-	-
Impairment	-	-	-	-
Other	-	(5 708)	-	-
At the period end	**447**	**32 532**	**894 550**	**-**

32. Contingent liabilities

Significant court proceedings conducted by Bank Zachodni WBK

As at 30.06.2018, no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank amounting to a minimum of 10% of the Bank's equity.

The value of all litigation amounts to PLN 846,616 k, which is 3.92% of the Bank's equity. This amount includes PLN 444,891 k claimed by the Bank, PLN 401,725 k in claims against the Bank. There were no litigations for bankruptcy or arrangement.

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. The Bank responded to the lawsuit and at the reporting date the legal action is waiting for a court decision.

As at 30.06.2018 the amount of significant court proceedings which had been completed amounted to PLN 112,510 k.

As at 30.06.2018, the value of provisions for legal claims was PLN 106,203 k. In 26 cases against the Bank, where the claim value was high, a provision of PLN 29,168 k was raised.

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 amounting to a minimum of 10% of the Bank's equity.

In thousands of PLN

The value of all litigation amounts to PLN 684,502 k, which is 3.28% of the Bank's equity. This amount includes PLN 371,189 k claimed by the Bank, PLN 313,313 k in claims against the Bank. There were no litigations for bankruptcy or arrangement.

As at 31.12.2017 the amount of significant court proceedings which had been completed amounted to PLN 195,733 k.

As at 31.12.2017, the value of provisions for legal risks, for court cases against the Bank was PLN 57,216 k. In 10 cases against the Bank, where the claim value was high, a provision of PLN 40,983 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 29.

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	30.06.2018	31.12.2017
Liabilities sanctioned					
- financial	**21 339 581**	**247 634**	**20 433**	**21 607 648**	**21 409 105**
- credit lines	17 490 128	184 993	15 624	17 690 745	17 718 025
- credit cards debits	3 026 196	41 918	4 809	3 072 923	3 049 456
- import letters of credit	816 584	20 723	-	837 307	633 773
- term deposits with future commencement term	6 673	-	-	6 673	7 851
- guarantees	**6 119 961**	**147 417**	**12 790**	**6 280 168**	**4 948 545**
Allowance for impairment	**(9 200)**	**(9 462)**	**(21 935)**	**(40 597)**	**(25 384)**
Total	**27 450 342**	**385 589**	**11 288**	**27 847 219**	**26 332 266**

33. Shareholders with min. 5% voting power

According to the information held by the Bank's Management Board, the shareholders 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 financial statement for H1 2018 /25.07.2018/ are Banco Santander S.A. and funds managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.: Nationale-Nederlanden Otwarty Fundusz Emerytalny and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny.

Shareholder	Number of shares held		% in the share capital		Number of votes at AGM		Voting power at AGM	
	25.07.2018	24.04.2018	25.07.2018	24.04.2018	25.07.2018	24.04.2018	25.07.2018	24.04.2018
Banco Santander S.A.	67 680 774	67 680 774	68,13%	68,13%	67 680 774	67 680 774	68,13%	68,13%
Nationale-Nederlanden OFE Nationale-Nederlanden DFE	4 993 431	n/a	5,03%	n/a	4 993 431	n/a	5,03%	n/a
Others	26 659 276	31 652 707	26,84%	31,87%	26 659 276	31 652 707	26,84%	31,87%
Total	**99 333 481**	**99 333 481**	**100,00%**	**100,00%**	**99 333 481**	**99 333 481**	**100,00%**	**100,00%**

34. Related parties

The tables below present intercompany transactions. Most of the transactions are banking transactions made as part of ordinary business activities and mainly include loans, deposits, guarantees, leases. In the case of internal Group transactions, a documentation is prepared in accordance with requirements of tax regulations for transfer pricing.

In thousands of PLN

Transactions with subsidiaries	30.06.2018	31.12.2017
ASSETS	**9 807 525**	**8 867 211**
Loans and advances to banks	112 520	28 948
Financial assets held for trading	5 635	5 438
Loans and advances to customers	9 648 336	8 816 531
Other assets	41 034	16 294
LIABILITIES	**398 866**	**479 234**
Deposits from banks	3 199	129 461
Financial liabilities held for trading	8 157	26 169
Deposits from customers	203 529	154 529
Other liabilities	183 981	169 075
CONTINGENT LIABILITIES	**2 695 136**	**1 185 390**
Sanctioned:	2 695 136	1 185 390
- financial	*1 189 994*	*1 121 936*
- guarantees	*1 505 142*	*63 454*

Transactions with subsidiaries	01.01.2018-30.06.2018	01.01.2017-30.06.2017
INCOME	**121 981**	**165 370**
Interest income	95 224	81 390
Fee and commission income	10 157	79 739
Other operating income	3 835	4 241
Net trading income and revaluation	12 765	-
EXPENSES	**3 495**	**20 996**
Interest expenses	2 637	2 707
Fee and commission expenses	971	1 379
Net trading income and revaluation	-	16 854
Operating expenses incl.:	(113)	56
Bank's staff, operating expenses and management costs	*(157)*	*51*
Other	*44*	*5*

On 16.04.2015, an agreement was signed between BZ WBK and its subsidiary BZ WBK Leasing providing for a financial leaseback of properties (freehold of a building and land and perpetual usufruct of land) and a lease of a planned project (an office building was developed during the next three years) located in Wrocław.

The final total value of the assets arising from the lease of the building and land, which was estimated at the time of initiation of the transaction, was PLN 156,278 k.

Current value of the fixed assets obtained under the financial leaseback agreement was PLN 124,252 k as at 30.06.2018, the initial value of fixed assets under construction was PLN 8,097 k.

In accordance with the agreement, the basic lease term was defined as 153 months.

The purchase of assets by BZ WBK Leasing and development of the office building is financed with a loan provided by BZ WBK.

The lease agreement requires that only interest should be paid on the lease and the loan during the term of the respective agreements, while the principal sums will be paid as part of the last tranche, with the pre-financing costs relating to the building and the site where the building is developed are to be capitalised by BZ WBK Leasing, and the bank is to pay them along with the principal payment at the end of contractual period. Both agreements are based on an interest rate equal to BZ WBK Leasing S.A. and the Bank.

Transactions with associates	30.06.2018	31.12.2017
Liabilities	**88 039**	**120 146**
Deposits from customers	88 039	90 102
Sell-buy-back transactions	-	30 044

In thousands of PLN

Transactions with associates	01.01.2018-30.06.2018	01.01.2017-30.06.2017
Income	**16 859**	**8 248**
Fee and commission income	16 859	8 248
Expenses	**1 549**	**1 068**
Interest expense	684	767
Fee and commission expense	56	44
Operating expenses incl.:	809	257
General and administrative expenses	*809*	*257*

Transactions with Santander Group	with the parent company		with other entities	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Assets	**591 381**	**598 411**	**2 223**	**9 854**
Loans and advances to banks, incl:	296 013	308 691	2 223	9 831
loans and advances	-	*95 993*	-	-
current accounts	*296 013*	*212 698*	*2 223*	*9 831*
Financial assets held for trading	295 361	282 036	-	-
Hedging derivatives	-	7 469	-	-
Other assets	7	215	-	23
LIABILITIES	**979 240**	**403 807**	**131 432**	**86 398**
Deposits from banks incl.:	550 675	62 996	15 980	23 539
current accounts	*550 675*	*62 996*	*15 980*	*23 539*
Hedging derivatives	16 142	-	-	-
Financial liabilities held for trading	400 583	322 933	3	-
Deposits from customers	-	-	83 292	52 577
Other liabilities	11 840	17 878	32 157	10 282
Contingent liabilities	-	-	**14 393**	-
Sanctioned:	-	-	14 393	-
financial	-	-	*14 393*	-

Transactions with Santander Group	with the parent company		with other entities	
	01.01.2018-30.06.2018	01.01.2017-30.06.2017	01.01.2018-30.06.2018	01.01.2017-30.06.2017
Income	**6 049**	**7 233**	**17 454**	**199**
Interest income	4 922	6 159	12	76
Fee and commission income	1 127	1 074	120	123
Other operating income		-	89	-
Net trading income and revaluation	-	-	17 233	-
Expenses	**72 496**	**21 451**	**31 943**	**48 332**
Interest expense	846	405	200	654
Fee and commission expense	644	586	2	-
Net trading income and revaluation	59 673	20 460	-	35 871
Operating expenses incl.:	11 333	-	31 741	11 807
Bank's staff, operating expenses and management costs	*11 332*	-	*31 739*	*11 799*
Other operating expenses	*1*	-	*2*	*8*

Transactions with key management personnel

Remuneration of Bank Zachodni WBK Management Board Members, Supervisory Board Members and key management.

Loans and advances granted to the key management personnel

As at 30.06.2018, 31.12.2017 and 30.06.2017 members of the Management Board were bound by the non-compete agreements which remain in force after they step down from their function. If a Member of the Management Board is removed from their function or not appointed for another term, he/she is entitled to a once-off severance pay. The severance pay does not apply if the person accepts another function in the Bank.

Loans and advances have been sanctioned on regular terms and conditions.

In thousands of PLN

Remuneration of Management Board Members and Key Management	Management Board Members 01.01.2018-30.06.2018	Management Board Members 01.01.2017-30.06.2017	Key Management 01.01.2018-30.06.2018	Key Management 01.01.2017-30.06.2017
Renumeration	6 448	6 198	10 487	10 657
Additional benefits (e.g among others, life insurance cover without pension option, medical cover, accommodation, travel expenses and school fees)	457	432	311	296
The awards paid in 2018 and 2017 *	9 940	7 794	12 369	11 271
Equivalent paid for unused annual leave	146	124	192	-
Additional compensation for termination of the contract and the non-competition clause	1 105	-	660	-
Provisions for retirement benefits and provision for unused holidays in the amount	1 263	905	2 397	1 377
The number of conditional rights to shares	27 220	10 541	34 080	16 554

* included part of the award for 2017, 2016, 2015, 2014 and 2013 which was conditional and deferred in time

	Management Board Members 30.06.2018	Management Board Members 31.12.2017	Key Management 30.06.2018	Key Management 31.12.2017
Loans and advances granted to the Members of the Management Board/Key Management	9 548	11 054	24 878	22 683
Deposits from The Management Board/Key management	19 585	17 328	18 583	13 106

The category of key management personnel includes the persons covered by the principles outlined in the “BZ WBK Group Remuneration Policy”.

BZ WBK Group applies the “BZ WBK Group Remuneration Policy”. The Policy has been approved by the bank’s Management Board and Supervisory Board and is reviewed annually or each time significant organisational changes are made.

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

In H1 2018, the total remuneration paid to the Supervisory Board Members of Bank Zachodni WBK totalled PLN 754 k. Mr John Power received remuneration for the supervision over acquisition of a carve-out business of Deutsche Bank Poland by BZ WBK in the amount of PLN 422 k.

In H1 2017, the total remuneration paid to the Supervisory Board Members of Bank Zachodni WBK totalled PLN 818 k.
Mr John Power received remuneration of PLN 9 k from subsidiaries for his membership in their Supervisory Boards.

35. Acquisitions, disposals and liquidation of investments in subsidiaries and associates

Acquisitions, disposals and liquidation of investments in subsidiaries and associates in 2017 and H1 2018

Liquidation of Giełdokracja Sp. z o.o.

On 5.03.2018 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.

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 made contribution in kind of BZWBK F24 S.A. (formerly BZ WBK Nieruchomości SA) 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 SA 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(KRS) was registered increase of share capital BZWBK Finanse sp. z o.o. to PLN 1,630 k. Share capital was fully paid.

Liquidation of AKB Marketing Services Sp. z o.o.

On 28.03.2017, AKB Marketing Services Sp. z o.o., a subsidiary of Santander Consumer Bank S.A., was liquidated.

The subsidiary's assets and liabilities were finally accounted for. Profit on liquidation of PLN 3,757 k was presented in the consolidated income statement under 'Net gains/(losses) on subordinated entities'.

AKB Marketing Services Sp. z o.o. carried out ancillary business operations in respect of banking services.

On 20.11.2017, the company AKB Marketing Services sp. z o.o. was deleted from the National Court Register.

Merger of BZWBK Leasing S.A. and BZWBK Lease S.A.

On 28.02.2017, BZ WBK Leasing S.A. and BZ WBK Lease S.A. merged.
The companies merged by way of absorption of BZ WBK Lease S.A. (the absorbed entity) by BZ WBK Leasing S.A. (the absorbing entity). All the assets of BZ WBK Lease S.A. were transferred to BZ WBK Leasing S.A. In connection with the merger, BZ WBK Lease S.A. ceased to exist legally, while BZ WBK Leasing S.A., being the absorbing entity, assumed, under the law, all the rights and obligations of the absorbed entity. As a result, BZ WBK Leasing S.A. continues business operations which previously were carried out by BZ WBK Lease S.A. and assumed, under the law, all the rights and obligations of absorbed BZ WBK Lease S.A.

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

On 14.12.2017, 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 migration of IT systems is planned to be completed immediately after closing.

On 29.05.2018, Bank Zachodni WBK received information that Polish Financial Supervision Authority ("PFSA") issued a decision confirming that there are no grounds to object to the planned direct acquisition of the shares of Deutsche Bank Polska S.A. ("DBPL") by the Bank in the number ensuring the exceeding of 10% of the total number of votes at the general meeting and the share in the share capital of DBPL.

PFSA has decided that acquisition of the shares should take place until 31.12.2018.

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.

37. 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.

38. 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.

39. 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 31.

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

As at 30 June 2018, Bank Zachodni WBK S.A. completed the analysis of the credit card portfolio in terms of the portfolio passing the contractual cash flow test. The analysis resulted in a change in the classification and measurement of selected credit card portfolios due to implementation of IFRS 9.
Details in Note 2.

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

The business activity of Bank Zachodni WBK has no material seasonal character.

42. 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 35).
- Acquisition of a carve-out of Deutsche Bank Polska by Bank Zachodni WBK (details in Note 36)

43. Information concerning issuing loan and guarantees by an issuer

As at 30.06.2018 and 31.12.2017 Bank Zachodni WBK had not issued any guarantees to one business unit or a subsidiary totalling a minimum of 10% of the issuer's equity.

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

As at 30.06.2018 and 31.12.2017 Bank Zachodni WBK did not create or reverse any material impairment charges for financial assets, tangible fixed assets, intangible fixed assets or other assets.
Details in Note 10 and 14.

45. 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 44.300 k.

46. 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 16.03.2018, 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 was PLN 3.10.

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 535,866 k from the Bank's undivided net profit for 2014 and 2015 to dividend for shareholders Dividend per share is PLN 5.40.

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

Polish Financial Supervision Authority decision consenting for the demerger of Deutsche Bank Polska S.A.

Management Board of Bank Zachodni WBK S.A. informed that on 17.07.2018, the Bank received information that Polish Financial Supervision Authority issued a decision consenting for the demerger of Deutsche Bank Polska S.A. through a demerger of a part of the assets and liabilities of Deutsche Bank Polska S.A. to Bank Zachodni WBK S.A. in exchange for shares in Bank Zachodni WBK S.A. issued for Deutsche Bank AG.

Decision of Polish Financial Supervision Authority is the condition necessary for the completion of the transaction of acquiring the demerged part of Deutsche Bank Polska S.A.

Signatures of Members of the Management Board			
Date	Name	Function	Signature
24.07.2018	Michał Gajewski	President	
24.07.2018	Andrzej Burliga	Vice-President	
24.07.2018	Michael McCarthy	Vice-President	
24.07.2018	Juan de Porras Aguirre	Vice-President	
24.07.2018	Arkadiusz Przybył	Vice-President	
24.07.2018	Feliks Szyszkowiak	Vice-President	
24.07.2018	Carlos Polaino Izquierdo	Member	
24.07.2018	Maciej Reluga	Member	
24.07.2018	Dorota Strojkowska	Member	

Signature of a person who is responsible for maintaining the book of account			
Date	Name	Function	Signature
24.07.2018	Wojciech Skalski	Financial Accounting Area Director	