INTERIM REPORT 2018
OF BANK ZACHODNI WBK GROUP

2018

Bank Zachodni WBK
Grupa Santander

	FINANCIAL HIGHLIGHTS	PLN k		EUR k	
		01.01.2018-30.06.2018	01.01.2017-30.06.2017	01.01.2018-30.06.2018	01.01.2017-30.06.2017
	Consolidated financial statements of Bank Zachodni WBK Group				
I	Net interest income	2 786 033	2 556 483	657 161	601 894
II	Net fee and commission income	1 044 874	970 835	246 462	228 572
III	Profit before tax	1 608 111	1 674 024	379 316	394 129
IV	Net profit attributable to owners of BZ WBK S.A.	1 073 686	1 104 155	253 258	259 960
V	Total net cash flows	2 063 616	(5 846 912)	486 759	(1 376 586)
VI	Profit of the period attributable to non-controlling interests	181 256	157 320	42 754	37 039
VII	Profit per share in PLN/EUR	10,81	11,13	2,55	2,62
VIII	Diluted earnings per share in PLN/EUR	10,80	11,11	2,55	2,62
	Financial statements of Bank Zachodni WBK				
I	Net interest income	1 968 169	1 838 919	464 246	432 952
II	Net fee and commission income	802 361	831 348	189 258	195 731
III	Profit before tax	1 415 731	1 348 716	333 938	317 539
IV	Profit for the period	1 163 689	1 039 729	274 487	244 792
V	Total net cash flows	1 993 362	(5 736 774)	470 188	(1 350 655)
VI	Profit per share in PLN/EUR	11,71	10,48	2,76	2,47
VII	Diluted earnings per share in PLN/EUR	11,70	10,47	2,76	2,47

	FINANCIAL HIGHLIGHTS	PLN k		EUR k	
		30.06.2018	31.12.2017	30.06.2018	31.12.2017
	Consolidated financial statements of Bank Zachodni WBK Group				
I	Total assets	168 517 212	152 674 444	38 636 558	36 604 676
II	Deposits from banks	3 252 586	2 783 083	745 732	667 262
III	Deposits from customers	122 024 315	111 481 135	27 976 961	26 728 316
IV	Total liabilities	144 528 772	129 330 815	33 136 641	31 007 892
V	Total equity	23 988 440	23 343 629	5 499 917	5 596 785
VI	Non-controlling interests in equity	1 411 000	1 436 409	323 505	344 388
VII	Number of shares	99 333 481	99 333 481		
VIII	Net book value per share in PLN/EUR	241,49	235,00	55,37	56,34
IX	Capital ratio	17,78%	16,69%		
X	Declared or paid dividend per share in PLN/EUR*	3,10	5,40	0,73	1,27
	Financial statements of Bank Zachodni WBK				
I	Total assets	147 610 558	132 863 268	33 843 213	31 854 820
II	Deposits from banks	1 646 744	1 414 448	377 555	339 123
III	Deposits from customers	112 142 543	102 155 522	25 711 331	24 492 441
IV	Total liabilities	125 989 162	112 024 431	28 885 996	26 858 575
V	Total equity	21 621 396	20 838 837	4 957 217	4 996 245
VI	Number of shares	99 333 481	99 333 481		
VII	Net book value per share in PLN/EUR	217,66	209,79	49,90	50,30
VIII	Capital ratio	20,48%	18,95%		
IX	Declared or paid dividend per share in PLN/EUR*	3,10	5,40	0,73	1,27

* Detailed information are described in Note 46.

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

- for balance sheet items – average NBP exchange rate as at 29.06.2018: EUR 1 = PLN 4.3616 and as at 29.12.2017: EUR 1 = PLN 4.1709
- for profit and loss items – as at 30.06.2018 - the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month in H1 2018: EUR 1 = PLN 4.2395; as at 30.06.2017 - the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month in H1 2017: EUR 1 = PLN 4.2474.

As at 30.06.2018, FX denominated balance sheet positions were converted into PLN in line with the NBP FX table no. 125/A/NBP/2018 dd. 29.06.2018.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENT OF BANK ZACHODNI WBK GROUP FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2018

2018

Bank Zachodni WBK

Grupa Santander

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In thousands of PLN

Condensed consolidated income statement

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		1 736 743	3 425 244	1 620 968	3 180 770
Interest income on financial assets measured at amortised cost		1 506 838	3 025 737	-	-
Interest income on financial assets measured at fair value through other comprehensive income		174 832	338 071	-	-
Income similar to interest - financial assets measured at fair value through profit or loss		55 073	61 436	-	-
Interest expense		(340 536)	(639 211)	(318 481)	(624 287)
Net interest income	Note 6	**1 396 207**	**2 786 033**	**1 302 487**	**2 556 483**
Fee and commission income		664 660	1 282 385	620 824	1 203 400
Fee and commission expense		(134 900)	(237 511)	(125 182)	(232 565)
Net fee and commission income	Note 7	**529 760**	**1 044 874**	**495 642**	**970 835**
Dividend income		98 323	98 508	75 579	75 924
Net gains/(losses) on subordinated entities		-	(65)	-	3 757
Net trading income and revaluation	Note 8	53 749	73 822	36 228	92 086
Gains (losses) from other financial securities	Note 9	6 153	5 853	10 770	27 947
Other operating income	Note 10	76 421	153 869	32 204	74 544
Impairment losses on loans and advances	Note 11	(251 792)	(474 758)	(100 366)	(245 878)
Operating expenses incl.:		(915 827)	(1 886 978)	(828 582)	(1 694 554)
-Bank's staff, operating expenses and management costs	Note 12,13	(751 413)	(1 613 867)	(734 087)	(1 497 797)
-Depreciation/amortisation		(79 866)	(162 402)	(77 840)	(152 109)
-Other operating expenses	Note 14	(84 548)	(110 709)	(16 655)	(44 648)
Share in net profits (loss) of entities accounted for by the equity method		14 504	25 502	15 157	23 812
Tax on financial institutions		(112 071)	(218 549)	(105 123)	(210 932)
Profit before tax		**895 427**	**1 608 111**	**933 996**	**1 674 024**
Corporate income tax	Note 15	(172 690)	(353 169)	(199 737)	(412 549)
Consolidated profit for the period		**722 737**	**1 254 942**	**734 259**	**1 261 475**
of which:					
-attributable to owners of BZ WBK S.A.		634 952	1 073 686	651 111	1 104 155
-attributable to non-controlling interests		87 785	181 256	83 148	157 320
Net earnings per share (PLN/share)					
Basic earnings per share		6,39	10,81	6,56	11,13
Diluted earnings per share		6,39	10,80	6,55	11,11

Notes presented on pages 11 – 83 constitute an integral part of these financial statements.

In thousands of PLN

Condensed consolidated statement of comprehensive income

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
Consolidated profit for the period	**722 737**	**1 254 942**	**734 259**	**1 261 475**
Other comprehensive income which can be transferred to the profit and loss account:	**(40 968)**	**97 268**	**140 364**	**258 780**
Available-for sale financial assets valuation, gross	-	-	181 366	344 816
Deferred tax	-	-	(34 459)	(65 515)
Cash flow hedges valuation, gross	33 034	21 730	(8 077)	(25 334)
Deferred tax	(6 277)	(4 129)	1 534	4 813
Debt securities measured at fair value through other comprehensive income	(83 611)	98 354	-	-
Deferred tax	15 886	(18 687)	-	-
Other comprehensive income which can't be transferred to the profit and loss account	**52 266**	**53 770**	**-**	**(4)**
Equity securities measured at fair value through other comprehensive income	51 132	52 906	-	-
Deferred tax	(9 713)	(10 052)	-	-
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	13 409	13 409	-	(5)
Deferred tax	(2 548)	(2 548)	-	1
Other comprehensive income for the period, net of income tax	**11 298**	**151 038**	**140 364**	**258 776**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**734 035**	**1 405 980**	**874 623**	**1 520 251**
Attributable to:				
owners of BZ WBK S.A.	647 224	1 224 886	798 389	1 359 533
non-controlling interests	86 811	181 094	76 234	160 718

Notes presented on pages 11 – 83 constitute an integral part of these financial statements.

In thousands of PLN

Condensed consolidated statement of financial position

as at:		30.06.2018	31.12.2017
ASSETS			
Cash and balances with central banks	Note 16	4 681 443	4 146 222
Loans and advances to banks	Note 17	1 704 535	2 136 474
Financial assets held for trading	Note 18	6 087 648	3 416 108
Hedging derivatives	Note 19	90 621	218 061
Loans and advances to customers incl.:	Note 20	114 176 972	107 839 897
- measured at amortised cost		112 674 986	-
- measured at fair value through profit or loss		1 501 986	-
Buy-sell-back transactions		60 756	-
Financial assets available for sale		-	28 415 812
Investment securities incl.:	Note 21	34 865 845	-
- debt securities measured at fair value through other comprehensive income		33 903 526	-
- equity securities measured at fair value through other comprehensive income		959 963	-
- other investment securities measured at fair value through profit or loss		2 356	-
Investments in associates	Note 22	855 457	889 372
Intangible assets		495 572	490 327
Goodwill		1 712 056	1 712 056
Property, plant and equipment		900 490	930 717
Net deferred tax assets		1 534 620	1 414 227
Assets classified as held for sale	Note 23	12 860	103
Other assets		1 338 337	1 065 068
Total assets		**168 517 212**	**152 674 444**
LIABILITIES AND EQUITY			
Deposits from banks	Note 24	3 252 586	2 783 083
Hedging derivatives	Note 19	951 207	578 798
Financial liabilities held for trading	Note 18	1 254 699	1 237 704
Deposits from customers	Note 25	122 024 315	111 481 135
Sell-buy-back transactions		5 376 727	2 650 846
Subordinated liabilities	Note 26	2 665 741	1 488 602
Debt securities in issue	Note 27	6 068 808	5 895 814
Current income tax liabilities		114 479	192 925
Provisions for off balance sheet credit facilities	Note 28	64 295	50 652
Other provisions	Note 29	152 034	102 482
Other liabilities	Note 30	2 603 881	2 868 774
Total liabilities		**144 528 772**	**129 330 815**
Equity			
Equity attributable to owners of BZ WBK S.A.		**22 577 440**	**21 907 220**
Share capital		993 335	993 335
Other reserve capital		17 959 061	16 920 129
Revaluation reserve		840 282	714 466
Retained earnings		1 711 076	1 066 236
Profit for the current period		1 073 686	2 213 054
Non-controlling interests in equity		**1 411 000**	**1 436 409**
Total equity		**23 988 440**	**23 343 629**
Total liabilities and equity		**168 517 212**	**152 674 444**

Notes presented on pages 11 – 83 constitute an integral part of these financial statements.

In thousands of PLN

Condensed consolidated statement of changes in equity

Consolidated statement of changes in equity	Equity attributable to equity holders of BZ WBK SA						
	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total	Non-controlling interests in equity	Total equity
Balance as at 31.12.2017	**993 335**	**16 920 129**	**714 466**	**3 279 290**	**21 907 220**	**1 436 409**	**23 343 629**
Impact of the implementation of IFRS 9	-	-	(25 329)	(229 125)	(254 454)	-	(254 454)
Balance as at 01.01.2018 (restated)	**993 335**	**16 920 129**	**689 137**	**3 050 165**	**21 652 766**	**1 436 409**	**23 089 175**
Coverage of negative impact of IFRS 9 implementation*	-	-	-	222 905	222 905	-	222 905
Total comprehensive income	-	-	151 200	1 073 686	1 224 886	181 094	1 405 980
Consolidated profit for the period	-	-	-	*1 073 686*	*1 073 686*	*181 256*	*1 254 942*
Other comprehensive income	-	-	*151 200*	-	*151 200*	*(162)*	*151 038*
Profit on sale of equity securities measured at fair value through other comprehensive income	-	-	(55)	55	-	-	-
Profit allocation to other reserve capital	-	1 032 851	-	(1 032 851)	-	-	-
Profit allocation to dividends	-	-	-	(307 627)	(307 627)	(206 503)	(514 130)
Profit allocation to cover negative impact of IFRS 9 implementation*	-	-	-	(222 905)	(222 905)	-	(222 905)
Share scheme charge	-	6 315	-	-	6 315	-	6 315
Equity adjustment due to merger and liquidation of subsidiaries and controlling stake at the subsidiaries	-	(234)	-	1 334	1 100	-	1 100
As at 30.06.2018	**993 335**	**17 959 061**	**840 282**	**2 784 762**	**22 577 440**	**1 411 000**	**23 988 440**

*General Meeting of Bank Zachodni WBK and BZ WBK Faktor Sp. z o.o. decided to allocate part of the retained earnings to cover the negative impact of the implementation of IFRS 9 respectively in the amount PLN 218,466 k and PLN 4,439 k.

As at the end of the period revaluation reserve in the amount of PLN 840,282 k comprises of debt securities and equity shares classified as available for sale of PLN 324,879 k and PLN 574,831 k respectively and additionally cash flow hedge activities of PLN (70,785) k and accumulated actuarial gains - provision for retirement allowances of PLN 11,357 k.

Consolidated statement of changes in equity	Equity attributable to equity holders of BZ WBK SA						
	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total	Non-controlling interests in equity	Total equity
Balance as at 31.12.2016	**992 345**	**15 791 555**	**276 093**	**2 720 834**	**19 780 827**	**1 237 649**	**21 018 476**
Total comprehensive income	-	-	255 378	1 104 155	1 359 533	160 718	1 520 251
Consolidated profit for the period	-	-	-	*1 104 155*	*1 104 155*	*157 320*	*1 261 475*
Other comprehensive income	-	-	*255 378*	-	*255 378*	*3 398*	*258 776*
Profit allocation to other reserve capital	-	1 117 265	-	(1 117 265)	-	-	-
Profit allocation to dividends	-	-	-	(535 866)	(535 866)	(110 962)	(646 828)
Equity adjustment due to merger and liquidation of subsidiaries and controlling stake at the subsidiaries	-	7 589	-	3 025	10 614	(2 007)	8 607
As at 30.06.2017	**992 345**	**16 916 409**	**531 471**	**2 174 883**	**20 615 108**	**1 285 398**	**21 900 506**

As at the end of the period revaluation reserve in the amount of PLN 531,471 k comprises of debt securities and equity shares classified as available for sale of PLN 120,467 k and PLN 531,669 k respectively and additionally cash flow hedge activities of PLN (128,683) k and accumulated actuarial gains - provision for retirement allowances of PLN 8,018 k.

Notes presented on pages 11 – 83 constitute an integral part of these financial statements.

In thousands of PLN

Condensed consolidated statement of cash flows

for the period	01.01.2018-30.06.2018	01.01.2017-30.06.2017
Profit before tax	**1 608 111**	**1 674 024**
Total adjustments:		
Share in net profits of entities accounted for by the equity method	(25 502)	(23 812)
Depreciation/amortisation	162 402	152 109
Impairment losses	(75)	(19)
Profit from investing activities	(49 195)	(29 253)
	1 695 741	**1 773 049**
Changes:		
Provisions	63 195	8 659
Trading portfolio financial instruments	(2 654 545)	(3 444 470)
Hedging derivatives	499 849	(858 802)
Loans and advances to banks	113	(39)
Loans and advances to customers	(6 337 075)	(1 985 189)
Deposits from banks	558 266	28 832
Deposits from customers	10 143 211	(3 086 852)
Buy-sell/ Sell-buy-back transactions	2 725 822	2 535 683
Other assets and liabilities	(719 354)	(329 785)
	4 279 482	**(7 131 963)**
Interest accrued excluded from operating activities	(195 564)	(232 356)
Dividend	(98 482)	(75 763)
Paid income tax	(528 676)	(361 808)
Net cash flows from operating activities	**5 152 501**	**(6 028 841)**
Inflows	**1 673 739**	**2 433 800**
Sale/maturity of financial assets available for sale	-	2 213 770
Sale/maturity of investment securities	1 414 225	-
Sale of intangible assets and property, plant and equipment	68 152	10 648
Dividend received	2 329	26 267
Interest received	189 033	183 115
Outflows	**(5 705 772)**	**(2 123 895)**
Purchase of financial assets available for sale	-	(2 033 054)
Purchase of investment securities	(5 531 049)	-
Purchase of intangible assets and property, plant and equipment	(174 723)	(90 841)
Net cash flows from investing activities	**(4 032 033)**	**309 905**
Inflows	**4 094 374**	**1 839 349**
Debt securities in issue	3 300 999	1 238 789
Drawing of loans	793 375	600 560
Outflows	**(3 151 226)**	**(1 967 325)**
Debt securities buy out	(2 125 000)	(285 000)
Repayment of loans	(383 686)	(923 270)
Dividends and other payments to shareholders	(514 130)	(646 828)
Interest paid	(128 410)	(112 227)
Net cash flows from financing activities	**943 148**	**(127 976)**
Total net cash flows	**2 063 616**	**(5 846 912)**
Cash and cash equivalents at the beginning of the accounting period	**7 662 368**	**11 838 799**
Cash and cash equivalents at the end of the accounting period	**9 725 984**	**5 991 887**

Notes presented on pages 11 – 83 constitute an integral part of these financial statements.

Additional notes to condensed interim consolidated financial statement

1. General information about issuer

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

Condensed interim consolidated financial statement of BZ WBK Group for the 6-month period ended 30 June 2018 includes Bank's financial information as well as information from its subsidiaries (all together called Group) and shares in associated entities.

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

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

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

In thousands of PLN

BZ WBK Group consists of the following entities:

Subsidiaries:

	Subsidiaries	Registered office	[%] of votes on AGM 30.06.2018	[%] of votes on AGM 31.12.2017
1.	BZ WBK Finanse sp. z o.o.	Poznań	100.00	100.00
2.	BZ WBK Faktor sp. z o.o.	Warszawa	100% of AGM votes are held by BZ WBK Finanse sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse sp. z o.o.
3.	BZ WBK Leasing S.A.	Poznań	100% of AGM votes are held by BZ WBK Finanse sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse sp. z o.o.
4.	BZ WBK Inwestycje sp. z o.o.	Poznań	100.00	100.00
5.	Giełdokracja sp. z o.o. [1)]	Poznań	-	100.00
6.	BZ WBK F24 S.A. / BZ WBK Nieruchomości S.A. [2)]	Poznań	100% of AGM votes are held by BZ WBK Finanse sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse sp. z o.o.
7.	BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. [3)]	Poznań	50.00	50.00
8.	Santander Consumer Bank S.A.	Wrocław	60.00	60.00
9.	Santander Consumer Finanse sp. z o.o.	Warszawa	100% of AGM votes are held by Santander Consumer Bank S.A.	100% of AGM votes are held by Santander Consumer Bank S.A.
10.	PSA Finance Polska sp. z o.o. [4)]	Warszawa	50% of AGM votes are held by Santander Consumer Bank S.A. and 50% of AGM votes are held by Banque PSA Finance S.A.	50% of AGM votes are held by Santander Consumer Bank S.A. and 50% of AGM votes are held by Banque PSA Finance S.A.
11.	PSA Consumer Finance Polska sp. z o.o. [4)]	Warszawa	100% of AGM votes are held by PSA Finance Polska sp. z.o.o.	100% of AGM votes are held by PSA Finance Polska sp. z.o.o.
12.	Santander Consumer Multirent sp. z o.o.	Warszawa	100% of AGM votes are held by Santander Consumer Bank S.A.	100% of AGM votes are held by Santander Consumer Bank S.A.
13.	S.C. Poland Consumer 15-1 sp.z o.o. [5)]	Warszawa	subsidiary of Santander Consumer Bank S.A.	subsidiary of Santander Consumer Bank S.A.
14.	S.C. Poland Consumer 16-1 sp.z o.o. [5)]	Warszawa	subsidiary of Santander Consumer Bank S.A.	subsidiary of Santander Consumer Bank S.A.

[1)] Giełdokracja Sp. z o.o. was liquidated. Details in note 35

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

[3)] As at 30.06.2018, Bank Zachodni WBK was a co-owner of BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A., together with Banco Santander S.A. Both owners are members of Santander Group and each holds an equal stake of 50% in the company's share capital. Bank Zachodni WBK exercises control over BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. Consequently, the company is treated as a subsidiary.

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

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

In thousands of PLN

Associates:

	Associates	Registered office	[%] of votes on AGM	[%] of votes on AGM
			30.06.2018	31.12.2017
1.	POLFUND - Fundusz Poręczeń Kredytowych S.A.	Szczecin	50.00	50.00
2.	BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Poznań	49.00	49.00
3.	BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poznań	49.00	49.00

2. Basis of preparation of condensed interim consolidated financial statement

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

The consolidated financial statement of the BZ Group for the year 2017 is available at official website: www.bzwbk.pl.

2.1. Statement of compliance

The condensed interim consolidated financial statement of BZ WBK Group 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 19.02.2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2014 of 28.01.2014, No 133 as amended), the Bank is required to publish the financial results for the six months ended 30 June 2018 which is deemed to be the current interim financial reporting period.
These consolidated financial statements have been approved for publication by the Bank's Zachodni WBK S.A. Management Board on 24.07.2018.

In thousands of PLN

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

IFRS	Nature of changes	Effective from	Influence on BZ WBK Group
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	BZ WBK Group is currently in the process of analysing the amendment of the Standard and the assessment of impact of the amendment
IFRS 16 Leases	The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases. All lease transactions results in the lessee's right to use the assets and the obligation to make a payment. Accordingly, the classification of leases into operating lease and finance lease as per IAS 17 no longer applies under IFRS 16, as the new standard introduces a single model for accounting for leases by the lessee. The lessee will be required to present the following: (a) assets and liabilities in respect of all leases executed for more than 12 months, except where an asset is of low quality; and (b) depreciation charge for the leased asset separately from the interest expense on the lease liability in the statement of profit or loss and other comprehensive income. The principles of accounting for leases by the lessee established in IFRS 16 are largely the same as in IAS 17. As a consequence, the lessee continues to use the classification into operating lease and finance lease and accounts for them accordingly.	1 January 2019	IFRS 16 implementation progress is is described 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	BZ WBK Group 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 BZ WBK Group 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.

BZ WBK Group 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 BZ WBK Group vs. the end of 2017. In January – June 2018, BZ WBK Group 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 BZ WBK Group;
- 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, BZ WBK Group carefully analysed the following contracts:

- Technological, IT, telecommunication contracts whereby a contractor provides BZ WBK Group with specialist external services and, to ensure correct performance and high quality of the service, leaves its own property, plant and equipment with the Group. BZ WBK Group 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 BZ WBK Group, and above all if BZ WBK Group 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.

BZ WBK Group 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 BZ WBK Group

BZ WBK Group 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 BZ WBK Group 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 BZ WBK Group.

In the light of the ongoing analyses, including analyses of completeness of the assets held under a lease, BZ WBK Group does not present any expected impact of implementation of IFRS 16 on the assets and financial position of BZ WBK Group. However, BZ WBK Group 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	1 January 2018	Influence on BZ WBK Group
IFRIC 22 Foreign Currency Transactions and Advance Consideration *	IFRIC Interpretation 22 clarify the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency. The Interpretation relates to the situation when the transaction is in foreign currency and the entity pays or receives consideration in advance in a foreign currency before the recognition of the related asset, expense or income.	1 January 2018	The amendment does not have a significant impact on financial statements.
IFRS 9 Financial Instruments	The changes refer to the following areas: • Classification and measurement – introduction of three classification categories for debt instruments, i.e. measured at: amortised cost, fair value through other comprehensive income and fair value through profit or loss. Changes were made in the measurement of equity instruments by limiting the possibility of measurement at historical cost; • Expected credit losses – introduction of a new model for recognition of impairment (ECL): impairment charge is required to be measured as lifetime expected credit losses rather than 12-month expected credit losses; • Hedge effectiveness testing and eligibility for hedge accounting – replacement of the precise effectiveness range (80-125%) with a requirement that there is an economic relationship between the hedged item and the hedging instrument and that the hedge ratio is the same as the one used for risk management purposes. Ineffective hedges continue to be taken to a profit and loss account; • Hedged items – new requirements allow appointment of new hedged items in relation to certain economically viable hedging strategies, which, to date, were not eligible under IAS 39; • Hedging instruments – relaxation of requirements pertaining to certain hedging instruments listed in IAS 39. The standard allow recognition of the time value of options purchased and implementing non-derivative financial instruments as hedging instruments; • Recognition of change in the fair value of financial liability arising from changes in the liability's credit risk in other comprehensive income (in principle).	1 January 2018	Impact is described in "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"
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"

In thousands of PLN

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

The condensed intermin consolidated financial statements of BZ WBK Group have been prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

BZ WBK Group prepared the condensed intermin consolidated 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
Other investment securities (units) (since 01.01.2018)	Fair value through profit or loss
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.

The accounting principles have been applied uniformly by individual units of BZ WBK Group.

BZ WBK Group applied the same accounting principles as in the preparation of the consolidated financial statements 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 BZ WBK Group 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.

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 BZ WBK Group

Impairment allowances for expected credit losses in respect of financial assets

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

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

An impairment analysis if carried out:

- with reference to individual financial assets representing significant reporting items, for which indications of impairment have been identified and classified to the segment of 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.

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

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

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

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

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

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

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

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

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

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.

BZ WBK Group 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 1.01.2018 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: BZ WBK Group sells the obligation immediately after its sanction or
    - d) condition 4: the obligation was sanctioned below the market conditions.

BZ WBK Group 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) amount. When the income approach is used, the fair value measurement reflects the current market expectations as to the future amounts.

BZ WBK Group 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, BZ WBK Group 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 BZ WBK Group 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 BZ WBK Group 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, BZ WBK Group 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 BZ WBK Group 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 BZ WBK Group’s consolidated financial statements for 2017, due to:

- obligatory assessment of business model, introduced under IFRS 9 Financial Instruments (previously not required under IAS 39 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 BZ WBK Group, 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 BZ WBK Group's 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, BZ WBK Group 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 the BZ WBK Group considers:

- contingent events that would change the amount and timing of cash flows,
- leverage features,
- prepayment and extension terms,
- terms that limit BZ WBK Group's 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 BZ WBK Group's accounting policy management assessed whether financial assets, including loan agreements, whose interest rate construction contains a multiplier greater than 1, meet classification criteria allowing their valuation at amortized cost, that is:

- business model and
- characteristics of contractual cash flows.

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

- credit cards granted until 01.08.2016, 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 BZ WBK Group are determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The business model does not depend on the intentions of the BZ WBK Group management regarding a particular instrument, which is why the model is assessed at a higher level of aggregation.

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

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

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

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

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

2.7. Accounting principles

The accounting principles applied by BZ WBK Group until the end of 2017 remain relevant and are available in the annual report for 2017.

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

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

The implementation’s impact and changes in accounting principles introduced since 01.01.2018 resulting from the entry into force of IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers are presented below.

New International Financial Reporting Standards implementation’s impact

IFRS 9 Financial instruments

BZ WBK Group applied new accounting principles regarding the classification and measurement of financial instruments in the preparation of the condensed consolidated financial statements of BZ WBK Group for the period ended 31.03.2018 as well as 30.06.2018

IFRS 9 Financial Instruments was published by the International Accounting Standards Board on 24.04. 2014 and approved by virtue of the Commission Regulation (EU) 2016/2067 of 22 November 2016 for application in the EU member states. The standard applies to financial statements for annual reporting periods beginning on or after 1.01.2018, 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

The BZ WBK Group carried out a detailed analysis of its business models in the area of financial asset management as well as an analysis of cash flow characteristics resulting from the agreements in force. 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 01.01.2018 in accordance with IAS 39 and IFRS 9 is as follows:

In thousands of PLN

Consolidated financial statement's line for 2017	Measurement category - IAS 39	Carrying amount	Measurement category - IFRS 9	Carrying amount
Financial assets				
Cash and balances with central banks	Amortized cost (loans and advances)	4 146 222	Amortized cost	4 146 222
Loans and advances to banks	Amortized cost (loans and advances)	2 136 474	Amortized cost	2 136 474
Financial assets held for trading	Fair value through profit and loss	3 416 108	Fair value through profit and loss	3 416 108
Hedging derivatives	Hegde accounting	218 061	Hegde accounting	218 061
Loans and advances to customers	Amortized cost (loans and advances)	107 715 574	Amortized cost	107 451 150
Loans and advances to customers	Amortized cost (loans and advances)	124 323	Fair value through profit and loss	105 401
Financial asstes available for sale - Debt instruments	Fair value through other comprehensive income	27 494 933	Fair value through other comprehensive income	27 494 933
Financial asstes available for sale - Equity instruments	Fair value through other comprehensive income	868 722	Fair value through other comprehensive income - option	868 722
Financial asstes available for sale - Equity instruments	Historical cost	52 157	Fair value through other comprehensive income - option	37 063
Other assets	Amortized cost (loans and advances)	1 065 068	Amortized cost	1 065 068
TOTAL		**147 237 642**		**146 939 202**

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:

Consolidated financial statement's line for 2017	Measurement category	Carrying amount	Measurement category	Carrying amount
Liabilities				
Deposits from banks	Amortized cost	2 783 083	Amortized cost	2 783 083
Hedging derivatives	Hegde accounting	578 798	Hegde accounting	578 798
Financial liabilities held for trading	Fair value through profit and loss	1 237 704	Fair value through profit and loss	1 237 704
Deposits from customers	Amortized cost	111 481 135	Amortized cost	111 481 135
Sell-buy-back transactions	Amortized cost	2 650 846	Amortized cost	2 650 846
Subordinated liabilities	Amortized cost	1 488 602	Amortized cost	1 488 602
Debt securities in issue	Amortized cost	5 895 814	Amortized cost	5 895 814
Provisions for off-balance sheet credit facilities	IAS 37	50 652	IFRS 9	65 686
Other liabilities	Amortized cost	2 868 774	Amortized cost	2 868 774
TOTAL		**129 035 408**		**129 050 442**

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.

The table below presents the impact of IFRS 9 implementation on 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: Classification and measurement	Valuation update: Impairment	Carrying amount 01.01.2018 after amendments
		Financial assets measured at amortised cost					
1		***Loans and advances to customers***					
		Closing balance	107 839 897				
	Adjustment 1	ECL allowance				(240 637)	
	Adjustment 2	Change of recognition of interest income				(23 787)	
	Adjustment 3	Presentation adjustment – adjustment to impairment interest			210 585	(210 585)	
	Adjustment 4	Reclassification to the category of financial assets measured at fair value through profit or loss		(124 323)			
		Closing balance after adjustments					107 451 150
		Financial assets measured at amortised cost – TOTAL					**107 451 150**
		Financial assets measured at fair value through other comprehensive income					
2		***Financial assets available for sale***					
		Closing balance	28 415 812	-	-	-	-
	Adjustment 6	Reclassification to the category of debt investment financial assets measured at fair value through other comprehensive income	-	(27 494 933)	-	-	-
	Adjustment 6	Reclassification to the category of equity investment financial assets measured at fair value through other comprehensive income	-	(920 879)	-	-	-
		Reclassification to the category of equity investment financial assets measured at fair value through profit or loss	-	-	-	-	-
		Closing balance after adjustments					-
3		***Investment securities, including:***					
		Closing balance					
		– debt investment financial assets measured at fair value through other comprehensive income	-	27 494 933	-	-	-
		– equity investment financial assets measured at fair value through other comprehensive income – option	-	868 722	-	-	-
	Adjustment 5	– equity investment financial assets measured at fair value through other comprehensive income – option	-	52 157	(31 271)	16 177	
		Closing balance after adjustments					28 400 718
		Financial assets measured at fair value through other comprehensive income – TOTAL					**28 400 718**
		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 adjustments	-	-	-	-	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	1 414 227	-	-	-	-
		Valuation update	-	-	21 280	37 740	-
		Closing balance after adjustments	-	-	-	-	-
		Deferred tax assets, net – TOTAL					1 473 247
		TOTAL ASSETS	**137 669 936**	-	**119 865**	**(359 285)**	**137 430 516**

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.

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		Carrying amount 01.01.2018 after amendments
					Classification and measurement	Impairment	
		Equity					
1		**Revaluation reserve**					
	Adjustment 7	Closing balance	714 466	-	-	-	-
		Impact of implementing IFRS 9 – gross	-	-	(31 271)	-	-
		Impact of implementing IFRS 9 – deferred tax	-	-	5 942	-	-
		Closing balance after adjustments	-	-	-	-	689 137
2		**Retained earnings**					
	Adjustment 7	Closing balance	1 066 236	-	-	-	-
		Impact of implementing IFRS 9 – gross	-	-	(80 729)	(201 474)	-
		Impact of implementing IFRS 9 – deferred tax	-	-	15 339	37 739	-
		Closing balance after adjustments	-	-	-	-	837 111
		Equity – TOTAL					**1 526 248**
		Provisions					
3		**Provisions**					
	Adjustment 1	Closing balance	50 652	-	-	-	-
		Reclassification to “Provisions for off-balance sheet liabilities subject to credit risk”	-	(50 652)	-	-	-
		Closing balance after adjustments					-
		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”	-	50 652	-	-	-
		Valuation update	-	-	-	15 034	65 686
		Closing balance after adjustments	-	-	-	-	-
		Provisions for off-balance sheet liabilities subject to credit risk – TOTAL					**65 686**
		TOTAL LIABILITIES AND EQUITY	**1 831 354**	-	**(90 719)**	**(148 701)**	**1 591 934**

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

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

- impact of the change in the method of recognition of interest income for financial assets classified to stage 1 and 2 in the amount of PLN (23,787) k PLN was presented as part of changes resulting from the implementation of impairment instead of classification and valuation,
- changes in the presentation of the impairment interest adjustment for stage 3: BZ WBK Group following the guidelines contained in the ITG document of 11.12.2015 (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 210 585 k PLN as part of impairment for expected credit losses,
- the value of the revaluation write-down for the value of equity instruments measured at cost and the fair value measurement of equity instruments related to shares held by one of the consolidated entities have been presented separately in the columns "Classification and measurement" and "Impairment" respectively in the amount of PLN (13,570)k and PLN 14,193 k, while in the disclosure for 2017 both figures were presented on the balance in the column "Classification and measurement" net in the amount of PLN 623 k within the aggregate amount of PLN (17,078) k. As a result of the change in the presentation of the amount of the revaluation write-down, the value of the impact of the implementation of IFRS 9 from the "Classification and valuation" stream increased and the value of the impact of IFRS 9 under the "Impairment" stream decreased by PLN 14,193 k. The change was of a purely presentational nature and did not affect the total value of the impact of the implementation of IFRS 9 on the BZ WBK Group equity.

The adjustments did not affect, in comparison to previous disclosure, the net value of the items "Loans and advances to customers" and “Investment securities”.

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 193,864 k, without the deferred tax effect, of which PLN 240,637 k relates to balance sheet items, PLN 15,034 k the increase in provisions for off-balance sheet liabilities presented in the line „Provisions for off balance sheet credit facilities” and the reclassifications of financial instruments from the category of assets measured at amortized cost to measured at fair value through profit or loss triggered impairment charge reversal in the amount of PLN 61,807 k.
- 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, BZ WBK Group recognised an interest income adjustment of PLN (23,787) k without deferred tax effect.
- Adjustment 3: changes in the presentation of the impairment interest adjustment for stage 3. Until the end of 2017 BZ WK Group treated the impairment interest adjustment as the element of exposure’s gross carrying amount. BZ WBK Group following the guidelines contained in the ITG document of 11.12.2015 (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 210 585 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. BZ WBK Group 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 the BZ WBK Group to obtain additional cash flows, other than solely payments of principal and interest, in the form of a contractually agreed share in the client's financial result. The existence of such contractual clauses has resulted in mandatory valuation of tranches at fair value through profit or loss. The adjustment to the fair-value measurement has been set at PLN (64 726) k, without the deferred tax effect.

In thousands of PLN

- 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 BZ WBK Group will be calculated on the nominal price so these cash flows do not represent interest payments as defined in IFRS 9. Due to the failure to meet the contractual cash flow test criteria, the instruments described were mandatory measured at fair value. The adjustment to the fair-value measurement has been set at PLN (15,897) k and unsettled provision amounted PLN (106) k without the deferred tax effect.

- 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, BZ WBK Group took an irrevocable decision to designate strategic equity investments from the portfolio of financial assets other than those held for trading as instruments measured at fair value through other comprehensive income. The equity investments for which BZ Group chose the option of fair value measurement through other comprehensive income were acquired to be maintained in the investment portfolio for a long term and strategically, without the intention to make a profit on selling them in the short or medium term. If the equity instrument designated to be measured at fair value through other comprehensive income is sold, the gain (loss) on the transaction is not recycled to profit or loss at the time of the sale. The adjustment to the fair-value measurement of equity instruments has been set at PLN (31,271) k and amount of reversed impairment charges at PLN 16,177 k, without the deferred tax effect.

- Adjustment 6: as the category of financial assets available for sale has been removed and replaced with the category of investment financial assets, BZ WBK Group 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 BZ WBK Group. As at 1.01. 2018, the total value of the impact of IFRS 9 implementation PLN (313,474) k, and the deferred tax effect in the form of deferred net tax asset increase PLN 59,020 k decreased the balance of retained earnings and revaluation reserve by the amount of PLN (254,454) k.

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	**714 466**			
1	Reclassification of available-for-sale equity instruments measured at fair value through other comprehensive income – the effect of remeasuring to fair value		(31 271)	5 942	689 137
	Value as at 1 January 2018 taking into account the impact of implementing IFRS 9 – TOTAL				**689 137**
	Retained earnings				
	Retained earning as at 1 January 2018 before IFRS 9 implementation	**1 066 236**			
1	Recognition of ECL allowances on financial assets and off-balance sheet liabilities subject to credit risk		(240 637)	45 180	
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		16 177	(3 074)	
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		(23 787)	4 520	
6	Recognition of ECL allowances on off-balance sheet liabilities subject to credit risk		(15 034)	2 856	
	Retained earnings taking into account the impact of implementing IFRS 9 – TOTAL				**837 111**
	Impact of implementing IFRS 9 on the BZ WBK Group's equity – TOTAL		**(313 474)**	**59 020**	**(254 454)**

In the second quarter of 2018, BZ WBK Group reclassified the portfolio of credit cards agreementsthat 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 BZ WBK Group 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. BZ WBK Group has not chosen the option of measuring financial liabilities at fair value. Should this option be chosen, changes in the fair value arising from changes in BZ WBK Group credit risk will be taken to other comprehensive income, and once a financial liability is derecognised, the value previously recognised in other comprehensive income will not be recycled to profit or loss.

In thousands of PLN

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance, both for performing and non-performing exposures, measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1.01.2018 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 interest impaired adjustment's presentation	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	4 846 130	(61 807)	240 637	210 585	(172 271)	5 063 274
Loans and receivables (IAS 39)/Financial assets at amortized cost (IFRS 9) - TOTAL	**4 846 130**	**(61 807)**	**240 637**	**210 585**	(172 271)	**5 063 274**
Provisions for off-balance sheet credit facilities (IAS 37)/Loss allowance for expected credit losses (IFRS 9)						
Provisions for off-balance sheet credit facilities (IAS 37)/Loss allowance for expected credit losses (IFRS 9)	50 652	-	15 034	-	-	65 686
Provisions for off-balance sheet credit facilities (IAS 37)/Loss allowance for expected credit losses (IFRS 9) - TOTAL	**50 652**	**-**	**15 034**	**-**	-	**65 686**
TOTAL	**4 896 782**	**(61 807)**	**255 671**	**210 585**	**(172 271)**	**5 128 960**

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

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 12.12.2017, 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

In thousands of PLN

relief. For example, the specific credit risk adjustments by which the exposure value is reduced under the standardised approach for credit risk should be reduced by a factor which has the effect of increasing the exposure value. This would ensure that an institution would not benefit from both an increase in its Common Equity Tier 1 capital due to transitional arrangements as well as a reduced exposure value.

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

Below, BZ WBK Group 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)	T
1	Common Equity Tier 1 (CET1) capital	19 660 476
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	19 518 903
3	Tier 1 capital	19 660 476
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	19 518 903
5	Total capital	22 357 159
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	22 215 395
	Risk-weighted assets (amounts)	
7	Total risk-weighted assets	125 769 908
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	125 718 206
	Capital ratios	
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	15,63%
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	15,53%
11	Tier 1 (as a percentage of risk exposure amount)	15,63%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15,53%
13	Total capital (as a percentage of risk exposure amount)	17,78%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17,67%
	Leverage ratio	
15	Leverage ratio total exposure measure	177 260 235
16	Leverage ratio	11,09%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	11,02%

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 the BZ WBK Group, 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 BZ WBK Group as agreements where BZ WBK Group 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 BZ WBK Group 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, BZ WBK Group 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 BZ WBK Group 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. BZ WBK Group applied the portfolio approach in the majority of the identified revenue categories indicated above.

BZ WBK Group 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 01.01.2018. As part of this interim method, BZ WBK Group 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 BZ WBK Group because revenue derived from financial instruments offered by BZ WBK Group such as loans or leases is recognised using an effective interest rate and the recognition method for revenue and corresponding cost will not change in the context of contractual provisions.

Comparability with the results from the previous periods

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

In thousands of PLN

BZ WBK Group elected to use the IFRS 9 provisions which provide for exemption of the obligation to restate comparative information for prior periods in relation to the changes arising from classification, measurement and impairment. Differences in the carrying amount of financial assets and liabilities resulting from the application of IFRS 9 are reported in retained earnings in equity and in revaluation reserve as at 1.01.2018.

As at 30.06.2018, BZ WBK Group completed the analysis of the credit cards portfolio in terms of 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 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”. BZ WBK Group 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 01.01.2018:

Carrying amount - gross as at 01.01.2018	Losses for expected credit losses	Carrying amount - net	Fair value	Difference between carrying amount net and fair value
1 662 067	172 271	1 489 796	1 489 971	175

Given the analysis underway, as at 31.03.2018, BZ WBK Group continued to measure the discussed financial assets portfolio at amortised cost. Below is the restated financial information presented in the condensed consolidated 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 consolidated 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 31.03.2018	Fair value measurement as at 31.03.2018	Value as at 31.03.2018 after amendment
Net trading income and revaluation	20 073	-	175	-	(1 639)	18 609
Impairment losses on loans and advances	(222 966)	-	-	3 249	-	(219 717)

Below are selected restated positions of consolidated 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 31.03.2018	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	108 971 391	(1 407 630)	-	-	-	107 563 761
Loans and advances to customers measured at fair value through profit or loss	106 400	1 407 630	175	3 249	(1 639)	1 515 815
Retained earnings	3 051 743	-	-	-	-	3 051 743
Profit for the current period	438 734	-	175	3 249	(1 639)	440 519

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 BZ WBK Group, 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 BZ WBK Group.

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

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

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

Derecognition of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

Derecognition of financial liabilities

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

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

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

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

- the carrying amount allocated to the part derecognised, and
- the consideration paid, including any non-cash assets transferred or liabilities assumed, for the part derecognised

are recognised in profit or loss.

Classification of financial assets and financial liabilities

Classification of financial assets

Classification of financial assets which are not equity instruments

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

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

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

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

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

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

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

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

Classification of financial assets which are equity instruments

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

Business models

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

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

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

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

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

Qualitative criteria for the assessment of a business model

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

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

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

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

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

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

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

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

Quantitative criteria for the assessment of a business model

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

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

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

- if the sale is due to the increase in credit risk related to the assets,

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

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

Business model types

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

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

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, BZ WBK Group 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 BZ WBK Group’s stated objective for managing the financial assets is achieved and, specifically, how cash flows are realised. BZ WBK Group 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, BZ WBK Group needs not hold all of those instruments until maturity. Thus, BZ WBK Group’s 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 BZ WBK Group 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

BZ WBK Group 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 BZ WBK Group 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, BZ WBK Group 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 BZ WBK Group undertakes to ensure financing with a planned promise to reduce the exposure of BZ WBK Group 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 BZ WBK Group manages the financial assets with the objective of realising cash flows through the sale of the assets. BZ WBK Group makes decisions based on the assets' fair values and manages the assets to realise those fair values. In this case, BZ WBK Group's objective will typically result in active buying and selling. Even though BZ WBK Group 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. BZ WBK Group 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 BZ WBK Group 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 BZ WBK Group except in the case of:

- debt instruments measured at fair value through other comprehensive income that are maintained in the ALM segment 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

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

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

The following are not changes in business model:

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

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

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

Characteristics of contractual cash flows

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

- whose objective is to hold assets to collect contractual cash flows or

- whose objective is achieved by both collecting contractual cash flows and selling financial assets
  unless BZ WBK Group has designated that financial asset to be measured at fair value through profit or loss.

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

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

Interest should include the consideration for:

- the time value of money,
- credit risk,
- other basic lending risks and costs,
- and a profit margin.

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

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

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

Classification of financial liabilities

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

- financial liabilities measured at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- financial guarantee contracts. After initial recognition at fair value, the issuer shall measure contract at the higher of:
  (i) amount of the expected credit loss allowance,
  (ii) initial recognised amount, less respective cumulated income recognised as per IFRS 15;
- commitments to provide a loan at a below-market interest rate. If the liability is not measured at fair value through profit or loss, the issuer shall measure it at the higher of:
  (i) amount of the expected credit loss allowance,
  (ii) initial recognised amount, less respective cumulated income recognised as per IFRS 15;
- contingent consideration recognised by the acquire under the business combination arrangement governed by IFRS 3. Such contingent consideration shall subsequently be measured at fair value with changes recognised in profit or loss.

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

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

Embedded derivatives

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

Measurement of financial assets and financial liabilities

Initial measurement

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

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

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

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

Subsequent measurement of financial assets

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

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

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

Subsequent measurement of financial liabilities

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

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

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

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

Amortised cost measurement

Financial assets

Effective interest method

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

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

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

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 BZ WBK Group.

If the terms of the financial asset agreement change, the BZ WBK Group assesses whether the cash flows generated by the modified asset differ significantly from cash flows generated by financialasset before modification of the terms of the asset agreement. The result on modification is the difference between present value of the modified cash flows discounted using the old effective interest rate and instrument's gross balance sheet value before modification.

Modification criteria

When assessing whether a modification is substantial or minor, BZ WBK Group 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, BZ WBK Group 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:

1. 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%,
2. 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% BZ WBK Group 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, BZ WBK Group recalculates the gross carrying amount of the financial asset and shall recognise a modification gain or loss in profit or loss. The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets) or, when applicable, the revised effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Write-off

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

BZ WBK Group 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
- BZ WBK Group 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 (BZ WBK Group) 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

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

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

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

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

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

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

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

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

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

BZ WBK Group following the guidelines contained in the ITG document of 11.12.2015 (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, BZ WBK Group determines whether there is an objective evidence for impairment of a financial asset or a group of financial assets. Financial asset or a group of financial assets is impaired and the allowance for expected credit losses is justified if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an 'impairment event') and that impairment event (or events) has (have) an impact on the estimated future cash flows from that financial asset (or a group of assets) that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather, the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that the financial asset (or a group of financial assets) is impaired includes observable data that comes to the attention of the entity about the following events:

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

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

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

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

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

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

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

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

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

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

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

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

Impairment calculation methods are standardised across BZ WBK Group.

Simplified approach for trade receivables and contract assets

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

- do not contain a significant financing component (or when BZ WBK Group applies the practical expedient for contracts that are one year or less) in accordance with IFRS 15; or
- contain a significant financing component in accordance with IFRS 15, if BZ WBK Group chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses.

Identifying a significant increase in credit risk

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

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

- qualitative assumptions:
  - implementing dedicated monitoring strategies for the customer following the identification of early warning signals that indicate a significant increase in credit risk,
  - restructuring actions connected with making concessions to the customers as a result of their difficult financial standing,
- quantitative:
  - a risk buffer method based on the comparison of curves illustrating the probability of default over the currently remaining lifetime of the exposure based on the risk level assessment at exposure recognition and at reporting date,
  - delay in payment 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, BZ WBK Group recognises only the changes in lifetime expected credit losses as a loss allowance for purchased or originated credit-impaired financial assets.

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

Simplified approach for trade receivables and contract assets

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

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

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

Contingent liabilities

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

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

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

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

Gains and losses

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

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

Dividends are recognised in profit or loss only if:

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

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

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

Investments in equity instruments

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

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

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

Liabilities designated as measured at fair value through profit or loss

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

a) 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
b) the remaining amount of change in the fair value of the liability is presented in profit or loss unless the treatment of the effects of changes in the liability's credit risk described in (a) would create or enlarge an accounting mismatch in the profit or loss of BZ WBK Group.

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

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

Assets measured at fair value through other comprehensive income

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

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

Financial instruments held for trading

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

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

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

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

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

Hedge accounting

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

Intangible assets

Development costs

BZ WBK Group 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.

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

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

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

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

Net interest income

BZ WBK Group 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. BZ WBK Group recognises a contract with a customer within the scope of IFRS 15 if all the following conditions are met:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- BZ WBK Group has a present right to payment for the asset: if a customer is presently obliged to pay for an asset, then that may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset in exchange.
- The customer has legal title to the asset: legal title may indicate which party to a contract has the ability to direct the use of, and obtain substantially all of the remaining benefits from, an asset or to restrict the access of other entities to those benefits. Therefore, the transfer of legal title of an asset may indicate that the customer has obtained control of the asset. If BZ WBK Group retains legal title solely as protection against the customer's failure to pay, those rights of BZ WBK Group do not preclude the customer from obtaining control of an asset.
- BZ WBK Group has transferred physical possession of the asset: the customer's physical possession of an asset may indicate that the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from the asset or to restrict the access of other entities to those benefits. However, physical possession may not coincide with

control of an asset. For example, in some repurchase agreements and a customer or may have physical possession of an asset that BZ WBK Group controls.

- The customer has the significant risks and rewards of ownership of the asset: the transfer of the significant risks and rewards of ownership of an asset to the customer may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from the asset. However, when evaluating the risks and rewards of ownership of a promised asset, BZ WBK Group excludes any risks that give rise to a separate performance obligation in addition to the performance obligation to transfer the asset.
- The customer has accepted the asset: the customer's acceptance of an asset may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

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

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

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

3. Operating segments reporting

Presentation of information about business segments in Bank Zachodni WBK Group bases on management information model which is used for preparing of reports for the Management Board, which are used to assess performance of results and allocate resources. Operational activity of Bank Zachodni WBK Group has been divided into five segments: Retail Banking, Business & Corporate Banking, Corporate & Investment Banking (In 2nd quarter of 2018 the name of Global Corporate Banking was changed to Corporate and Investment Banking, the criteria of customers assignment to this business segment was maintained unchanged), ALM (Assets and Liabilities Management) and Centre, and Santander Consumer. They were identified based on customers and product types.

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

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

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

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

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

Income and cost allocations are regulated by agreements between segments, which are based on single rates for specific services or breakdown of total income and/or cost.

Assets and liabilities of a given segment are used for the operational activity and may be assigned to the segment directly or on a reasonable basis.

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

In 2018 introduced the following changes:

- customer resegmentation between business segments; Once a year, BZWBK Group carry out the resegmentation / migration of customers between operating segments which results from the fact that customer meet the criteria of assignment for different operating segment than before. This change is intended to provide services at the highest level of quality and tailored to individual needs or the scale of customer operations;
- in the further product offer customization and improvement of services efficiency, process of portfolio management and providing services for medium companies, which have been presented in Retail Banking Segment yet, were transferred to Business & Corporate Banking on the 30.05.2018. Results from those clients for 01.01.2018-30.06.2018, balance sheet at the date 30.06.2018, as well as comparative figures involve the change described above.

Comparable data are adjusted accordingly.

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

Retail Banking

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

Business & Corporate Banking

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

Corporate & Investment Banking

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

- transactional banking with such products as cash management, deposits, leasing, factoring, letters of credit, guarantees, bilateral lending and trade finance;
- lending, including project finance, syndicated facilities and bond issues;
- FX and interest rate risk management products provided to all the Bank's customers (segment allocates revenues from this activity to other segments, the allocation level may be subject to changes in consecutive years);
- underwriting and financing of securities issues, financial advice and brokerage services for financial institutions

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

ALM and Centre

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

Santander Consumer

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

In thousands of PLN

Consolidated income statement (by operating segments)

01.01.2018-30.06.2018	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate&Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	**1 273 034**	**320 764**	**92 856**	**358 639**	**740 740**	**2 786 033**
incl. internal transactions	(63 306)	(27 890)	2 077	89 048	71	-
Net fee and commission income	**654 745**	**177 263**	**122 712**	**5 964**	**84 190**	**1 044 874**
incl. internal transactions	44 272	33 735	(82 838)	6 208	(1 377)	-
Other income	**27 604**	**28 504**	**70 725**	**72 610**	**34 036**	**233 479**
incl. internal transactions	238	24 914	(22 421)	10 772	(13 503)	-
Dividend income	-	-	**26**	**98 471**	**11**	**98 508**
Operating costs	**(972 375)**	**(203 239)**	**(116 236)**	**(148 294)**	**(284 432)**	**(1 724 576)**
incl. internal transactions	(5 427)	(775)	-	7 180	(978)	-
Depreciation/amortisation	**(104 898)**	**(18 443)**	**(7 665)**	**(11 766)**	**(19 630)**	**(162 402)**
Impairment losses on loans and advances	**(291 475)**	**(54 291)**	**(3 560)**	**(766)**	**(124 666)**	**(474 758)**
Share in net profits (loss) of entities accounted for by the equity method	-	-	-	**25 502**	-	**25 502**
Tax on financial institutions	-	-	-	**(198 965)**	**(19 584)**	**(218 549)**
Profit before tax	**586 635**	**250 558**	**158 858**	**201 395**	**410 665**	**1 608 111**
Corporate income tax						**(353 169)**
Consolidated profit for the period						**1 254 942**
of which:						
attributable to owners of BZ WBK S.A.						**1 073 686**
attributable to non-controlling interests						**181 256**

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

In thousands of PLN

01.04.2018-30.06.2018	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate&Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	**643 191**	**161 128**	**41 263**	**174 630**	**375 995**	**1 396 207**
incl. internal transactions	(32 984)	(15 452)	1 535	46 864	37	-
Net fee and commission income	**328 218**	**93 101**	**67 797**	**(170)**	**40 814**	**529 760**
incl. internal transactions	23 320	18 726	(43 134)	1 765	(677)	-
Other income	**12 111**	**17 074**	**46 073**	**39 808**	**21 257**	**136 323**
incl. internal transactions	1 367	14 932	(12 278)	9 034	(13 055)	-
Dividend income	-	-	**26**	**98 292**	**5**	**98 323**
Operating costs	**(517 713)**	**(102 520)**	**(62 947)**	**(16 574)**	**(136 207)**	**(835 961)**
incl. internal transactions	(2 844)	(428)	-	3 970	(698)	-
Depreciation/amortisation	**(51 439)**	**(9 206)**	**(3 691)**	**(5 835)**	**(9 695)**	**(79 866)**
Impairment losses on loans and advances	**(145 907)**	**(21 027)**	**1 504**	**1 435**	**(87 797)**	**(251 792)**
Share in net profits (loss) of entities accounted for by the equity method	-	-	-	**14 504**	-	**14 504**
Tax on financial institutions	-	-	-	**(102 283)**	**(9 788)**	**(112 071)**
Profit before tax	**268 461**	**138 550**	**90 025**	**203 807**	**194 584**	**895 427**
Corporate income tax						**(172 690)**
Consolidated profit for the period						**722 737**
of which:						
attributable to owners of BZ WBK S.A.						**634 952**
attributable to non-controlling interests						**87 785**

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

Consolidated statement of financial position (by operating segments)

30.06.2018	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate&Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Loans and advances to customers	56 731 422	29 571 619	12 602 890	-	15 271 041	**114 176 972**
Investments in associates	-	-	-	855 457	-	**855 457**
Other assets	5 659 650	1 540 436	6 476 092	35 830 543	3 978 062	**53 484 783**
Total assets	**62 391 072**	**31 112 055**	**19 078 982**	**36 686 000**	**19 249 103**	**168 517 212**
Deposits from customers	74 362 608	23 339 762	10 311 199	5 451 954	8 558 792	**122 024 315**
Other liabilities and equity	4 423 322	3 629 831	8 454 454	19 294 979	10 690 311	**46 492 897**
Total equity and liabilities	**78 785 930**	**26 969 593**	**18 765 653**	**24 746 933**	**19 249 103**	**168 517 212**

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

In thousands of PLN

Consolidated income statement (by operating segments)

01.01.2017-30.06.2017	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate&Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	**1 148 913**	**316 147**	**93 809**	**344 629**	**652 985**	**2 556 483**
incl. internal transactions	(50 729)	(24 818)	552	74 610	385	-
Net fee and commission income	**642 207**	**155 534**	**112 455**	**(1 990)**	**62 629**	**970 835**
incl. internal transactions	36 215	29 107	(69 982)	5 540	(880)	-
Other income	**34 447**	**34 374**	**30 543**	**73 543**	**25 427**	**198 334**
incl. internal transactions	265	20 155	(18 859)	(18 280)	16 719	-
Dividend income	**-**	**-**	**161**	**75 754**	**9**	**75 924**
Operating costs	**(891 244)**	**(194 909)**	**(98 942)**	**(83 455)**	**(273 895)**	**(1 542 445)**
incl. internal transactions	(4 019)	(733)	-	6 450	(1 698)	-
Depreciation/amortisation	**(98 861)**	**(14 931)**	**(10 136)**	**(12 990)**	**(15 191)**	**(152 109)**
Impairment losses on loans and advances	**(174 128)**	**(54 101)**	**(412)**	**(1 363)**	**(15 874)**	**(245 878)**
Share in net profits (loss) of entities accounted for by the equity method	**-**	**-**	**-**	**23 812**	**-**	**23 812**
Tax on financial institutions	**-**	**-**	**-**	**(193 386)**	**(17 546)**	**(210 932)**
Profit before tax	**661 334**	**242 114**	**127 478**	**224 554**	**418 544**	**1 674 024**
Corporate income tax						**(412 549)**
Consolidated profit for the period						**1 261 475**
of which:						
attributable to owners of BZ WBK S.A.						**1 104 155**
attributable to non-controlling interests						**157 320**

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

In thousands of PLN

01.04.2017-30.06.2017	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate & Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	**582 466**	**159 908**	**50 871**	**175 421**	**333 821**	**1 302 487**
incl. internal transactions	(26 466)	(13 052)	307	39 055	156	-
Net fee and commission income	**326 309**	**82 636**	**61 806**	**(1 115)**	**26 006**	**495 642**
incl. internal transactions	17 605	16 190	(36 843)	3 488	(440)	-
Other income	**22 003**	**12 032**	**9 665**	**17 109**	**18 393**	**79 202**
incl. internal transactions	277	9 850	(7 992)	(6 796)	4 661	-
Dividend income	-	-	**160**	**75 416**	**3**	**75 579**
Operating costs	**(445 214)**	**(95 938)**	**(49 010)**	**(23 878)**	**(136 702)**	**(750 742)**
incl. internal transactions	(2 080)	(388)	-	3 340	(872)	-
Depreciation/amortisation	**(51 015)**	**(7 781)**	**(4 886)**	**(6 551)**	**(7 607)**	**(77 840)**
Impairment losses on loans and advances	**(88 682)**	**(27 714)**	**1 174**	**(1 175)**	**16 031**	**(100 366)**
Share in net profits (loss) of entities accounted for by the equity method	-	-	-	**15 157**	-	**15 157**
Tax on financial institutions	-	-	-	**(96 384)**	**(8 739)**	**(105 123)**
Profit before tax	**345 867**	**123 143**	**69 780**	**154 000**	**241 206**	**933 996**
Corporate income tax						**(199 737)**
Consolidated profit for the period						**734 259**
of which:						
attributable to owners of BZ WBK S.A.						**651 111**
attributable to non-controlling interests						**83 148**

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

Consolidated statement of financial position (by operating segments)

31.12.2017	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate & Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Loans and advances to customers	**53 569 956**	**27 889 630**	**11 830 105**	**-**	**14 550 206**	107 839 897
Investments in associates	-	-	-	889 372	-	889 372
Other assets	5 397 281	1 359 885	3 845 759	29 444 552	3 897 698	43 945 175
Total assets	**58 967 237**	**29 249 515**	**15 675 864**	**30 333 924**	**18 447 904**	**152 674 444**
Deposits from customers	69 496 656	21 246 416	8 128 154	4 454 999	8 154 910	111 481 135
Other liabilities and equity	4 591 627	3 362 391	5 357 993	17 588 304	10 292 994	41 193 309
Total equity and liabilities	**74 088 283**	**24 608 807**	**13 486 147**	**22 043 303**	**18 447 904**	**152 674 444**

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

In thousands of PLN

4. Risk management

In the first half of 2018, BZ WBK Group managed its risks in accordance with the principles laid down in the consolidated financial statements for 2017. Except as indicated below, no other material changes took place in the risk management process of BZ WBK Group.

Credit risk

In the reporting period, the credit risk management of BZ WBK Group did not undergo any material changes.

Mortgage loans – currency analysis

Mortgage portfolio of BZ WBK Group consist credit exposures denominated both in PLN and foreign currencies. From the perspective of exposure to currency risk the most important category of retail FX loans are loans denominated in CHF.

The table below presents the PLN equivalent of the mortgage loan-book value of Bank Zachodni WBK Group as at 30.06.2018 and 31.12.2017:

Gross mortgage loans by currency	30.06.2018	31.12.2017
CHF denominated mortgage loans, of which:	10 878 626	10 771 859
Bank Zachodni WBK	*8 509 097*	*8 425 648*
Santander Consumer Bank	*2 369 529*	*2 346 211*
Mortgage loans denominated in other currencies, of which:	28 458 311	26 521 437
in PLN	*26 502 940*	*24 560 622*
Total	**39 336 937**	**37 293 296**

Risk profile of CHF-indexed/denominated loans

CHF gross mortgage loans as at 30.06.2018	Gross amount	Impairment losses	Coverage ratio
Performing loans	10 680 579	62 030	0,58%
Non-performing loans	*198 047*	*84 158*	*42,49%*
Total	**10 878 626**	**146 188**	

CHF gross mortgage loans as at 31.12.2017	Gross amount	Impairment losses	Coverage ratio
Performing loans	10 595 020	51 774	0,49%
Non-performing loans	176 839	77 549	43,85%
Total	**10 771 859**	**129 323**	

Forbearance Exposures

In the first half of 2018, no material changes to management of assets subject to forbearance measures took place. The principles laid down in the consolidated financial statements for 2017 are still valid. Except the amounts presented below, no other material changes took place in this area.

		30.06.2018	31.12.2017
Loans and advances to customers- gross amount under forebearance measure:		**3 053 656**	**3 460 838**
	corporate exposures	1 825 458	1 972 878
	mortgage exposures	944 806	1 227 239
	individuals exposures	283 392	260 721
Allowance for impairment - forbearance clients		**(981 613)**	**(847 582)**
		-	-
of which:	individually impaired	(392 717)	(413 613)
		-	-
Loans and advances to forebearance clients- net amount		**2 072 043**	**2 613 256**

In thousands of PLN

Analysis of credit quality of financial assets subject to forbearance:

Loans and advances to customers under forebearance	Gross exposure		Collateral value		Allowance for impairment	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Loans and advances -impaired	1 875 558	1 774 300	8 375 702	9 354 162	(838 468)	(793 791)
Loans and advances -unimpaired	1 178 098	1 686 538	2 973 230	3 079 351	(143 145)	(53 791)
non-overdue	940 885	1 316 773	2 590 550	2 488 941	(116 876)	(32 470)
from 1 to 30 days overdue	151 990	254 422	254 913	421 737	(15 134)	(13 531)
from 31 to 60 days overdue	58 414	76 150	95 125	113 030	(6 978)	(3 916)
from 61 to 90 days overdue	26 809	39 193	32 642	55 643	(4 158)	(3 874)
Total gross amount	3 053 656	3 460 838	11 348 932	12 433 513	(981 613)	(847 582)

Interest income on assets subject to forbearance was PLN 40,756 k as at 30.06.2018 and PLN 82,418 k as at 31.12.2017.

Loans and advances to customers under forbearance by geographical region (gross amount)	30.06.2018	31.12.2017
Dolnośląskie	346 140	357 370
Kujawsko-Pomorskie	136 807	67 175
Lubelskie	46 230	50 461
Lubuskie	56 113	61 876
Mazowieckie	1 007 947	1 376 072
Małopolskie	217 493	222 240
Opolskie	31 045	30 244
Podkarpackie	30 431	34 630
Podlaskie	33 168	38 677
Pomorskie	171 473	180 989
Warmińsko-Mazurskie	35 411	41 277
Wielkopolskie	192 611	187 622
Zachodniopomorskie	73 451	76 702
Śląskie	573 473	574 185
Świętokrzyskie	19 816	76 776
Łódzkie	82 047	84 542
Total	**3 053 656**	**3 460 838**

Loans and advances to customers under forbearance by industry (gross amount)	30.06.2018	31.12.2017
Construction	100 297	224 891
Distribution	134 740	82 793
Energy	460 752	398 913
Financial sector	1 736	557
Other industries	192 534	192 709
Property	610 520	799 621
Manufacturing	261 589	169 215
Agriculture	23 244	69 065
Transportation	40 046	35 114
Individuals	1 228 198	1 487 960
Total	**3 053 656**	**3 460 838**

	30.06.2018	31.12.2017
Net carrying amount at beggining of the period	2 613 256	3 087 089
Allowance for impairment	(134 030)	107 013
Loans and advances derecognised during the period	(910 627)	(144 515)
Loans and advances recognised during the period	567 364	1 174 068
Other changes/repayments	(63 920)	(1 610 399)
Net carrying amount at the end of the period	**2 072 043**	**2 613 256**

Liquidity risk

In the reporting period, the liquidity risk management of BZ WBK Group did not undergo any material changes. In terms of monitoring and reporting of risk, successfully implemented the requirements set out in the Regulation of the European Parliament and of the Council of the European Union on prudential requirements for credit institutions and investment firms for the measurement and reporting of new liquidity measures.

In thousands of PLN

The table below presents the supervisory liquidity measures as well as contractual liquidity mismatch of Bank Zachodni WBK as at 30.06.2018 and 31.12.2017:

Supervisory liquidity measures	30.06.2018	31.12.2017
M1 (k PLN)	18 836 138	15 277 725
M2	1,37	1,45
M3	4,03	4,35
M4	1,18	1,18
LCR	143%	141%

30.06.2018	A'vista	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	above 5 years
Assets	18 173 105	7 425 321	2 004 059	4 176 450	11 243 892	12 541 330	30 851 395	61 195 005
Liabilities and equity	67 684 149	19 813 688	10 759 737	10 931 578	6 223 566	1 853 870	1 680 055	28 663 913
including:								
- Deposits from banks	1 285 924	4 892 354	193 342	190 175	2 500	-	-	-
- Deposits from customers	66 398 224	14 921 333	10 127 210	10 265 872	5 605 977	978 305	61 232	-
- Debt securities in issue	-	-	-	-	500 000	500 000	-	-
- Subordinated liabilities	-	-	-	-	-	-	-	2 557 527
Contractual liquidity mismatch/ gap	(49 511 043)	(12 388 367)	(8 755 678)	(6 755 128)	5 020 326	10 687 459	29 171 339	32 531 091
Cumulative liquidity gap	(49 511 043)	(61 899 410)	(70 655 088)	(77 410 216)	(72 389 890)	(61 702 431)	(32 531 092)	0
Net derivatives	-	100 915	76 112	19 529	(20 971)	(38 435)	(233 510)	(285 245)

31.12.2017	A'vista	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	above 5 years
Assets	16 285 962	5 487 477	2 737 369	7 877 137	6 474 997	11 747 539	29 354 839	52 897 949
Liabilities and equity	67 168 347	15 213 615	9 738 589	6 721 398	4 428 302	1 519 570	1 388 162	26 685 287
including:								
- Deposits from banks	746 740	2 101 959	410 361	73 443	15 400	-	-	-
- Deposits from customers	66 421 607	12 903 111	8 550 663	6 125 335	3 538 241	1 160 548	48 603	-
- Debt securities in issue	-	-	750 000	485 000	-	-	-	-
- Subordinated liabilities	-	-	-	-	-	-	-	1 489 428
Contractual liquidity mismatch/ gap	(50 882 386)	(9 726 138)	(7 001 220)	1 155 740	2 046 695	10 227 969	27 966 677	26 212 662
Cumulative liquidity gap	(50 882 386)	(60 608 523)	(67 609 743)	(66 454 003)	(64 407 308)	(54 179 339)	(26 212 662)	0
Net derivatives	-	(63 970)	13 782	(76 812)	(33 280)	12 856	(6 049)	(119 732)

5. Capital management

Details on capital management have been presented in document „Information on Capital Adequacy of Bank Zachodni WBK Group as at 30.06.2018".

In thousands of PLN

6. Net interest income

Interest income	01.04.2018-30.06.2018 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	449 308	-	510	449 818
Loans and advances to individuals, of which:	918 048	-	60 212	978 260
Home mortgage loans	293 213	-	-	293 213
Debt securities incl.:	-	174 832	(5 649)	169 183
Investment securities	-	*174 832*	-	*174 832*
Trading portfolio	-	-	*(5 649)*	*(5 649)*
Leasing agreements	61 777	-	-	61 777
Loans and advances to banks	8 378	-	-	8 378
Public sector	1 941	-	-	1 941
Reverse repo transactions	15 780	-	-	15 780
Interest recorded on hedging IRS	51 606	-	-	51 606
Total	**1 506 838**	**174 832**	**55 073**	**1 736 743**

Interest expenses	01.04.2018-30.06.2018 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	(140 819)	-	-	(140 819)
Deposits from enterprises	(94 367)	-	-	(94 367)
Repo transactions	(17 766)	-	-	(17 766)
Deposits from public sector	(16 044)	-	-	(16 044)
Deposits from banks	(9 675)	-	-	(9 675)
Subordinated liabilities and issue of securities	(61 865)	-	-	(61 865)
Total	**(340 536)**	**-**	**-**	**(340 536)**
Net interest income	**1 166 302**	**174 832**	**55 073**	**1 396 207**

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	874 311	-	1 011	875 322
Loans and advances to individuals, of which:	1 865 793	-	60 212	1 926 005
Home mortgage loans	573 517	-	-	573 517
Debt securities incl.:	-	338 071	213	338 284
Investment securities	-	*338 071*	-	*338 071*
Trading portfolio	-	-	*213*	*213*
Leasing agreements	132 489	-	-	132 489
Loans and advances to banks	16 069	-	-	16 069
Public sector	3 915	-	-	3 915
Reverse repo transactions	29 433	-	-	29 433
Interest recorded on hedging IRS	103 727	-	-	103 727
Total	**3 025 737**	**338 071**	**61 436**	**3 425 244**

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	(259 714)	-	-	(259 714)
Deposits from enterprises	(178 961)	-	-	(178 961)
Repo transactions	(35 512)	-	-	(35 512)
Deposits from public sector	(29 349)	-	-	(29 349)
Deposits from banks	(22 937)	-	-	(22 937)
Subordinated liabilities and issue of securities	(112 738)	-	-	(112 738)
Total	**(639 211)**	**-**	**-**	**(639 211)**
Net interest income	**2 386 526**	**338 071**	**61 436**	**2 786 033**

In thousands of PLN

Interest income	01.04.2017-30.06.2017	01.01.2017-30.06.2017
Loans and advances to enterprises	423 211	822 230
Loans and advances to individuals, of which:	888 127	1 741 261
Home mortgage loans	*262 395*	513 077
Debt securities incl.:	162 598	323 738
Investment portfolio available for sale	*153 207*	*311 446*
Trading portfolio	*9 391*	*12 292*
Leasing agreements	63 975	125 041
Loans and advances to banks	16 183	31 374
Public sector	1 518	3 228
Reverse repo transactions	6 082	9 175
Interest recorded on hedging IRS	59 274	124 723
Total	**1 620 968**	**3 180 770**
Interest expenses	**01.04.2017-30.06.2017**	**01.01.2017-30.06.2017**
Deposits from individuals	(145 984)	(286 409)
Deposits from enterprises	(82 836)	(172 652)
Repo transactions	(14 282)	(21 507)
Deposits from public sector	(14 626)	(25 539)
Deposits from banks	(11 739)	(24 512)
Subordinated liabilities and issue of securities	(49 014)	(93 668)
Total	**(318 481)**	**(624 287)**
Net interest income	**1 302 487**	**2 556 483**

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	170 330	317 339	145 418	284 003
Current accounts and money transfer	80 399	161 898	85 518	168 879
Asset management fees	79 986	161 187	74 900	143 965
Foreign exchange commissions	100 549	189 640	84 907	163 038
Credit commissions	91 124	171 807	77 780	150 038
Insurance commissions	54 189	104 333	56 656	108 137
Brokerage activities	19 072	37 204	22 670	44 739
Credit cards	42 142	85 260	42 160	82 189
Off-balance sheet guarantee commissions	14 935	29 757	11 831	24 619
Finance lease commissions	4 647	9 019	4 117	8 091
Issue arrangement fees	2 827	5 885	7 807	8 804
Distribution fees	683	1 546	3 042	6 898
Other commissions	3 777	7 510	4 018	10 000
Total	**664 660**	**1 282 385**	**620 824**	**1 203 400**
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	(66 668)	(111 876)	(45 415)	(89 356)
Distribution fees	(4 955)	(10 263)	(5 832)	(11 637)
Brokerage activities	(2 388)	(5 119)	(2 739)	(5 911)
Credit cards	(10 189)	(18 895)	(9 623)	(18 546)
Credit commissions paid	(20 883)	(32 656)	(31 097)	(50 404)
Insurance commissions	(2 678)	(5 396)	(3 536)	(5 838)
Finance lease commissions	(6 451)	(13 495)	(7 008)	(12 975)
Asset management fees and other costs	(1 799)	(3 628)	(1 620)	(3 250)
Other	(18 889)	(36 183)	(18 312)	(34 648)
Total	**(134 900)**	**(237 511)**	**(125 182)**	**(232 565)**
Net fee and commission income	**529 760**	**1 044 874**	**495 642**	**970 835**

In thousands of PLN

8. Net trading income and revaluation

Net trading income and revaluation	01.04.2018-30.06.2018	01.01.2018-30.06.2018	01.04.2017-30.06.2017	01.01.2017-30.06.2017
Derivative instruments and interbank fx transactions	46 611	63 649	27 796	68 811
Other FX related income	(5 745)	(102)	12 027	22 995
Profit on equity instruments	-	-	697	4 053
Profit on debt instruments	-	-	(4 292)	(3 773)
Profit on equity securities mandatorily measured at fair value through other profit or loss	(18)	(3 020)	-	-
Profit on debt securities mandatorily measured at fair value through other profit or loss	11 114	11 508	-	-
Change in fair value of loans and advances mandatorily measured at fair value through other profit or loss	1 787	1 787	-	-
Total	**53 749**	**73 822**	**36 228**	**92 086**

Net trading income and revaluation includes the change of the value of derivative instruments in the amount of PLN 2,287 k for H1 2018, PLN 5,761 k for 2Q 2018 and PLN (10,932) k for H1 2017, PLN (6,015) 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, PLN (5,947) k for 2Q 2017.

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	-	-
Profit on sale of other investment securities mandatorily measured at fair value through other profit or loss	3	(1)	-	-
Change in fair value of investment securities mandatorily measured at fair value through other profit or loss	(34)	(143)	-	-
Total profit (losses) on financial instruments	**7 467**	**7 564**	**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	(8 253)	682	(1 828)	(3 719)
Total profit (losses) on hedging and hedged instruments	**(1 314)**	**(1 711)**	**1 070**	**1 968**
Total	**6 153**	**5 853**	**10 770**	**27 947**

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	4 672	15 787	6 938	10 314
Reimbursements of BGF charges	-	-	-	433
Release of provision for legal cases and other assets	53 205	55 127	12 355	13 784
Settlements of leasing agreements	588	1 553	591	1 543
Recovery of other receivables	1 928	4 233	1 112	2 615
Profit on sales or liquidation of fixed assets, intangible assets and assets for disposal	(2 797)	41 480	(457)	(237)
Received compensations, penalties and fines	268	1 681	175	537
Other income from legal cases	-	-	31	24 162
Other	18 557	34 008	11 459	21 393
Total	**76 421**	**153 869**	**32 204**	**74 544**

In thousands of PLN

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	(7 618)	4 262	(251 180)	(254 536)
Recoveries of loans previously written off	-	-	(1 272)	(1 272)
Off-balance sheet credit related facilities	1 976	3 344	(1 237)	4 083
Total	**(5 709)**	**7 606**	**(253 689)**	**(251 792)**

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	(22 209)	30 421	(501 108)	(492 896)
Recoveries of loans previously written off	-	-	16 408	16 408
Off-balance sheet credit related facilities	(564)	5 455	(3 094)	1 797
Total	**(22 840)**	**35 876**	**(487 794)**	**(474 758)**

Impairment losses on loans and advances	01.04.2017-30.06.2017	01.01.2017-30.06.2017
Collective and individual impairment charge	(90 271)	(248 587)
Incurred but not reported losses charge	(28 071)	(45 387)
Recoveries of loans previously written off	15 694	46 956
Off-balance sheet credit related facilities	2 282	1 140
Total	**(100 366)**	**(245 878)**

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	(336 786)	(661 655)	(317 819)	(631 042)
Salary related costs	(58 364)	(117 731)	(55 758)	(113 823)
Staff benefits costs	(9 594)	(17 893)	(9 900)	(18 295)
Professional trainings	(4 740)	(7 617)	(5 022)	(7 502)
Retirement fund, holiday provisions and other employee costs	16 487	15 908	(620)	(1 244)
Total	**(392 997)**	**(788 988)**	**(389 119)**	**(771 906)**

In thousands of PLN

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	(84 204)	(168 371)	(87 668)	(173 963)
Marketing and representation	(43 050)	(68 514)	(32 056)	(62 654)
IT systems costs	(80 520)	(140 851)	(54 373)	(108 383)
Cost of BFG, KNF and KDPW	(3 351)	(166 981)	(70 153)	(175 305)
Postal and telecommunication costs	(20 043)	(32 898)	(11 748)	(24 624)
Consulting fees	(23 433)	(42 295)	(11 378)	(24 692)
Cars, transport expenses, carriage of cash	(16 955)	(32 196)	(16 733)	(33 132)
Other external services	(37 999)	(74 101)	(20 231)	(41 052)
Stationery, cards, cheques etc.	(5 445)	(11 637)	(5 833)	(11 937)
Sundry taxes	(9 020)	(17 527)	(8 131)	(16 257)
Data transmission	(3 482)	(7 044)	(3 721)	(7 330)
KIR, SWIFT settlements	(8 347)	(15 519)	(6 286)	(13 787)
Security costs	(7 698)	(14 781)	(7 098)	(13 863)
Costs of repairs	(7 629)	(18 437)	(3 087)	(6 674)
Other	(7 240)	(13 727)	(6 472)	(12 238)
Total	**(358 416)**	**(824 879)**	**(344 968)**	**(725 891)**

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	(69 924)	(79 758)	(267)	(16 016)
Costs of purchased services	(2 342)	(7 947)	(3 826)	(4 830)
Other memebership fees	(353)	(534)	(197)	(387)
Paid compensations, penalties and fines	(3 568)	(6 907)	(3 429)	(8 154)
Donations paid	(2 729)	(2 768)	(922)	(2 422)
Other	(5 632)	(12 795)	(8 014)	(12 839)
Total	**(84 548)**	**(110 709)**	**(16 655)**	**(44 648)**

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	(264 388)	(452 483)	(274 755)	(364 915)
Deffered tax	91 698	97 031	75 018	(47 803)
Adjustments from previeus years	-	2 283	-	169
Total income tax expense	**(172 690)**	**(353 169)**	**(199 737)**	**(412 549)**
Current tax charge in the retained earnings (capital)	(14)	(31)	-	-
Total income tax expense	**(172 704)**	**(353 200)**	**(199 737)**	**(412 549)**

In thousands of PLN

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	895 427	1 608 111	933 996	1 674 024
Tax rate	19%	19%	19%	19%
Tax calculated at the tax rate	(170 131)	(305 541)	(177 459)	(318 065)
Non-tax-deductible expenses	(3 958)	(6 259)	(5 086)	(5 068)
The fee to the Bank Guarantee Fund	6	(30 442)	(12 726)	(32 103)
Tax on financial institutions	(21 294)	(41 524)	(19 973)	(40 077)
Sale of receivables	(11)	(45)	(15 051)	(35 237)
Non-taxable income (dividends)	18 642	18 642	14 330	14 330
Non-tax deductible bad debt provisions	(6 424)	(6 042)	1 766	(3 136)
Adjustment of prior year tax	-	2 283	-	169
Tax effect of consolidation adjustments	11 284	18 077	14 220	8 459
Other	(804)	(2 318)	242	(1 821)
Total income tax expense	**(172 690)**	**(353 169)**	**(199 737)**	**(412 549)**
Sale of equity investments measured at fair value through other comprehensive income	(14)	(31)	-	-
Total income tax expense	**(172 704)**	**(353 200)**	**(199 737)**	**(412 549)**

Deferred tax recognised in other comprehensive income	30.06.2018	31.12.2017
Relating to equity securities available-for-sale	-	(130 950)
Relating to debt securities available-for-sale	-	(57 957)
Relating to valuation of debt investments measured at fair value through other comprehensive income	(76 644)	-
Relating to valuation of equity investments measured at fair value through other comprehensive income	(135 061)	-
Relating to cash flow hedging activity	16 379	20 508
Relating to valuation of defined benefit plans	(2 673)	(125)
Total	**(197 999)**	**(168 524)**

16. Cash and balances with central banks

Cash and balances with central banks	30.06.2018	31.12.2017
Cash	1 979 152	2 270 698
Current accounts in central banks	2 656 891	1 857 824
Term deposits	45 400	17 700
Total	**4 681 443**	**4 146 222**

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

17. Loans and advances to banks

Loans and advances to banks	30.06.2018	31.12.2017
Loans and advances	10 134	850 541
Current accounts	1 694 468	1 285 933
Gross receivables	**1 704 602**	**2 136 474**
Allowance for impairment	(67)	-
Total	**1 704 535**	**2 136 474**

In thousands of PLN

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	**1 500 306**	**1 194 616**	**1 226 551**	**1 237 704**
Interest rate operations	378 575	257 153	307 344	275 046
Transactions on equity instruments	6 394	6 394	6 053	6 053
FX operations	1 115 337	931 069	913 154	956 605
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	**6 087 648**	**1 254 699**	**3 416 108**	**1 237 704**

Financial assets and liabilities held for trading - trading derivatives include the change in the value of counterparty risk in the amount of PLN 2,619 k as at 30.06.2018 and PLN 190 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	90 344	804 390	215 778	463 302
Total hedging derivatives	**90 621**	**951 207**	**218 061**	**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, Group 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). Group 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.

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	50 504 864	119 887	47 776 973
Loans and advances to individuals, of which:	59 681 052	1 382 099	57 822 414
Home mortgage loans	*39 336 937*	-	*37 293 296*
Finance lease receivables	7 504 805	-	6 848 960
Loans and advances to public sector	297 466	-	228 201
Other	13 422	-	9 479
Gross receivables	**118 001 609**	**1 501 986**	**112 686 027**
Allowance for impairment	(5 326 623)	-	(4 846 130)
Total	**112 674 986**	**1 501 986**	**107 839 897**

In thousands of PLN

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	-	-	-	**(4 846 130)**
Impact of the implementation of IFRS 9	-	-	-	(389 415)
Balance as at 01.01.2018 (restated)	**(454 569)**	**(552 259)**	**(4 228 717)**	**(5 235 545)**
Charge/write back of current period	(22 209)	30 421	(501 108)	(492 896)
Write off/Sale of receivables	106	-	255 385	255 491
Transfer (incl. impairment charge reversal due to credit cards reclassification)	9 185	10 431	148 727	168 343
F/X differences	(1 834)	(4 622)	(15 560)	(22 016)
Balance at the end of the period	**(469 321)**	**(516 029)**	**(4 341 273)**	**(5 326 623)**

Movements on impairment losses on loans and advances to customers	30.06.2017
Individual and collective impairment	
As at the beginning of the period	(4 187 798)
Individual and collective impairment acquired in a business combination	-
Charge/write back of current period	(248 587)
Write off/Sale of receivables	401 271
Transfer	(15 191)
F/X differences	18 764
Balance at the end of the period	**(4 031 541)**
IBNR	
As at the beginning of the period	**(691 083)**
IBNR acquired in a business combination	-
Charge/write back of current period	(45 387)
Sale of receivables	3 246
Transfer	1 900
F/X differences	7 348
Balance at the end of the period	**(723 976)**
Allowance for impairment	**(4 755 517)**

Purchased or originated credit-impaired financial assets

The portfolio of loans and advances to customers of BZ WBK Group 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.

BZ WBK Group 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, BZ WBK Group 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. BZ WBK Group recognises favourable changes in lifetime expected credit losses as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows at initial recognition.

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	1 329 796	992 132	337 664	-
2	31 March 2018	1 275 975	973 840	-	302 135
3	30 June 2018	1 230 971	933 079	-	297 892

In thousands of PLN

21. Investment securities

Investment securities	30.06.2018
Debt securities measured at fair value through other comprehensive income	**33 903 526**
Government securities:	28 492 470
- bonds	28 492 470
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	**959 963**
- listed	18 663
- unlisted	941 300
Other investment securities mandatorily measured at fair value through other profit or loss	**2 356**
Total	**34 865 845**

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

Movements on investment securities	Debt securities measured at fair value through other comprehensive income	Equity securities measured at fair value through other comprehensive income	Other investment securities mandatorily measured at fair value through other profit or loss	Total
Balance as at 31.12.2017	**27 494 933**	**920 879**	**-**	**28 415 812**
Impact of the implementation of IFRS 9	-	**(15 094)**	-	**(15 094)**
Balance as at 01.01.2018 (restated)	**27 494 933**	**905 785**	**-**	**28 400 718**
Additions	52 249 845	1 207	5 200	52 256 252
Disposals (sale and maturity)	(46 229 409)	(89)	(2 701)	(46 232 199)
Fair value adjustment	98 023	53 060	(143)	150 940
Movements on interest accrued	192 055	-	-	192 055
Allowances for impairment	-	-	-	-
F/X differences	98 079	-	-	98 079
As at 30.06.2018	**33 903 526**	**959 963**	**2 356**	**34 865 845**

Movements on financial assets available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 01.01.2017	**28 423 828**	**884 050**	**29 307 878**
Additions	26 504 594	936	26 505 530
Disposals (sale and maturity)	(29 501 422)	(8 539)	(29 509 961)
Fair value adjustment	324 229	11 990	336 219
Movements on interest accrued	179 254	-	179 254
Allowances for impairment	-	-	-
F/X differences	(83 647)	-	(83 647)
As at 30.06.2017	**25 846 836**	**888 437**	**26 735 273**

In thousands of PLN

22. Investments in associates

Balance sheet value of associates	30.06.2018	31.12.2017
Polfund - Fundusz Poręczeń Kredytowych S.A.	43 804	43 570
BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.and BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A.	811 653	845 802
Total	**855 457**	**889 372**

Movements on investments in associates	01.01.2018-30.06.2018	01.01.2017-30.06.2017
Balance as at 01.01.2018	**889 372**	**871 491**
Share of profits/(losses)	25 502	23 812
Dividends	(60 695)	(44 861)
Other	1 278	2 885
Balance at the end of the period	**855 457**	**853 327**

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	162	95
Total	**12 860**	**103**

24. Deposits from banks

Deposits from banks	30.06.2018	31.12.2017
Term deposits	203 110	64 023
Loans from other banks	1 946 265	1 994 759
Current accounts	1 103 211	724 301
Total	**3 252 586**	**2 783 083**

Movements in loans received from banks	30.06.2018	30.06.2017
As at the beginning of the period	**1 994 759**	**1 945 101**
Increase (due to:)	**205 111**	**405 750**
- drawing of loans	150 000	390 000
- interest on loans	14 842	15 750
- FX differences and other	40 269	-
Decrease (due to):	**(253 605)**	**(451 728)**
- repayment of loans	(238 480)	(388 514)
- interest repayment	(15 125)	(15 742)
- FX differences and other	-	(47 472)
As at the end of the period	**1 946 265**	**1 899 123**

In thousands of PLN

25. Deposits from customers

Deposits from customers	30.06.2018	31.12.2017
Deposits from individuals	**70 021 925**	**64 987 719**
Term deposits	25 414 208	21 911 544
Current accounts	44 418 447	42 948 226
Other	189 270	127 949
Deposits from enterprises	**46 928 557**	**42 170 092**
Term deposits	22 805 832	17 486 056
Current accounts	19 066 669	20 481 778
Loans	4 122 912	3 552 388
Other	933 144	649 870
Deposits from public sector	**5 073 833**	**4 323 324**
Term deposits	2 981 535	2 085 917
Current accounts	2 088 270	2 233 410
Other	4 028	3 997
Total	**122 024 315**	**111 481 135**

Movements in loans received from other financial institutions	30.06.2018	30.06.2017
As at the beginning of the period	**3 552 388**	**4 075 897**
Increase (due to:)	**723 549**	**219 176**
- drawing of loans	543 374	210 560
- interest on loans	9 620	8 616
- FX differences and other	170 555	-
Decrease (due to):	**(153 025)**	**(718 437)**
- repayment of loans	(145 206)	(534 756)
- interest repayment	(7 819)	(8 866)
- FX differences and other	-	(174 815)
As at the end of the period	**4 122 912**	**3 576 636**

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
SCF Madrid	18.05.2028	PLN	100 000

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):	**1 200 144**	**532 124**
- drawing of subordinated loan	100 000	-
- interest on subordinated loan	26 713	14 900
- FX differences	68 153	-
- 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	**2 665 741**	**929 221**
Short-term	16 810	2 770
Long-term (over 1 year)	2 648 931	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
SCB00042	100 000	PLN	05.03.2021
SCB00043	60 000	PLN	29.03.2022
SCB00044	156 000	PLN	14.05.2021
SCB00045	90 000	PLN	18.05.2021
SCB00046	45 000	PLN	18.05.2021

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

Movements in debt securities in issue	30.06.2018	30.06.2017
As at the beginning of the period	**5 895 814**	**5 529 187**
Increase (due to:)	**3 385 733**	**1 322 568**
- debt securities in issue	3 301 000	1 238 788
- interest on debt securities in issue	84 733	78 921
- F/X differences	-	4 859
Decrease (due to):	**(3 212 739)**	**(889 772)**
- debt securities redemption	(2 125 000)	(285 000)
- reclassification*	(1 005 278)	(517 224)
- FX differences	-	(13 656)
- interest repayment	(82 461)	(73 892)
As at the end of the period	**6 068 808**	**5 961 983**

*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	52 243	40 574
Provisions for financial guarantees	11 400	9 518
Other provisions	652	560
Total	**64 295**	**50 652**

Change in provisions for off balance sheet credit facilities	30.06.2018
Balance as at 31.12.2017	**50 652**
Impact of the implementation of IFRS 9	15 034
Balance as at 01.01.2018 (restated)	**65 686**
Provision charge	83 804
Utilization	411
Write back	(85 601)
Other changes	(5)
Balance at the end of the period	**64 295**
Short-term	51 320
Long-term	12 975

In thousands of PLN

Change in provisions for off balance sheet credit facilities	30.06.2017
As at the beginning of the period	**50 746**
Provision charge	36 659
Utilization	(408)
Write back	(37 799)
Balance at the end of the period	**49 198**
Short-term	42 082
Long-term	7 116

29. Other provisions

Other provisions	30.06.2018	31.12.2017
Provisions for legal claims	150 630	99 463
Provisions for restructuring	1 404	3 019
Total	**152 034**	**102 482**

Change in other provisions 30.06.2018	Provisions for legal claims	Provisions for restructuring	Total
As at the beginning of the period	**99 463**	**3 019**	**102 482**
Provision charge	83 884	-	83 884
Utilization	(3 188)	-	(3 188)
Write back	(29 529)	(1 615)	(31 144)
Balance at the end of the period	**150 630**	**1 404**	**152 034**

Change in other provisions 30.06.2017	Provisions for legal claims	Provisions for restructuring	Total
As at the beginning of the period	**74 396**	**4 986**	**79 382**
Provision charge	18 888	4 755	23 643
Utilization	(11 751)	-	(11 751)
Write back	58	(1 743)	(1 685)
Balance at the end of the period	**81 591**	**7 998**	**89 589**

30. Other liabilities

Other liabilities	30.06.2018	31.12.2017
Settlements of stock exchange transactions	26 696	25 851
Interbank settlements	591 540	952 192
Employee provisions	286 506	407 722
Other provisions	3 300	3 300
Sundry creditors	671 321	511 537
Other deferred and suspended income	249 311	249 880
Public and law settlements	103 014	84 971
Accrued liabilities	600 456	532 117
Finance lease related settlements	69 078	99 306
Other	2 659	1 898
Total	**2 603 881**	**2 868 774**
of which financial liabilities *	2 248 897	2 532 025

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

In thousands of PLN

Change in provisions 30.06.2018	Employee provisions	*of which: Provisions for retirement allowances*	Other provisions	Total
As at the beginning of the period	**407 722**	***72 726***	**3 300**	**411 022**
Provision charge	140 134	*2 334*	-	140 134
Utilization	(199 451)	-	-	(199 451)
Write back	(61 899)	*(31 452)*	-	(61 899)
Balance at the end of the period	**286 506**	***43 608***	**3 300**	**289 806**
Short-term	242 898	-	3 300	246 198
Long-term	43 608	*43 608*	-	43 608

Change in provisions 30.06.2017	Employee provisions	*of which: Provisions for retirement allowances*	Other provisions	Total
As at the beginning of the period	**375 959**	***60 397***	**3 300**	**379 259**
Provision charge	139 144	*2 526*	-	139 144
Utilization	(180 343)	-	-	(180 343)
Write back	(30 634)	-	-	(30 634)
Other changes	(77)	-	-	(77)
Balance at the end of the period	**304 049**	***62 923***	**3 300**	**307 349**
Short-term	241 126	-	3 300	244 426
Long-term	62 923	*62 923*	-	**62 923**

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	4 681 443	4 681 443	4 146 222	4 146 222
Loans and advances to banks	1 704 535	1 704 535	2 136 474	2 136 474
Financial assets held for trading	6 087 648	6 087 648	3 416 108	3 416 108
Hedging derivatives	90 621	90 621	218 061	218 061
Loans and advances to customers	114 176 972	115 365 918	107 839 897	108 488 102
Financial assets available for sale	-	-	28 415 812	28 415 812
Investment securities incl.:	34 865 845	34 865 845	-	-
- debt securities measured at fair value through other comprehensive income	33 903 526	33 903 526	-	-
- equity securities measured at fair value through other comprehensive income	959 963	959 963	-	-
- other investment securities measured at fair value through other profit or loss	2 356	2 356	-	-
LIABILITIES				
Deposits from banks	3 252 586	3 252 586	2 783 083	2 783 083
Hedging derivatives	951 207	951 207	578 798	578 798
Financial liabilities held for trading	1 254 699	1 254 699	1 237 704	1 237 704
Deposits from customers	122 024 315	122 014 116	111 481 135	111 496 805
Subordinated liabilities	2 665 741	2 680 235	1 488 602	1 500 989

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

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

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

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

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

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

Debt securities in issue and subordinated liabilities: The securities and subordinated liabilities are valued at fair value based on discounted cash flow methodology incorporating adequate interest rates.

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 Group 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 Group allocates to this level State Treasury bonds, treasury bills, shares of listed companies and WIG 20 futures.

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

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

In thousands of PLN

As at 30.06.2018 and in the comparable periods the Group 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	1 500 306	9	6 087 648
Hedging derivatives	-	90 621	-	90 621
Loans and advances to customers measured at fair value	-	-	1 501 986	1 501 986
Debt securities measured at fair value through other comprehensive income	33 875 051	-	28 475	33 903 526
Equity securities measured at fair value through other comprehensive income	18 662	-	941 301	959 963
Other investment securities measured at fair value through other profit or loss	-	-	2 356	2 356
Total	**38 481 046**	**1 590 927**	**2 474 127**	**42 546 100**
Financial liabilities				
Financial liabilities held for trading	60 083	1 194 616	-	1 254 699
Hedging derivatives	-	951 207	-	951 207
Total	**60 083**	**2 145 823**	**-**	**2 205 906**

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

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

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**	**901 551**	**-**
Impact of the implementation of IFRS 9	**-**	**-**	**(15 094)**	**105 401**
Profit or losses				
recognised in income statement	*(26)*	-	-	11 194
recognised in equity (OCI)	-	-	*53 637*	-
Purchase	-	-	1 207	-
Sale	(412)	-	-	-
Matured	-	(4 057)	-	(1 018)
Transfer	-	-	-	1 382 099
Other	-	-	-	4 125
At the period end	**9**	**28 475**	**941 301**	**1 501 801**

In thousands of PLN

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

32. Contingent liabilities

Significant court proceedings

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 or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 1,270,720 k, which is 5.30% of the Group's equity. This amount includes PLN 777,269 k claimed by the Group, PLN 453,150 k in claims against the Group and PLN 40,301 k of the Group's receivables due to bankruptcy or arrangement cases.

On 20.10.2017, Bank Zachodni WBK received a notice of a class action instituted by the borrowers who had loans indexed to the CHF, originated by the former Kredyt Bank. The total value of the claim, estimated as at 31.12.2017, was PLN 32.3 m. On 27.02.2018, Bank 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 336,107 k.

As at 30.06.2018, the value of provisions for legal claims was PLN 150,630 k. In 26 cases against the Bank, where the claim value was high, a provision of PLN 29,168 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.

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

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

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

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

Off-balance sheet liabilities

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

In thousands of PLN

Contingent liabilities - sanctioned	Stage 1	Stage 2	Stage 3	30.06.2018	31.12.2017
Liabilities sanctioned					
- financial	**24 551 835**	**410 277**	**26 791**	**24 988 903**	**24 642 271**
- credit lines	20 042 551	312 514	16 557	20 371 622	20 279 546
- credit cards debits	3 695 568	77 040	10 234	3 782 842	3 730 667
- import letters of credit	807 043	20 723	-	827 766	624 207
- term deposits with future commencement term	6 673	-	-	6 673	7 851
- guarantees	**4 615 973**	**147 417**	**12 790**	**4 776 180**	**4 885 661**
Provision for off-balance sheet liabilities	**(28 583)**	**(11 526)**	**(24 186)**	**(64 295)**	**(50 652)**
Total	**29 139 225**	**546 168**	**15 395**	**29 700 788**	**29 477 280**

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 consolidated report for 1H 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. They are effected between associates and related entities. Most of the transactions are banking transactions made as part of ordinary business activities and mainly include loans, deposits, guarantees and leases. Intercompany transactions effected by the bank and its subsidiaries have been eliminated during the consolidation process. In the case of internal Group transactions, a documentation is prepared in accordance with requirements of tax regulations for transfer pricing.

Transactions with associates	30.06.2018	31.12.2017
Assets	**101**	**93**
Other assets	101	93
Liabilities	**88 243**	**120 382**
Deposits from customers	88 039	90 102
Sell-buy-back transactions	-	30 044
Other liabilities	204	236

Transactions with associates	01.01.2018-30.06.2018	01.01.2017-30.06.2017
Income	**17 246**	**8 544**
Fee and commission income	17 246	8 544
Expenses	**2 620**	**2 339**
Interest expense	684	767
Fee and commission expense	1 127	1 315
Operating expenses incl.:	809	257
General and administrative expenses	*809*	*257*

In thousands of PLN

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**	**131 717**	**86 720**
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	32 442	10 604
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**	**216**
Interest income	4 922	6 159	12	76
Fee and commission income	1 127	1 074	120	123
Other operating income	-	-	89	17
Net trading income and revaluation	-	-	17 233	-
Expenses	**72 496**	**21 451**	**33 007**	**50 643**
Interest expense	846	405	200	1 992
Fee and commission expense	644	586	169	114
Net trading income and revaluation	59 673	20 460	-	35 871
Operating expenses incl.:	11 333	-	32 638	12 666
Bank's staff, operating expenses and management costs	*11 332*	-	*32 636*	*12 658*
Other operating expenses	*1*	-	*2*	*8*

Transactions with Members of Management and Supervisory Boards

Remuneration of Bank Zachodni WBK Management Board Members, Supervisory Board Members and key management BZ WBK Group's.

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	19 970	20 141
Additional benefits (e.g among others, life insurance cover without pension option, medical cover, accommodation, travel expenses and school fees)	457	432	405	426
The awards paid in 2018 and 2017 *	9 940	7 794	18 460	18 113
Equivalent paid for unused annual leave	146	124	192	51
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	5 180	4 366
The number of conditional rights to shares **	27 220	10 541	38 000	18 321

	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	24 888	22 693
Deposits from The Management Board/Key management	19 585	17 328	18 583	13 106

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

**details about share base payments are presented in Note 47.

The category of key management personnel includes the persons covered by the principles outlined in the “BZ WBK Group Remuneration Policy” and in the case of subsidiaries – by the principles outlined in their respective internal regulations.

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 422k.

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 SA (formerly BZ WBK Nieruchomości SA) shares to BZWBK Finanse sp. z o.o.

On 24.11.2017, BZ WBK. made contribution in kind of BZWBK F24 SA (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 SA.

In the second half of 2017, BZ WBK F24 SA 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 SA, 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 SA.

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

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 30.06.2018, BZ WBK S.A Group completed the analysis of the credit card portfolio, widely discussed in the banking sector, 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 and its subsidiary undertakings 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 or its subsidiary

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

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

Details in Notes 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 dividend per share was PLN 3.10.

Regarding dividend 2014 and 2015. 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 was PLN 5.40.

In thousands of PLN

47. Share based payments

The fifth edition of the BZWBK incentive scheme vested as at 30.06.2017. The vesting level is 63% for participants having significant impact on the Group's risk profile and at the level of 67% for participants not having significant impact on the Group's risk profile. Its realization through issuance of new shares and their allocation to individual accounts of entitled individuals was processed in Q3 2017.

On 17.05.2017, Annual General Meeting of the Shareholders of Bank Zachodni WBK S.A. approved three-year Incentive Scheme no. VI which participants are employees of the Bank Zachodni WBK Group (including Members of the Management Board), however not more than 250 individuals. On 26.06.2017 the Supervisory Board approved the list of entitled individuals ("grant date").

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

In every single year annual award not exceeding one third on total award will be considered. Shares will vest on a linear pattern between 25% and 100% contingent on profit after tax (PAT) growth and on RORWA ratio growth. The range of the scale requires PAT growth between "lower level" set to 80% of assumed level of realization in 2017 and "upper level" of nominal growth at 17,8% in first year and between "lower level" set to 80% of assumed level of realization in 2018 and 2019 and "upper level" of nominal growth at 13,4% in second and third year of duration of scheme. The range of the scale requires RORWA ratio growth between "lower level" set to 80% of assumed level of realization in 2017 and "upper level" of nominal growth at 2,24% in first year, between "lower level" set to 80% of assumed level of realization in 2018 and "upper level" of nominal growth at 2,37% in second year and between "lower level" set to 80% of assumed level of realization in 2019 and "upper level" of nominal growth at 2,5% in third year of duration of scheme.

Additionally the qualitative factors will be taken into account – participants are entitled to annual award depending on the level of an external customer satisfaction and engagement survey results (an internal customer). The level of customer satisfaction will be met when in the peer group Bank will be on second place in first and second year and on the first place in third year of duration of the scheme. The engagement survey results will not be lower than 50% in first year, 60% in second year and 70% in third year of duration of scheme.

Additionally, after 3 years cumulative award will be considered. Shares will vest on a linear pattern between 25% and 100% contingent on PAT compound annual growth rate in 3 years' time between 11,7% and 15% and on average value of RORWA ratio in 3 years' time between 1,9% and 2,38%. If number of shares resulting from cumulative assessment will be higher than sum of annual awards vested to date, additional shares will be allocated to individuals up to the amount resulting from cumulative assessment.

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

Share based payments granted in 2017:

	2017
Number of share	131 262
Share price (PLN)	350,00
Excercise price (PLN)	10,00
Vesting period	3 years
Expected volatility of share prices	30,07%
Award life	3 years
Discounted risk free rate	2,12%
Fair value per award (PLN)	323,36
Dividend yield	1,71%

The following table summarizes the share based payments activity:

	6 months of 2018 based payments	6 months of 2017 based payments
Outstanding at 1 January	**129 799**	**157 254**
Granted	-	131 912
Exercised	-	(100 233)
Forfeited	(5 450)	(2 495)
Expired	-	(55 176)
Outstanding at 30 June	**124 349**	**131 262**
Exercisable at 30 June	-	-

In thousands of PLN

The expired rights presented in the table for 6 months of 2017 represent the lower level of the vested rights for the Incentive Scheme V.

For the share based payments outstanding as at 30.06.2018 and as at 30.06.2017 the average remaining contractual life is approximately 2 years and 3 years respectively.

The expenses of sixth edition of equity settled share-based payments scheme recognized in profit and loss account for 6 months of 2018 and 2017 amounts to PLN 6 315 k and PLN 0.00.

The table below presents information about the number of conditional rights to shares vested in BZ WBK Management Board members under the 6th Incentive Scheme.

No. of awards	30.06.2018	30.06.2017
Outstanding at 1 January	**34 670**	**17 671**
Awarded before assumption of the duties of Management Board Member	-	1 017
Resignation from the Management Board Member function	(7 450)	(2 094)
Expired	-	(6 053)
As at 30 June	**27 220**	**10 541**

The table below presents information about the number of conditional rights to shares vested in Group BZ WBK Key Management under the 6th Incentive Scheme.

No. of awards	30.06.2018	30.06.2017
Outstanding at 1 January	**41 194**	**31 415**
Change due to inclusion in key management personnel	-	2 940
Change due to exclusion from key management personnel	(3 194)	(6 055)
Expired	-	(9 979)
As at 30 June	**38 000**	**18 321**

48. 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.

Consent of the Polish Financial Supervision Authority to qualify cash as Tier 2 instrument of Santander Consumer Bank S.A.

On 18.07.2018 Santander Consumer Bank SA received the consent of Polish Financial Supervision Authority for qualifying the cash with a total nominal value of PLN 100,000,000 as Tier 2 instrument of the Bank.

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	