

**MANAGEMENT BOARD REPORT ON  
BANK ZACHODNI WBK GROUP  
PERFORMANCE  
IN THE FIRST HALF OF 2018**

2018



Bank Zachodni WBK

 Grupa Santander

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# I. Overview of Bank Zachodni WBK Group Performance in H1 2018

This section provides an overview of the activity of Bank Zachodni WBK Group (BZ WBK Group/ Group) in H1 2018. It presents the financial and business performance compared with the previous year, and reports on the external factors and corporate developments.

## Financial and business highlights of Bank Zachodni WBK Group

BZ WBK Group applied new accounting principles for classification and measurement of financial instruments in consolidated financial statements for the 6-month period ended 30 June 2018 in accordance with IFRS 9 Financial Instruments. Data for prior periods have not been restated, which affects the comparability and presentation of the selected profit and loss and balance sheet positions in the periods under review (mainly related to loans and advances to customers and the investment portfolio of financial instruments). For the purpose of analysis, the tables presented in this document include certain financial aggregates in the current and comparable periods which are similar but not the same in terms of classification and measurement.

Key financial and business highlights of BZ WBK Group for H1 2018	
<b>Total income</b>	<ul style="list-style-type: none"> <li>Total income of Bank Zachodni WBK Group for H1 2018 increased by 9.5% YoY to PLN 4,162.9m.</li> </ul>
<b>Total costs</b>	<ul style="list-style-type: none"> <li>Total costs went up by 11.4% YoY to PLN 1,887.0m, including an increase of 2.2% YoY and 13.6% YoY in staff expenses and general and administrative expenses, respectively, driven by transformation and development projects.</li> </ul>
<b>Profit</b>	<ul style="list-style-type: none"> <li>Profit before tax amounted to PLN 1,608.1m, down 3.9% YoY.</li> <li>Profit attributable to the shareholders of Bank Zachodni WBK was PLN 1,073.7m and decreased by 2.8% YoY.</li> </ul>
<b>Capital ratio</b>	<ul style="list-style-type: none"> <li>Capital ratio stood at 17.78% (16.69% as at 31 December 2017 and 16.51% as at 30 June 2017), ensuring security of operations and stable growth.</li> </ul>
<b>ROE</b>	<ul style="list-style-type: none"> <li>Return on Equity (ROE) was 11.3% (12.2% as at 31 December 2017 and 11.0% as at 30 June 2017).</li> </ul>
<b>Costs/Income</b>	<ul style="list-style-type: none"> <li>Cost to income ratio (C/I) was 45.3% vs. 44.6% in H1 2017.</li> </ul>
<b>Net impairment allowances</b>	<ul style="list-style-type: none"> <li>Net impairment allowances for loans and advances amounted to PLN 474.8m compared with PLN 245.9m in H1 2017.</li> </ul>
<b>Credit quality</b>	<ul style="list-style-type: none"> <li>NPL ratio was 5.8% (5.8% as at 31 December 2017 and 5.9% as at 30 June 2017), while the ratio of impairment allowances to the average gross credit volumes was 0.80% (0.63% as at 31 December 2017 and 0.66% as at 30 June 2017).</li> </ul>
<b>Loans and advances to customers</b>	<ul style="list-style-type: none"> <li>Gross loans to customers increased by 8.8% YoY to PLN 119,503.6m due to the growth of 7.5% YoY in personal loans and 9.7% YoY in loans to enterprises and the public sector to PLN 61,063.2m and PLN 50,922.2m, respectively.</li> </ul>
<b>Deposits from customers</b>	<ul style="list-style-type: none"> <li>Deposits from customers grew by 11.8% to PLN 122,024.3m as a result of an increase of 8.2% YoY in personal deposits to PLN 70,021.9m and 17.1% YoY in deposits from enterprises and the public sector to PLN 52,002.4m.</li> </ul>
<b>Loans/Deposits</b>	<ul style="list-style-type: none"> <li>Net customer loans to deposit ratio was 93.6% as at 30 June 2018 compared with 96.7% as at 31 December 2017 and 96.3% as at 30 June 2017.</li> </ul>
<b>Net assets under management</b>	<ul style="list-style-type: none"> <li>Net value of assets in investment funds and portfolios managed by BZ WBK TFI totalled PLN 16.8bn, up 10.4% YoY.</li> </ul>

### Key financial and business highlights of BZ WBK Group for H1 2018 (continued)

<b>Electronic banking</b>	<ul style="list-style-type: none"> <li>The number of customers using BZWBK24 electronic banking services totalled 3.5m (+8.4% YoY), including over 1.2m customers with access to mobile services (+22.8% YoY).</li> <li>The number of digital customers (those who used the BZWBK24 platform at least once a month) was 2.1m (+6.4% YoY).</li> <li>The BZ WBK Group payment card base (excluding prepaid cards) included more than 3.7m debit cards (+6.4% YoY) and nearly 1.3m credit cards of BZ WBK and SCB (+3.2% YoY).</li> </ul>
<b>Customer base</b>	<ul style="list-style-type: none"> <li>The total customer base was close to 6.5m, including 4.5m BZ WBK customers.</li> </ul>

## Impact of Macroeconomic Developments

### Factors and events, especially untypical ones, significantly affecting financial results of the bank in 1H 2018

<b>Economic growth</b>	<ul style="list-style-type: none"> <li>Robust economic growth. Private consumption growing by nearly 5% and consumer confidence indexes at an all-time high. Despite that, demand for credit has not risen much.</li> <li>Abroad, data point to some weakening in the euro zone economic activity, especially as regards international trade.</li> </ul>
<b>Labour market</b>	<ul style="list-style-type: none"> <li>Exceptionally good situation of the labour market – increase of employment, declining unemployment and moderately fast wage growth, supporting private consumption.</li> <li>Workforce shortages limiting companies' ability to expand. Rising labour costs.</li> </ul>
<b>Inflation</b>	<ul style="list-style-type: none"> <li>Inflation continued at a low level.</li> </ul>
<b>Monetary policy</b>	<ul style="list-style-type: none"> <li>The NBP official rates kept at lowest levels in history with tamed market expectations for hikes in the nearest future even though a rate hiking cycle has already started in the US, and, as regards CEE, in the Czech Republic and Romania.</li> </ul>
<b>Credit market</b>	<ul style="list-style-type: none"> <li>Stable growth of loans amid slight acceleration of deposits. Changes in the deposit mix.</li> </ul>
<b>Financial markets</b>	<ul style="list-style-type: none"> <li>Changes of sentiments in international financial markets under influence of expectations for future policy of main central banks (Fed, ECB), incoming macroeconomic data, worries about geopolitical situation, including worries about the Brexit negotiations, impact of trade wars on global growth and political situation in Germany and Italy.</li> <li>Volatility of the Polish zloty versus foreign currencies. A further decrease in domestic bond yields.</li> </ul>

## Major Corporate Events

### Major Corporate Events in H1 2018

<b>January</b>	<ul style="list-style-type: none"> <li>Receipt of the KNF decision dated 19 December 2017 by BZ WBK Management Board regarding the identification of the bank as other systematically important institution (issued on the basis of assessment of the systemic importance of the bank) and imposing on the bank a buffer equivalent to 0.50% of total amount of the risk exposure (4 January 2018).</li> <li>Affirmation of existing ratings and change of the outlook on Bank Zachodni WBK long-term deposit rating from stable to positive by Moody's Investors Service (29 January 2018).</li> </ul>
<b>February</b>	<ul style="list-style-type: none"> <li>Sale of 1.2 million BZ WBK shares by Banco Santander to Deutsche Bank AG, London Branch, resulting in the reduction of the former's share in the registered capital and voting power at the BZ WBK General Meeting from 69.34% to 68.13% (16 February 2018).</li> <li>Execution of a demerger plan by BZ WBK and Deutsche Bank Polska (DB Polska) setting out the terms and conditions of the demerger of DB Polska in relation to the planned acquisition of the latter's carveout (23 February 2018).</li> </ul>

### Major Corporate Events in H1 2018

<p><b>March</b></p>	<ul style="list-style-type: none"> <li>• Notification of BZ WBK Management Board of the anti-monopoly clearance issued by the Office of Competition and Consumer Protection for the concentration resulting in the acquisition of the demerged business of DB Polska and the full control over DB Securities by BZ WBK (2 March 2018).</li> <li>• Adoption of a resolution by BZ WBK Management Board on the intention to set up a mortgage bank operating as BZ WBK Bank Hipoteczny S.A. with its registered office in Warsaw (mortgage bank) (7 March 2018) and its approval by the Supervisory Board (8 March 2018).</li> <li>• Issuance of an individual recommendation by the KNF to BZ WBK Management Board regarding an increase in the bank's own funds by retaining the entire profit generated in 2017, with no reservations as to the payment of dividend from retained profit for 2016 (16 March 2018).</li> </ul>
<p><b>April</b></p>	<ul style="list-style-type: none"> <li>• Issuance of 2,000 series F variable-rate subordinated bonds based on BZ WBK Management Board's decision of 20 March 2018 for a total amount of PLN 1bn with a 10-year maturity and a call option (enabling the bank to redeem the instruments after five years of the issuance date), all of which were taken up by bondholders (5 April 2018).</li> <li>• Issuance of a recommendation by BZ WBK Management Board (17 April 2018): <ul style="list-style-type: none"> <li>✓ to retain the entire net profit for 2017 as per the KNF recommendation;</li> <li>✓ to allocate a part of retained net profit for 2016 to dividend payment (in view of the bank's solid capital position).</li> </ul> </li> <li>• Approval of the recommendation by the BZ WBK Supervisory Board.</li> </ul>
<p><b>May</b></p>	<ul style="list-style-type: none"> <li>• Convening of the Annual General Meeting of Shareholders of Bank Zachodni WBK (AGM) which approved the distribution of the bank's profit for 2017 and pay-out of dividend of PLN 3.10 per share from the retained earnings for 2016, changed the business name and registered office of the bank and amended the statutes of the bank and terms of reference of the General Meeting of Shareholders (16 May 2018).</li> <li>• Appointment of BZ WBK Management Board for a new term of office by the bank's Supervisory Board with changes in the composition (removal of Mr Artur Chodacki, Mr Marcin Prell and Mr Mirosław Skiba) (16 May 2018).</li> <li>• Convening of the Extraordinary General Meeting of Shareholders of Bank Zachodni WBK (EGM) which approved the demerger of DB Polska in accordance with the demerger plan of 23 February 2018, an increase in the bank's share capital and an exchange ratio and share allocation rules, and amended the bank's statutes accordingly (29 May 2018).</li> <li>• Receipt of the KNF decision confirming the absence of grounds for objecting to the planned direct acquisition of shares in DB Polska by BZ WBK (30 May 2018).</li> <li>• Set up of a bond issuance programme by BZ WBK under which the value of issued and non-redeemed bonds (offered/sold outside the USA and registered in the international securities registration systems) will not exceed EUR 5bn or its equivalent at any time (30 May 2018).</li> </ul>
<p><b>June</b></p>	<ul style="list-style-type: none"> <li>• Notification by the Bank Guarantee Fund of the decision of the Single Resolution Board regarding the minimum requirement for own funds and eligible liabilities (MREL) at 14.087% for BZ WBK Group (to be achieved by 1 January 2023) (4 June 2018).</li> <li>• Receipt of a letter from Nationale-Nederlanden PTE S.A. (NN PTE) notifying the bank of the acquisition of BZ WBK shares by the funds managed by NN PTE, i.e. open-end pension fund (NN OFE) and voluntary pension fund (NN DFE), exceeding a 5% share in the number of votes at the bank's General Meeting of Shareholders (8 June 2018).</li> <li>• Consent issued by the KNF to classify series F subordinated bonds as Tier 2 instruments of BZ WBK (6 June 2018).</li> <li>• Dividend payout to BZ WBK shareholders (14 June 2018).</li> </ul>

## II. Basic Information about Bank Zachodni WBK Group

### 1. History, Ownership Structure and Profile

#### History and Profile of Bank Zachodni WBK as a Parent Entity

2001

Set-up of BZ WBK  
by way of merger

Bank Zachodni WBK S.A. (Bank Zachodni WBK, BZ WBK) was established following the merger of Bank Zachodni with Wielkopolski Bank Kredytowy. The Wrocław-based entity was entered into the business register in the National Court Register on 13 June 2001 and on 25 June 2001 it debuted on the Warsaw Stock Exchange.

2011

Change of the majority  
shareholder to Banco  
Santander

Bank Zachodni WBK was originally a member of AIB Group together with the controlling shareholder – AIB European Investments Ltd. – which on 1 April 2011 sold their entire stake in the bank (70.36% of share capital and voting power) to Banco Santander with its registered office in Santander, Spain.

Banco Santander finalised the purchase of Bank Zachodni WBK in the tender for 100% of the bank's shares. As a result, Banco Santander acquired an interest representing 95.67% of share capital and voting power in the bank.

2013

Merger with  
Kredyt Bank

On 4 January 2013, Bank Zachodni WBK merged with Kredyt Bank pursuant to the Investment Agreement of 27 February 2012 between Banco Santander and KBC Bank NV. The merger by acquisition was completed by way of a transfer of all assets and liabilities of Kredyt Bank to Bank Zachodni WBK in exchange for newly issued series J shares with a nominal value of PLN 189.1m allotted to all of the existing shareholders of Kredyt Bank at the agreed exchange ratio.

2014

Acquisition of a  
controlling stake in SCB

Pursuant to the Investment Agreement of 27 November 2013 between Bank Zachodni WBK, Santander Consumer Finance and Banco Santander, on 1 July 2014 Bank Zachodni WBK acquired ordinary and preference shares in Santander Consumer Bank with its registered office in Wrocław (SCB), representing 60% of the share capital of SCB and 67% of votes at the General Meeting of SCB. In exchange for an in-kind contribution of SCB shares, the bank issued series L shares with the total nominal value of PLN 53.8m.

2017

Acquisition of a  
demerged business of  
Deutsche Bank Polska

On 14 December 2017, Bank Zachodni WBK and Banco Santander signed a transaction agreement with Deutsche Bank AG (DB AG) to purchase a demerged business of Deutsche Bank Polska (DB Polska), consisting of retail banking, private banking, business banking (SME) and 100% of shares in DB Securities.

## Structure of Share Capital of Bank Zachodni WBK

The table below presents the entities with significant holdings of Bank Zachodni WBK shares as at 30 June 2018 and 31 December 2017.

Shareholder	Number of Shares Held		% in the Share Capital & Voting Power at AGM	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Banco Santander S.A.	67 680 774	68 880 774	68,13%	69,34%
Nationale Nederlanden OFE <sup>1)</sup>	4 993 431	n/a	5,03%	n/a
Nationale Nederlanden DFE <sup>1)</sup>		n/a		n/a
Others	26 659 276	30 452 707	26,84%	30,66%
<b>Total</b>	<b>99 333 481</b>	<b>99 333 481</b>	<b>100,0%</b>	<b>100,0%</b>

<sup>1)</sup> Both funds, i.e. Nationale-Nederlanden OFE (open-end pension fund) and Nationale-Nederlanden DFE (voluntary pension fund) are managed by Nationale-Nederlanden Powszechna Towarzystwo Emerytalne S.A.(PTE).

As at 30 June 2018, Banco Santander and funds managed by Nationale-Nederlanden PTE (Nationale-Nederlanden DFE and Nationale-Nederlanden OFE) were the shareholders holding more than 5% of the share capital and the total number of votes at the BZ WBK General Meeting of Shareholders, with shareholding of 68.13% and 5.03%, respectively. To the best of the BZ WBK Management Board's knowledge, this fact did not change until the release of this report (23 July 2018).

Compared with 31 December 2017, the shareholder structure of Bank Zachodni WBK changed as follows:

- Share of Banco Santander in the registered capital and voting power at the BZ WBK General Meeting reduced from 69.34% to 68.13% as a result of the sale of 1.2m shares of Bank Zachodni WBK to Deutsche Bank AG, London Branch on 16 February 2018.
- Share of the funds managed by Nationale-Nederlanden PTE in the registered capital and voting power at the BZ WBK General Meeting exceeded 5% on 4 June 2018 due to an increase in the shareholding from 4,960,909 to 4,993,431 shares.

## Scope of Activities of Bank Zachodni WBK Group

Bank Zachodni WBK is a universal bank which provides a full range of services for personal customers, SMEs, large companies and institutions. The bank's offering is modern, comprehensive and satisfies diverse customer needs with regard to current/personal accounts, credit, savings, investment, settlement, insurance and card products. The financial services of Bank Zachodni WBK include cash management, payments, trade finance and transactions in the capital, money, FX and derivative markets, as well as underwriting, brokerage and custody services.

The bank's own product range is complemented by specialist products offered by its group of related companies, including: BZ WBK Towarzystwo Funduszy Inwestycyjnych (BZ WBK TFI), BZ WBK Leasing, BZ WBK Faktor, BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych (BZ WBK-Aviva TUO) and BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie (BZ WBK-Aviva TUnŻ). Through all these companies, the bank offers its customers access to investment fund units and asset portfolios as well as insurance, leasing and factoring products.

The bank continually develops its product range to ensure that solutions offered to customers are transparent, simple, digital, flexible and available in self-service channels. It offers unique solutions which are developed within Santander Group based on its global presence, infrastructure and market potential (e.g. solutions for exporters). Customers are provided with comprehensive services in traditional sales channels and via remote channels.

Santander Consumer Bank, which was incorporated into the structure of Bank Zachodni WBK Group on 1 July 2014, specialises in consumer finance and term deposit accounts for personal and business customers.

As at 30 June 2018, Bank Zachodni WBK Group provided services to 6.5m customers, including more than 2m customers of Santander Consumer Bank.

## Business Model of Bank Zachodni WBK Group

### Operating Structure

Bank Zachodni WBK together with its non-banking subsidiaries carries on its operations through the following central units: Retail Banking Division, Business and Corporate Banking Division and Corporate and Investment Banking Division (formerly Global Corporate Banking Division).

As part of the organisational changes introduced in May 2018, the responsibilities of the SME Banking Division were divided between the Retail Banking Division and the Business and Corporate Banking Division, while ensuring top quality services for SME customers.

#### **Bank Zachodni WBK and non-banking subsidiaries**

##### *Retail Banking Division*

BZ WBK Retail Banking Division offers products and services to:

- personal customers who are divided into Standard, Premium, VIP or Private Banking customer segments, taking into account their diverse needs and expectations;
- small and medium enterprises with lower turnover (SME1).

Retail customers interact with the bank via an extensive network of branches and remote channels, e.g. telephone banking, internet banking and mobile banking (BZWBK24 electronic banking platform and the Multichannel Communication Centre). The bank has relationship-building, sales and after-sales contacts with customers.

Premium customers are serviced by dedicated advisors as part of their individual portfolios, based on a personalised approach and regular contacts aimed at strengthening relationship and customer loyalty.

Private Banking and VIP customers benefit from a personalised service model under which they may use the support of a specialised advisor and the Affluent Customer Centre operating as part of the Multichannel Communication Centre, which offers support via telephone.

Firms with relatively low turnover (SME1) are handled by SME advisors in branches and partner outlets. Entrepreneurs are also serviced via remote channels (BZWBK24, BZWBK 24 Mini Firma, Moja Firma Plus, iBiznes24 platforms) and the Multichannel Communication Centre.

##### *Business and Corporate Banking Division*

The Business and Corporate Banking Division provides services to:

- businesses and corporations with turnover above PLN 40m, local administration units and the public sector through 12 Corporate Business Centres operating nationwide and the Property and Hotels Department (central unit operating across Poland) in accordance with customer segmentation (corporate or property finance);
- small and medium enterprises with higher turnover and more complex requirements (SME2) via mobile SME teams.

##### *Corporate and Investment Banking Division (formerly Global Corporate Banking Division)*

The Corporate and Investment Banking Division is responsible for banking relationships with the Group's largest clients who are offered investment, credit, transactional and treasury products and services as part of the global Customer Relationship Management Model of Santander Group. It also provides treasury, syndicated lending and advisory services to customers handled by other Divisions.

All business customers, regardless of their segmental allocation and relationship units in the Business and Corporate Banking Division or the Corporate and Investment Banking Division, are serviced by dedicated relationship managers responsible for the overall relationship. They are also provided with access to the bank's products and services via remote channels, including internet and mobile iBiznes24 platform as well as phone services of the Business Service Centre and the SME Service Centre, which deliver a wide range of operational processes. The continuously upgraded iBiznes24 application can be used to perform a wide range of transactions (e.g. FX and trade finance transactions) and manage companies' finances in an effective and secure way.

##### *Santander Consumer Bank Group*

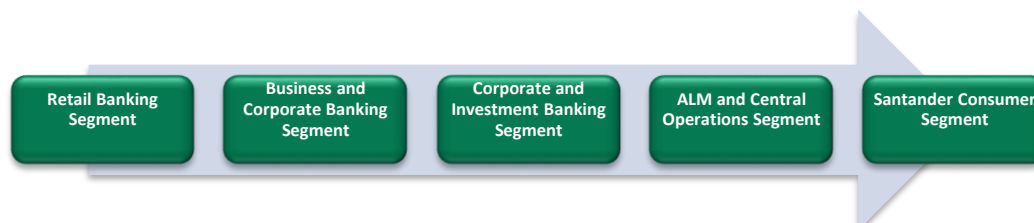
Santander Consumer Bank Group (SCB Group), which specialises in consumer finance, forms a separate business segment with its own customer base, product range and distribution channels.



The bank's business model is based on a multi-product and multi-channel approach and a diverse customer base, as well as regular cross-selling and up-selling. The bank offers consumer loans, car finance through lease and factoring, credit facilities for car dealers, retail and business deposits and insurance products.

## Segment reporting

The business management structure presented above corresponds to business segments identified as part of segment reporting (Note 3 of "Condensed Interim Consolidated Financial Statement for the period of 6 months ended 30 June 2018"). They are complemented by ALM and Central Operations segment which covers funding, management of strategic investments and transactions which generate expenses/revenues that cannot be allocated to individual segments.



## Basic distribution channels

As at 30 June 2018, Bank Zachodni WBK operated country-wide through 540 branches divided into and managed by 50 regions and 5 macroregions. The bank's distribution network also included 113 partner outlets and 1,739 self-service units (ATMs, CDMs and deposit ATMs).

In addition to direct banking via branches, partner outlets and Corporate Business Centres, Bank Zachodni WBK performs a wide range of operations via contact centres (Multichannel Communication Centre and specialised units: Affluent Customers Centre, Business Service Centre, SME Service Centre) and offers 24-hour access to banking products and services by means of internet and mobile channels (BZWBK24, BZWBK24 Mini Firma, Moja Firma Plus and iBiznes 24 electronic banking platforms). Apart from traditional helpline services, the Multichannel Communication Centre provides support across different customer contact points such as internet chat, audio call, video call, email or a contact form. Customers may also visit a virtual branch and use Online Advisor services (via video chat).

The bank has been steadily developing an integrated CRM system and omnichannel banking solutions to ensure consistent service levels and continuity of communication with customers in all distribution channels. Strong focus has been placed on security of remote banking processes, which involves regular upgrades to security mechanisms.

Santander Consumer Bank delivers its products through a network of own branches and franchise outlets, structures for mobile sales of car loans and corporate deposits, remote channels (Call Centre and the Internet) and a network of partners selling the bank's car loans and leases, instalment loans and credit cards.

Basic Distribution Channels of BZ WBK and SCB		
Bank Zachodni WBK	30.06.2018	31.12.2017
Branches (location)	540	576
Partner Outlets	113	109
Business and Corporate Banking Centres	12	12
ATMs	922	948
CDMs	10	13
Dual Function Machines	807	771
BZWBK24 - registered users (in thousands) <sup>1)</sup>	3 526	3 388
iBiznes24 - registered companies (in thousands)	16	15
Santander Consumer Bank	30.06.2018	31.12.2017
Branches	153	159
Partner Outlets	168	153
Registered Electronic Banking Users (in thousands) <sup>2)</sup>	146	132

1) The BZWBK24 customer base includes the users of BZWBK24 mobile application, i.e. 1.2m as at 30.06.2018 and 1.1m as at 31.12.2017. There were more than 2.1 million BZWBK24 customers who used the system at least once a month.

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

### Business model framework

The fundamental element of the strategy and business model of Bank Zachodni WBK Group is customer-centricity, an approach whereby each initiative and banking process is judged from the customer’s viewpoint, with a concentration on the customer’s needs and experience in order to build lasting mutual relationships underpinned by an attractive, simple and innovative products portfolio and high service quality. The Group creates value for customers focusing on modern technologies, digitalisation and omnichannel banking. The Group also gives priority to developing a friendly work environment and corporate culture by promoting cooperation and increasing the motivation, engagement and professionalism of employees. It conducts its business activity taking into consideration the interests of all stakeholders, including shareholders and communities in which it operates.

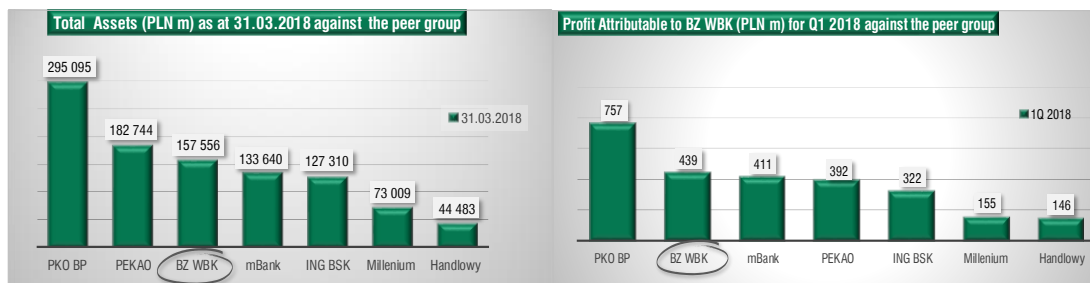
The Group focuses on the diversification of income, expansion in high-margin market segments, maintenance of a solid capital position and effective risk management. This translates into balanced growth of business volumes, an increasing presence in the most profitable market segments and strong and recurring financial performance.

In view of the strategic Transformation Programme launched in 2016, the bank’s business model is continually improved in terms of its effectiveness, suitability to customers’ needs, digitalisation and integration of distribution channels, among other things.

## 2. Market Position, Rating and Share Price

### Position of Bank Zachodni WBK and BZ WBK Group in the Polish Banking Sector

According to the financial statements for Q1 2018, which at the date of submission of this report to the Management Board for approval (23 July 2018) were the most up-to-date source of comparable data on the performance of banks listed on the Warsaw Stock Exchange (WSE), Bank Zachodni WBK – including its subsidiaries and associates – was Poland’s third largest banking group in terms of total assets and customer deposits and loans, and second in terms of total capital and attributable profit.



According to NBP statistics, as at the end of May 2018 the Group’s share of the market was 9.8% for customer loans and 9.4% for customer deposits.

The Group continued to strengthen its presence in the factoring and leasing markets via its subsidiaries, holding a market share of 11.5% and 6.3%, respectively, as at 31 March 2018 (according to the Polish Factors Association and the Polish Leasing Association). The Group’s share in the retail investment funds market was 10.3% (according to Analityz Online) while in the stock exchange retail investor market it held 11.5%.

**Competitive Strengths of Bank Zachodni WBK and BZ WBK Group**



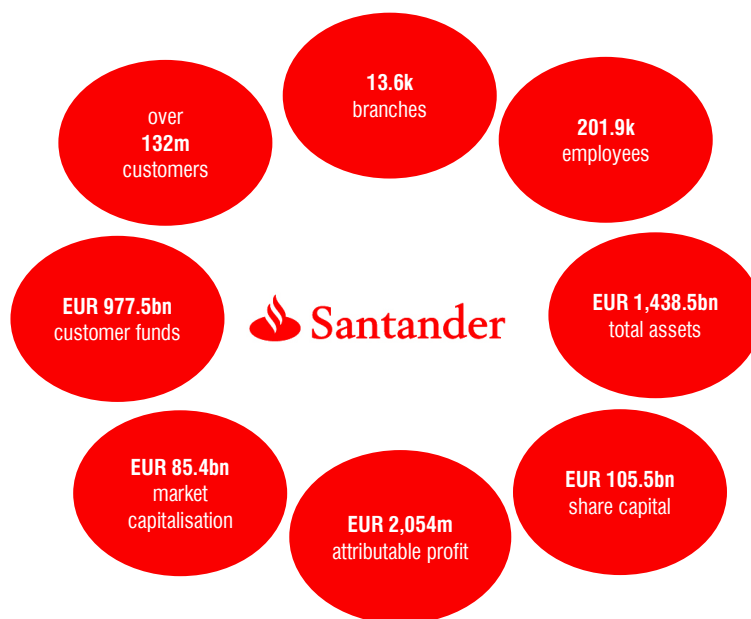
Bank Zachodni WBK Group has stable sources of funding, solid capital and liquidity position and a diversified asset portfolio. The Group’s competitive position has been supported by a clear, coherent and consistent strategic vision, an efficient and straightforward business model, a broad and diversified scope of business as well as benefits and synergies achieved by the bank as a member of Santander Group. The business scale, quality of products and services and strong focus on building lasting relationships with customers allow the Group to compete successfully with the largest players in the Polish banking market. At the same time, a wide array of complementary services for respective customer segments, a large Poland-wide branch network, modern banking technologies and rapidly expanding functionality and integration of remote distribution channels give opportunity for further market penetration. The Group expands its operations through both organic growth and participation in the consolidation of the banking sector, taking advantage of emerging opportunities for mergers and acquisitions.

**Majority Shareholder**

Banco Santander – a parent entity of Bank Zachodni WBK – is a commercial bank with a more than 160-year history, having its registered office in Santander and operational headquarters in Madrid (Spain). While it specialises in retail banking services, the bank is also very active in the private banking, business and corporate banking, asset management and insurance markets. Banco Santander, which is characterised by the significant geographic diversification of its business, currently focuses on its 10 core markets – both developed and emerging, including Spain, Poland, Portugal, Germany, the UK, Brazil, Argentina, Mexico, Chile and the USA. It also has a strong presence in Uruguay and Puerto Rico and on the selected markets in Europe and China.

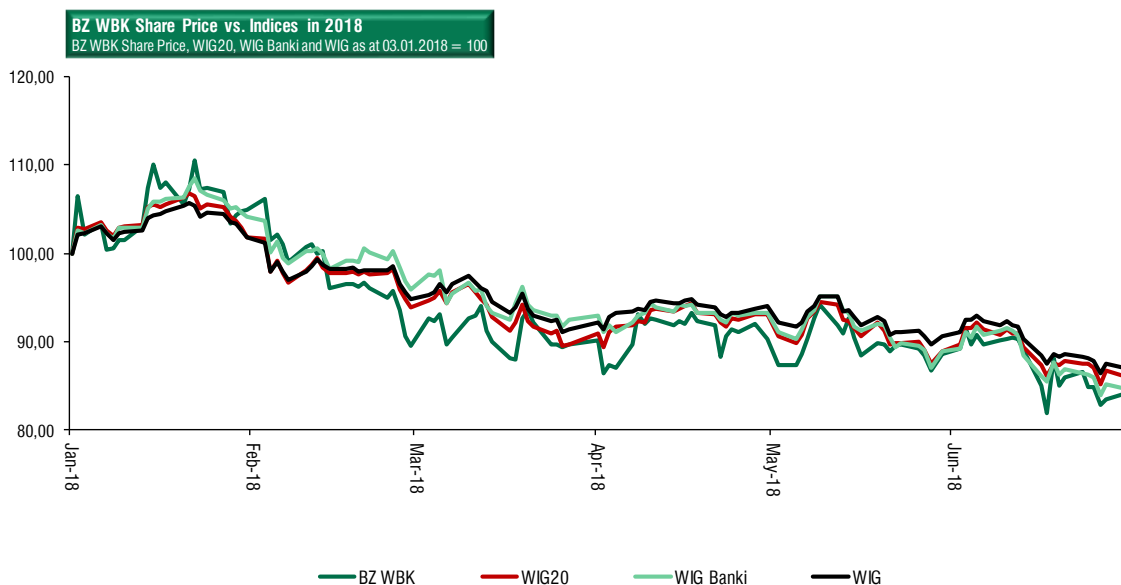
Banco Santander was the second largest bank in Europe (May 2018 ranking) and 12th largest bank globally (January 2018 ranking) in terms of capitalisation.

**Key figures presenting the scale of consolidated activity of Banco Santander Group as at 31.03.2018**



Banco Santander has been listed on the Warsaw Stock Exchange since 3 December 2014. A total of 16,040.5m ordinary shares of the bank with a nominal value of EUR 0.50 each are traded there. In addition to the WSE, Banco Santander shares are directly or indirectly quoted on stock exchanges in Madrid, Milan, Lisbon, Buenos Aires, Mexico, New York, São Paulo and London.

**Share Price of Bank Zachodni WBK vs. Indices**



The share price of Bank Zachodni WBK was affected by negative trends on the WSE observed in H1 2018 (see Chapter III "Macroeconomic Situation in H1 2018"). After strong performance in 2017, in the first half of the year the bank's stock price declined from PLN 396.25 as at the end of December 2017 to PLN 333.60 as at the end of June 2018. At the same time, WIG-Banks, the industry index, lost 14.9%, pointing to a significant decrease in market capitalisation of other sector companies. During the first six months, BZ WBK closing share price ranged from PLN 442.00 on 24 January to PLN 327.60 on 19 June. On 14 June 2018, the bank paid out a dividend of PLN 3.10 per share from undistributed profit for 2016. Aside from global trends, share prices of companies from the banking sector, including Bank Zachodni WBK, were influenced by the decisions of the Monetary Policy Council, which declared it had no intention to increase interest rates even until the end of 2020.

As at 30 June 2018, market capitalisation of Bank Zachodni WBK was PLN 33,137.6m compared to PLN 39,360.9m as at 31 December 2017.

Due to strong liquidity and high market capitalisation, BZ WBK shares are traded in a number of stock market indices, including WIG-Banks (industry index), WIG (broad-based index), WIG20 (blue chip companies) and RESPECT. During the first six months of the year, all of the above indexes depreciated more than several percent.

### 3. Bank Zachodni WBK Rating

#### Bank Zachodni WBK Rating

Bank Zachodni WBK has bilateral credit rating agreements with Fitch Ratings Ltd. and Moody's Investors Service.

#### Rating Actions by Fitch Ratings

Fitch Rating	Ratings <sup>1)</sup> as at 20.10.2017
	International Ratings
Long-term Issuer Default Rating (long-term IDR)	BBB+
Outlook for the long-term IDR rating	stable
Short-term Issuer Default Rating (short-term IDR)	F2
Viability rating (VR)	bbb+
Support rating	2
	National Ratings
National long-term rating	AA(pol)
Outlook for the national long-term rating	stable
Senior unsecured debt national long-term rating	AA(pol)

1) BZ WBK Ratings as at 30 June 2018, 31 December 2017 and 30 June 2017

Ratings of Bank Zachodni WBK as at 30 June 2018 were affirmed by Fitch Ratings on 20 October 2017 and have not been changed since August 2016 due to the lack of major changes to the bank's key financial metrics.

Fitch believes that Bank Zachodni WBK is a strategically important subsidiary for Banco Santander and there is a high probability of support from the parent entity if need be. This view is reflected in the Support Rating (SR) of 2 assigned to the bank.

The long-term IDR of BZ WBK is driven by the bank's intrinsic strength, as reflected in its VR of bbb+. It is also underpinned by potential shareholder support from the majority shareholder, Banco Santander.

The stable outlook for the long-term IDR reflects broadly balanced risks related to credit profile of the bank and Banco Santander.

The individual rating takes into account the bank's strengths such as optimised market franchise, stable business model, conservative risk appetite, strong capitalisation, solid profitability, sound asset quality and robust liquidity and funding.

## Rating Actions by Moody's Investors Service

Category of Moody's Ratings	Ratings <sup>1)</sup> as at 29.01.2018	Ratings <sup>2)</sup> as at 1.03.2017 i 9.08.2017
Bank Deposit	A3/P-2	A3/P-2
Baseline Credit Assessment	baa3	baa3
Adjusted Baseline Credit Assessment	baa2	baa2
Outlook	positive	stable
Counterparty Risk Assessment	A2 (cr)/ P-1 (cr)	A2 (cr)/ P-1 (cr)

1) BZ WBK Ratings as at 30 June 2018

2) BZ WBK Ratings as at 31 December 2017 and 30 June 2017

Ratings of Bank Zachodni WBK as at 30 June 2018 were updated by Moody's Investors Service on 29 January 2018. The agency changed the outlook on Bank Zachodni WBK long-term deposit rating from stable to positive and affirmed the ratings. The above change reflects improving asset quality, resilient capitalisation and strong profitability of the bank. It also factors in positive implications of BZ WBK's acquisition of the demerged business of DB Polska and estimated costs associated with the legislation regarding foreign currency mortgage portfolio.

## 4. Entities Related with Bank Zachodni WBK

### Subsidiaries

As at 30 June 2018, Bank Zachodni WBK Group comprised the following subsidiaries:

1. Santander Consumer Bank S.A. (SCB S.A.)
2. Santander Consumer Finanse Sp. z o.o. – a subsidiary of SCB S.A.
3. Santander Consumer Multirent Sp. z o.o. – a subsidiary of SCB S.A.
4. SC Poland Consumer 15-1 Sp. z o.o. – a subsidiary of SCB S.A.
5. SC Poland Consumer 16-1 Sp. z o.o. – a subsidiary of SCB S.A.
6. PSA Finance Polska Sp. z o.o. – a subsidiary of SCB S.A.
7. PSA Consumer Finance Polska Sp. z o.o. – a subsidiary of PSA Finance Polska Sp. z o.o.
8. BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.
9. BZ WBK Finanse Sp. z o.o.
10. BZ WBK Faktor Sp. z o.o. – a subsidiary of BZ WBK Finanse Sp. z o.o.
11. BZ WBK Leasing S.A. – a subsidiary of BZ WBK Finanse Sp. z o.o.
12. BZ WBK F24 S.A. – a subsidiary of BZ WBK Finanse Sp. z o.o.
13. BZ WBK Inwestycje Sp. z o.o.

Compared with 31 December 2017, the list of Bank Zachodni WBK subsidiaries changed as a result of the liquidation of Gieldokracja approved by the company's EGM held on 29 November 2017 and its removal from the National Court Register on 5 March 2018.

On 12 January 2018, ownership changes in BZ WBK F24 were registered in the National Court Register, as a consequence of which the company became fully controlled by BZ WBK Finanse (previously it was 99.99% owned by Bank Zachodni WBK). The changes resulted from the following transactions:

- stock swap between Bank Zachodni WBK and BZ WBK Finanse (in-kind contribution of BZ WBK F24 shares held by the bank in exchange for new shares of BZ WBK Finanse as part of share capital increase);
- purchase by BZ WBK Finanse of an outstanding share ensuring a 100% stake in the share capital of BZ WBK F24.

All the entities within Bank Zachodni WBK Group are consolidated with the bank in accordance with IFRS 10 as at 30 June 2018.

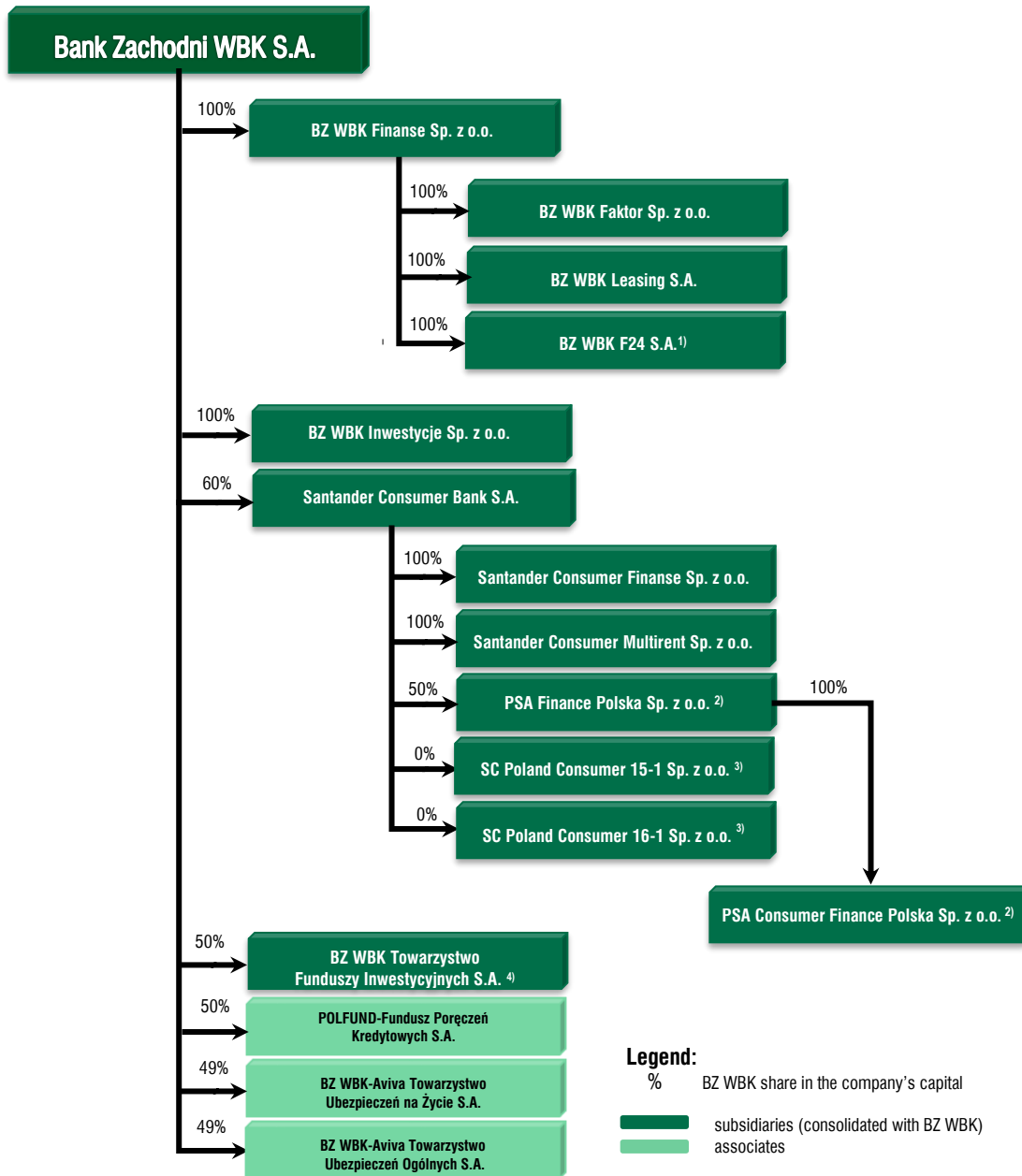
## Associates

In the consolidated financial statements of Bank Zachodni WBK for the six months ended 30 June 2018, the following companies are accounted for using the equity method in accordance with IAS 28:

1. BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. (BZ WBK-Aviva TUO S.A.)
2. BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. (BZ WBK-Aviva TUnŻ S.A.)
3. POLFUND – Fundusz Poręczeń Kredytowych S.A.

Compared with 31 December 2017, the list of associates did not change.

### Organisational Chart of Entities Related to Bank Zachodni WBK Group as at 30.06.2018



1) On 18 October 2017, BZ WBK Nieruchomości was renamed BZ WBK F24 and the scope of its business was expanded to include lending activities. As a result of the stock swap between Bank Zachodni WBK and BZ WBK Finanse (in-kind contribution of BZ WBK F24 shares to BZ WBK Finanse in exchange for shares of BZ WBK Finanse) and the purchase by BZ WBK Finanse of an outstanding share ensuring a 100% stake in the share capital of BZ WBK F24, the company became fully controlled by BZ WBK Finanse (previously it was 99.99% owned by Bank Zachodni WBK). The above-mentioned ownership changes were recorded in the National Court Register on 12 January 2018.

2) On 1 October 2016, SCB acquired 50% shares of PSA Finance Polska and, indirectly, 50% stake in PSA Consumer Finance Polska. Both companies are controlled by SCB as they meet the conditions set out in IFRS 10.7

3) SC Poland Consumer 15-1 and SC Poland Consumer 16-1 are SPVs set up for the purpose of securitisation of part of SCB credit portfolio. Their shareholder is a legal person that has no ties with the Group. The companies are controlled by SCB as they have met the conditions laid down in IFRS 10.7 since 23 September 2015 and 1 August 2016, respectively.

4) Both owners of BZ WBK Towarzystwo Funduszy Inwestycyjnych (BZ WBK TFI), Bank Zachodni WBK and Banco Santander, are members of Santander Group holding an equal stake of 50% in the company's share capital. BZ WBK TFI is controlled by Bank Zachodni WBK.



### III. Macroeconomic Situation in H1 2018

#### Economic growth

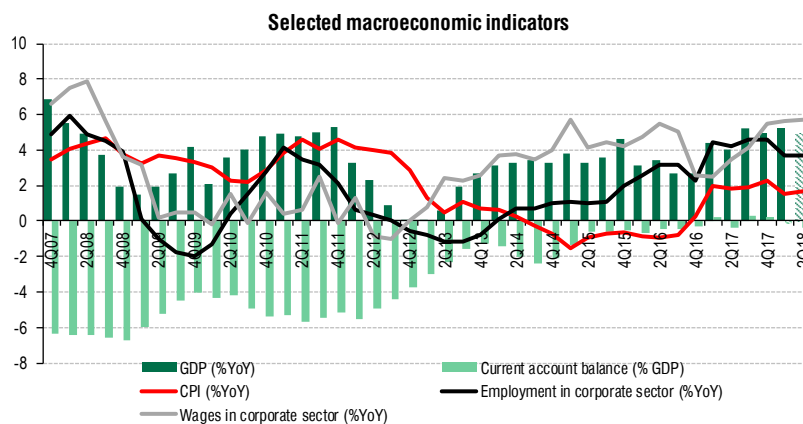
The first half of 2018 showed that the Polish economy remained on a strong growth trajectory, close or even above the levels observed in late 2017. After adjustment by seasonal factors, industrial output rose by about 6.5% YoY in H1 2018 (versus 8.0% YoY in Q4 2017). The industry was affected by a “soft patch” in the eurozone economy. Construction output grew by 22% YoY on average in the first six months of 2018, showing the strength of demand before the local authority elections planned for autumn and the higher utilisation of EU funds vs. a year before. However, in the next months, the construction output is likely to be limited by production capacity constraints. Retail sales increased by 7.0% YoY, similarly as in 2017, and were not affected by the Sunday trade ban introduced in March. Private consumption remained the main driver of economic growth, rising by 5% YoY. In the coming months, private consumption should continue to grow, supported by high consumer confidence and a positive labour market situation. In H1 2018, the business cycle was most probably very close to its peak. In Q1 2018, the GDP grew by 5.2% YoY and in Q2 2018 probably remained close to 5% YoY, as demonstrated by monthly data.

#### Labour market

In 2018, the employment growth has lost momentum due to mounting problems with labour shortages. At the same time, wage growth remained at 7% YoY. It was stable compared with the end of 2017 but is likely to accelerate towards the year-end. We believe that the labour shortage is a serious risk factor for the Polish GDP growth.

#### Inflation

Inflation rate has decreased noticeably in Q1 2018 – in March, the CPI fell to 1.3% YoY, but then it climbed again to 2.0% YoY in June. Inflation was mostly driven by food and energy prices, while the core inflation, excluding food and energy prices, was trending downwards throughout the first half of the year. The CPI should remain relatively low, or indeed decrease slightly at the year-end.



## Monetary policy

The contained inflation, especially in the core categories, has reassured the Polish Monetary Policy Council that its patient strategy of keeping interest rates at their record-low levels and observing the economic trends was correct. The MPC's rhetoric has been more and more "dovish", and the NBP governor has suggested that the main refinancing rate might stay at record low 1.50% until the end of 2020. We expect that the first decision to change interest rates will be a hike, but this will not happen until the end of 2019.

## Credit and deposit markets

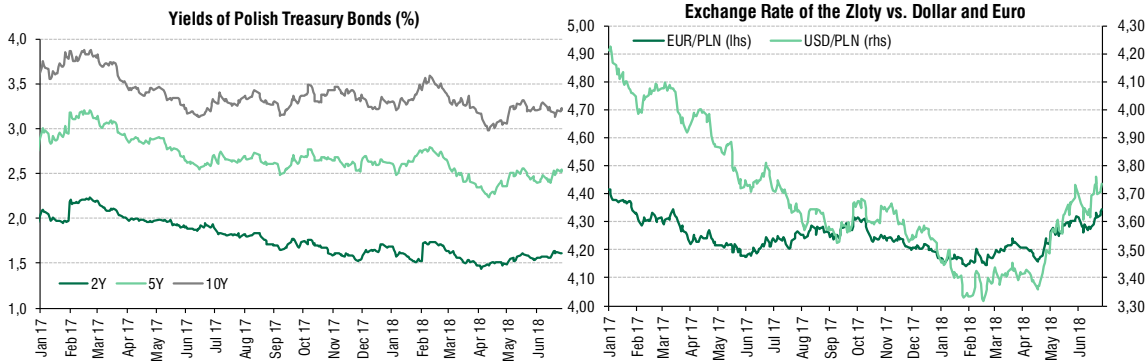
In the first half of 2018, credit growth was stable at nearly 6% YoY (FX-adjusted). Loans to households also rose at a stable rate, both overall and in individual subcategories. The growth rate of corporate loans decreased from 7.5% YoY in January to 6.5% YoY in May. Working capital loans for businesses rose steadily by about 7-8% YoY, while investment loans decelerated from 10.3% YoY in January to 4.3% YoY in May. Deposits accelerated slightly to 5.6% YoY in May from 5.0% YoY in January (FX-adjusted), mostly on the back of household deposits (which grew by 5.3% YoY in May versus 3.9% in January), while business deposits decelerated to 6.0% YoY from 6.7% YoY. The downward trend in term deposits seems to be losing steam, as they fell by 1.3% YoY in May versus the 6.2% decline in January. Current deposits, on the other hand, decelerated to 10.2% YoY from 13.2% YoY.

## Financial market situation

In H1 2018, the global financial market mood was very volatile. In the first months of the year, stock and bonds were under pressure of a rebound in US inflation and of fears that the Fed might be hiking rates faster than what was expected by investors in Q4 2017. This was accompanied by hawkish signals from the Fed and the ECB. In Q2 2018, the market was mainly concerned by the risk of slower global economic growth. The European economic activity indicators continued to fall, reaching their lowest levels in months and the temperature of the US-Europe/China foreign trade relationship rose markedly. Although the prospects for the global economy, as seen by the market, have deteriorated significantly owing to the risk of a serious trade war, central banks maintained their rather optimistic tone. The ECB has confirmed its intention to end bond purchases by the end of the year, and the FOMC surprised on the hawkish side, suggesting four possible 25bp rate hikes versus the three hikes it contemplated earlier. Combination of the hawkish FOMC rhetoric and risk of slower growth boosted the dollar, which in turn weighed noticeably on the emerging market currencies, including the zloty. At the same time, stock prices rebounded in the global market from the lows recorded in Q1 2018. In mid-April, S&P upgraded Poland's rating outlook to "positive" from "stable", but this provided only short-lived support for Polish bonds and the zloty.

At the beginning of Q2 2018, the yields of Polish t-bonds fell due to massive bond redemptions, low t-bonds supply and expected improvement in the outlook for the Polish debt by S&P from stable to positive. As a consequence, the yields of 10Y, 5Y and 2Y Polish t-bonds fell to 2.99%, 2.24% and 1.48%, respectively, the lowest levels in Q2 and lowest since the autumn of 2016. Later in Q2 2018, yields were rising, first due to profit-taking, and later due to tensions related to the formation of a new global trade deal. The increase in Polish t-bond yields was additionally supported by growing oil prices and fears about the political situation in Europe, where new established Italian government has vowed a radical change in the EU migration policy. As a result, the yields of 10Y Polish t-bonds have risen, reaching 3.34% in mid-May. The rest of the yield curve remained under upward pressures, reaching its highs in mid-June: 2.61% for 5Y bonds and 1.65% for 2Y bonds.

In the FX market, the zloty weakened against the major currencies over most of Q2 2018. The zloty's depreciation was fuelled mainly by the stress related to establishment of the new global trade deal, geopolitical tensions and risk-off mood which dominated the financial markets. Therefore, the EUR/PLN rate shifted to 4.3720 at the end of Q2 2018 from 4.2100 at the beginning of the quarter; the GBP/PLN rate changed to 4.9420 from 4.8060, respectively, while the CHF/PLN rate moved to 3.7780 from 3.5820.



## Stock Market

After 2017, which was a good year for investors, the first half of 2018 saw a significant deterioration of market sentiment and a sharp decline across all indexes of the Warsaw Stock Exchange. During this period, WIG lost 12.2%, whereas WIG20, the blue-chip index, was down 13.2%. Shareholders of mid and small caps also suffered severe losses, with mWIG40 and sWIG80 sliding by 12.9% and 13%, respectively. The domestic market performance was all the more disappointing as only in January the WIG index slightly exceeded its record high witnessed in 2007. Later on, however, the market moved gradually downwards, and the broad-based index quite quickly showed relative weakness versus mature markets. In consequence, WIG slumped to an all-time low since February 2017.

The stock indexes were weighed down by a combination of external and internal factors. The former included faster tightening of the monetary policy by the US Federal Reserve, resulting in strong appreciation of the US dollar and global outflow of capital from the emerging markets, including Poland. Stock trends were also greatly affected by political tensions related to North Korea and to the US trade war, raising concerns about global economic growth. The domestic factors which adversely impacted index performance included redemptions of investment funds as well as increased outflow of funds from open-end pension funds as part of the so-called “security slider” mechanism following the reduction of the retirement age. The capital market, including stock market, was pulled lower by the problems of the leading Polish debt collector.

## Legal Environment of the Banking Sector

The table below shows the selected legislation which came into effect in H1 2018 and has a considerable impact on the financial sector in Poland. In the vast majority of cases, it transposes relevant directives and regulations of the European Parliament and of the Council to the Polish legal system.

Legislation	Effective date	Purpose	Selected regulations affecting the financial sector
Act of 24 November 2017 amending certain acts in order to counteract the use of the financial sector for tax fraud	13 January 2018	<ul style="list-style-type: none"> <li>To improve the security of the tax system, in particular to prevent VAT and other tax frauds.</li> </ul>	<ul style="list-style-type: none"> <li>Creation of an ICT system for the clearing house (STIR) to facilitate the exchange of information between the banking system and the National Revenue Administration (NRA).</li> <li>Risk analysis by the NRA as regards the use of banks and credit unions (SKOK) for tax frauds, in particular VAT frauds.</li> <li>Introduction of an obligation for banks and credit unions to provide information subject to bank/professional secrecy to STIR for the purpose of determining the risk indicator.</li> <li>Right of the Head of the NRA to demand a blockade on a bank account up to 72 hours with an option for extension up to 3 months (effective from 30 April 2018).</li> </ul>

Legislation	Effective date	Purpose	Selected regulations affecting the financial sector
Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation	17 January 2018	<ul style="list-style-type: none"> <li>To establish common rules for EU member states allowing for the use of securitisation as an effective tool for selected long-term investors and banks to acquire and diversify funding sources.</li> <li>To facilitate the growth of the securitisation market based on sound practices.</li> </ul>	<ul style="list-style-type: none"> <li>Definition of a simple, transparent and standardised securitisation.</li> <li>Ensuring the transparency of securitisations to allow investors to make their own risk assessment (rather than solely use assessments made by rating agencies).</li> <li>Introduction of a possibility to effectively transfer risk to institutional investors and banks.</li> </ul>
Act of 1 March 2018 amending the Act on trading in financial instruments and certain other acts (Act implementing the MiFID 2 package)	21 April 2018 selected provisions: 1 January 2019, 3 July 2019, 1 January 2020	<ul style="list-style-type: none"> <li>To transpose the EU capital market regulations, i.e. Markets in Financial Instruments Directive (MiFID) 2 and the Regulations (EU) of the European Parliament and of the Council on markets in financial instruments (MiFIR), transparency of securities financing transactions (SFTR) and on indices used as benchmarks.</li> <li>MiFID and MiFIR provide a legal framework applicable to investment firms, regulated markets, data reporting services providers and third country firms providing investment services or activities in the EU.</li> </ul>	<ul style="list-style-type: none"> <li>Increase in the supervisory powers of the KNF over investment firms and brokerage houses.</li> <li>Allowing brokerage houses to act as intermediaries in the execution of structured deposit agreements.</li> <li>Changes in the outsourcing of brokerage services.</li> <li>Extension of the definition of securities offering and the scope of regulations pertaining to the execution of orders to buy or sell financial instruments.</li> <li>Limitation of the possibility to accept or charge any fee or commission or any monetary or non-monetary benefit from third parties, in particular issuers and product providers.</li> <li>New rules of charging fees for the sale and repurchase of investment fund units.</li> <li>Introduction of rules regarding cross-selling by providers of retail financial services.</li> <li>Introduction of new or changed obligations for investment firms regarding: staff competencies, remuneration system, organisation of enterprise, communication with customers, implementation and application of rules and policies regarding the firm's operations (e.g. compliance policy, conflict of interest policy, etc.), reporting and suitability of a financial instrument and a distribution strategy for the target group.</li> <li>Tightening the regulations pertaining to administrative and criminal penalties.</li> </ul>
Act of 10 May 2018 amending the Payment Services Act and certain other acts	20 June 2018 (obligation to adapt activities by 20 December 2018)	<ul style="list-style-type: none"> <li>To transpose the EU Payment Services Directive 2 (PSD 2).</li> <li>To provide more transparent and consistent legislation regarding payment services and create a single market for payments across the EU.</li> <li>To change the scope of payment services provided by banks and non-bank entities providing payment services.</li> </ul>	<ul style="list-style-type: none"> <li>Extension of the scope of regulations to cover all currencies.</li> <li>Use of the SHA option by banks in payment transactions made on the territory of member states irrespective of the transaction currency and liquidation of the OUR option.</li> <li>Reduction of the maximum amount a payer could be obliged to pay in the case of an unauthorised payment transaction from EUR 150 to EUR 50.</li> <li>Introduction of an obligation for banks to execute messages sent by third party providers (fintechs) under agreements with account holders for the provision of account information services (AIS) and payment initiation services (PIS).</li> </ul>
Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC	25 May 2018	<ul style="list-style-type: none"> <li>The General Data Protection Regulation (GDPR) provides for full harmonisation of law across the EU, free movement of personal data and more effective control of such data.</li> </ul>	<ul style="list-style-type: none"> <li>Easier access to data for customers (more information about the nature of data processing and its presentation in a more transparent and comprehensible manner).</li> <li>Right to data portability (facilitating the transfer of personal data between service providers).</li> <li>Right to erasure (right to be forgotten).</li> <li>Right of the Head of the Personal Data Protection Office to impose fines in the case of breach of personal data protection regulations.</li> <li>Obligation for entities processing data on a large scale to appoint a data protection officer.</li> </ul>

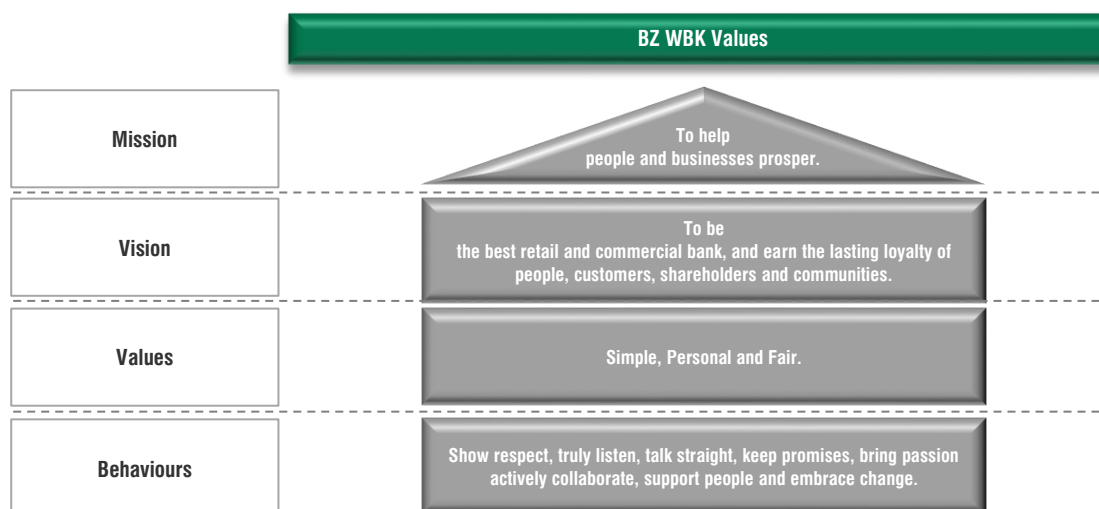
Legislation	Effective date	Purpose	Selected regulations affecting the financial sector
Act of 10 May 2018 on personal data protection	25 May 2018	<ul style="list-style-type: none"> <li>To transpose the General Data Protection Regulation.</li> </ul>	<ul style="list-style-type: none"> <li>Establishment of the Personal Data Protection Office and appointment of the Head of the Office.</li> </ul>
Regulation of the Minister of Finance on the procedure and operating conditions for investment firms, banks referred to in Article 70(2) of the Act on Trading in Financial Instruments, and custodian banks	23 June 2018 (obligation to adapt the activities by 1 October 2018)	<ul style="list-style-type: none"> <li>The Regulation was introduced in relation to the transposition of MiFID 2.</li> <li>It extends the scope of existing regulations to include mechanisms improving the security and quality of services provided to investors and limiting the possibility for investment firms to offer prohibited inducements.</li> </ul>	<ul style="list-style-type: none"> <li>The Regulation provides for the following: <ul style="list-style-type: none"> <li>✓ operating procedure for investment firms which accept or provide monetary or non-monetary benefits</li> <li>✓ rules for accepting or paying inducements (minor monetary benefits)</li> </ul> </li> <li>Introduction of provisions governing investment firm practices regarding: <ul style="list-style-type: none"> <li>✓ cross-selling</li> <li>✓ issuance of financial instruments and the associated advisory services</li> <li>✓ recommending, offering or otherwise facilitating the purchase of a financial instrument</li> <li>✓ reporting (contents and dates of reports).</li> </ul> </li> </ul>

## IV. Development Strategy

### 1. Strategy of Bank Zachodni WBK and Non-Banking Subsidiaries

#### Mission, Vision, Values and Strategic Objectives for 2018-2020

In view of dynamic and complex changes in the macroeconomic environment, the strategy of Bank Zachodni WBK Group is regularly verified, which helps to take prompt action in response to emerging market trends. The three-year strategy for 2018-2020 which was updated in 2017 is focused on the bank's transformation, in particular: commercial transformation, digital transformation, CRM content management and centralised data management. Most importantly, the new strategy is a continuation of the previous course of action, based on the same values and assumptions. It promotes customer-centric culture in business management, excellent customer service and product range, operational effectiveness, simple, clear and innovative solutions, and corporate culture that strengthens employees' engagement and motivation. The above measures are expected to help the bank achieve the position of the best financial institution for retail and corporate customers and the best employer in the banking market.



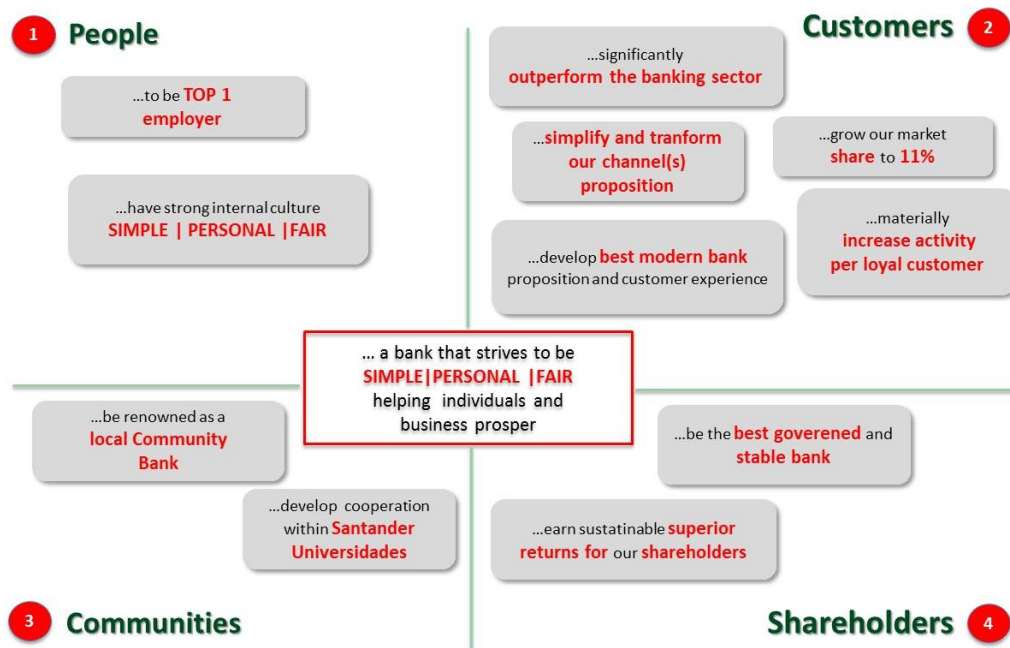
#### Strategic vision

As part of its strategic vision, Bank Zachodni WBK intends to become the best retail and commercial bank that earns the lasting loyalty of people, customers, shareholders and communities through:

- Gaining a leadership position in terms of service quality, focusing on customer needs and expectations;
- Building long-term relationships with customers based on trust, loyalty and enhanced customer experience;
- Continuous development and constant improvement of its products, services and solutions; anticipating and responding to customers' needs;
- Modernising banking services through digital transformation, including end-to-end processes and change of the operating model to a more effective and less capital-intensive one;
- Increasing the number of digital customers;
- Increasing its share in the key market segments and expanding its business model through both organic and inorganic growth;
- Growing faster than peers;
- Creating an engaging work environment through collaboration, communication and bottom-up initiatives emerging in all the bank's units;
- Enhancing effectiveness and streamlining internal processes in line with an Agile methodology;
- Combining the maximisation of shareholder value with the commitment to the growth of local communities.

## Actions focused on major stakeholders

The bank’s mission and vision are reflected in specific measures taken with respect to the key stakeholder groups. Below are the objectives of Bank Zachodni WBK Group for 2018-2020 which are focused on employees, customers, communities and shareholders.



## Corporate values

The corporate culture of Bank Zachodni WBK Group and Banco Santander Group is enshrined in the Simple, Personal and Fair values.



## Financial plan assumptions

General assumptions of the financial plan for 2018-2020:

- Increase in recurring net profit;
- Positive growth trends in interest and fee income;
- Cost management discipline resulting in reduction of the cost to income ratio;
- Improving quality of credit portfolio;
- Slower increase in the average risk weighted assets compared with loans and advances;
- Optimisation of costs and synergies arising from the acquisition of Deutsche Bank Polska;

- Effective and reasonable management of capital adequacy, keeping capital ratios above the regulatory and supervisory levels allowing for dividend payments.

## Opportunities and threats at the macro level

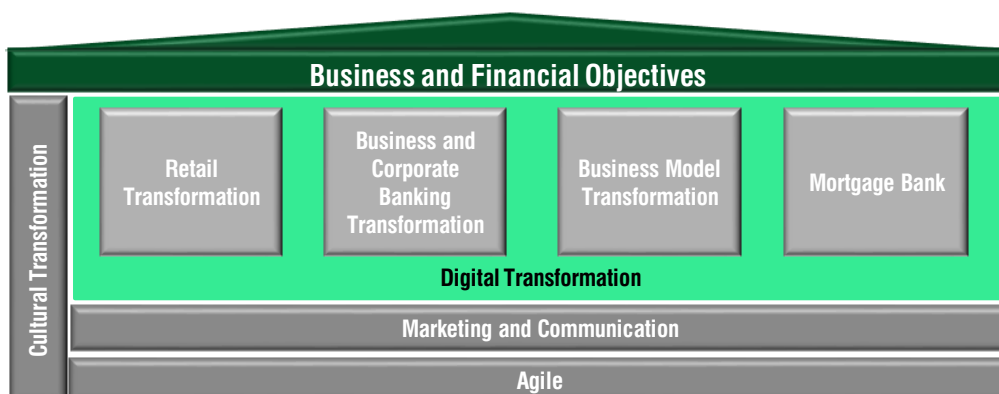
Below are the selected opportunities and threats affecting the delivery and direction of BZ WBK development strategy.



## 2. Key Strategic Programmes of Bank Zachodni WBK

### Structure of Bank Transformation

*Our ambition is to be the best bank in Poland which is renowned for customer excellence and operational effectiveness and is always one step ahead of competitors*





## Key Strategic Programmes

The table below presents the key strategic programmes delivered as part of the bank's strategic transformation and key implementations in H1 2018.

Strategic programme	Objective	Key implementations in H1 2018
<b>Commercial transformation</b>	<ul style="list-style-type: none"> <li>Commercial transformation covers the area of Retail, SME, and Business and Corporate Banking.</li> <li>It is focused on the development of a business model that will ensure positive customer experience, help simplify products and support optimisation of processes and pricing policies and the new distribution strategy.</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of a new account opening process outside the branch.</li> <li>Launch of the operations of the first branches in the new format and BZ WBK customer acquisition stands in shopping centres.</li> </ul>
<b>Transformation of business model</b>	<ul style="list-style-type: none"> <li>Business model transformation increases the effectiveness of the organisation through:               <ul style="list-style-type: none"> <li>✓ control of capital and operational expenses;</li> <li>✓ optimisation of property and branch network management;</li> <li>✓ streamlining of the organisational structure, elimination of duplicated functions, use of synergies between different bank's areas;</li> <li>✓ estimation and monitoring of benefits of the transformation process.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Increase in business effectiveness through the implementation of a new grouping model and operational agenda for SME advisors.</li> <li>Optimisation of distribution channels.</li> </ul>
<b>Digital transformation</b>	<ul style="list-style-type: none"> <li>The digital transformation programme covers the initiatives taken to improve customer service and develop end-to-end solutions which will be available to customers in all channels anytime and anywhere, including:               <ul style="list-style-type: none"> <li>✓ simplification of processes to suit customers' needs;</li> <li>✓ implementation of remote solutions for new products;</li> <li>✓ extension of the scope of after-sales services and development of new tools for customer advisors, including CRM development using Business Intelligence tools.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Introduction of an option for BZ WBK personal account holder to open a business account (for a sole trader) online via BZWBK24 electronic banking platform.</li> <li>Launch of new after-sales processes in electronic channels.</li> <li>Introduction of an option to pay for goods and services online using Apple Pay, Garmin Pay and BLIK.</li> <li>Automation of further transactional, after-sales and back-office processes in the RPA platform implemented in 2017.</li> <li>Extension of the product range to include, among other things, a motor insurance (third party liability, loss or collision damage, personal accident insurance and assistance) including via BZWBK24 mobile application.</li> </ul>
<b>Communication and marketing</b>	<ul style="list-style-type: none"> <li>Marketing and communication initiatives are focused on rising awareness of the new bank's brand in Poland and increasing its strength through messages based on emotions and values and clear associations with an international financial group, one of the most recognised banking brands in Europe and globally.</li> </ul>	<ul style="list-style-type: none"> <li>Preparations for rebranding in view of the decision to change the name of Bank Zachodni WBK S.A. to Santander Bank Polska S.A.</li> </ul>
<b>Cultural transformation</b>	<ul style="list-style-type: none"> <li>Cultural transformation is fundamental to the success of all changes taking place at the bank.</li> <li>It covers the following areas:               <ul style="list-style-type: none"> <li>✓ enhancement of leadership skills and development of staff and teams;</li> <li>✓ delivery of strategic goals and performance of day-to-day tasks in line with the Simple, Personal and Fair values;</li> <li>✓ increase in employee engagement and delivery of employer branding initiatives.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Survey of leadership styles for all managers, feedback sessions and development workshops.</li> <li>Transformation of corporate culture towards Agile way of working – an engagement campaign.</li> <li>Mentoring programme for women and a series of inspirational meetings.</li> <li>The Differently Abled (Różnosprawni) Project promoting the employment of people with disabilities.</li> </ul>
<b>Mortgage bank</b>	<ul style="list-style-type: none"> <li>Establishment of a mortgage bank as a separate specialised entity of BZ WBK Group.</li> </ul>	<ul style="list-style-type: none"> <li>Receipt of consents from the Management Board and the Supervisory Board for the establishment of a mortgage bank.</li> </ul>

Strategic programme	Objective	Key implementations in H1 2018
<b>Agile transformation</b>	<ul style="list-style-type: none"> <li>Implementation of a new working model in accordance with the Agile methodology to be able to keep abreast of and respond to changes in market environment and customers' expectations.</li> <li>The use of Agile cooperation methods to expedite the time-to-market, facilitate the search for and testing of new innovative solutions and increase customer satisfaction.</li> <li>The new methodology will entail modification of the existing operating models with a departure from complex structures in favour of small, cross-functional teams with a sound understanding of customer needs and a capability of fast and effective delivery of new solutions.</li> </ul>	<ul style="list-style-type: none"> <li>Launch of operations by the first Agile tribes set up in the Retail Banking Division: Omnichannel, Individual Client, Consumer Finance and Risk Engineering.</li> <li>Measures taken to set up further Agile tribes at the bank.</li> </ul>

The implementation of particular change programmes is supervised by the Strategic Transformation Office, which reports to the President of the Management Board and the Chairman of the Supervisory Board.

### 3. Strategy of Santander Consumer Bank

#### Strategic goals in the strategic areas

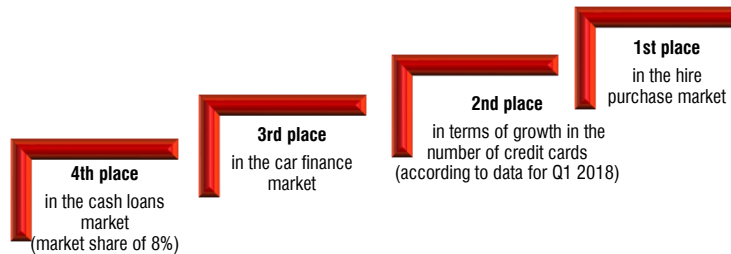
The key strategic goal of Santander Consumer Bank for 2017-2019 is to strengthen the position and image of the bank as an innovative, secure and customer-friendly financial institution with a strong capital base, structure and corporate culture harmonised with Santander Group and a leading position in consumer finance and car finance markets. The strategy of SCB can be summarised as follows:

<p><b>Car finance</b></p> <ul style="list-style-type: none"> <li>Improve the range of products and services and achieve dynamic growth of the lease business</li> <li>Ensure stable growth in the volume of new car finance by increasing the number of active dealers</li> <li>Achieve a dynamic growth in the volume of second hand car finance through remote distribution channels and a dedicated sales network</li> <li>Acquire new partners and continue the cooperation with PSA companies</li> </ul>
<p><b>Consumer finance</b></p> <ul style="list-style-type: none"> <li>Maintain high volume of cash loans and expand the range of products and services for new customer groups</li> <li>Ensure a stable volume of instalment loans, while reducing the share of sales in lower profitability channels</li> <li>Develop online sales of cash loans and instalment loans</li> <li>Increase sales of co-branded cards to new customers</li> <li>Develop mobile payments and e-commerce solutions</li> <li>Enter the DIY sector with the instalment loan proposition</li> <li>Develop digital business</li> </ul>
<p><b>Sources of funding</b></p> <ul style="list-style-type: none"> <li>Ensure a stable deposit base</li> <li>Finance working capital requirements through the issue of own securities and securitisation</li> <li>Ensure a diversified structure of funding</li> <li>Maintain LCR &gt; 100%</li> </ul>
<p><b>IT and operations</b></p> <ul style="list-style-type: none"> <li>Provide IT support for development of distribution channels, in particular remote ones</li> <li>Develop infrastructure and mobile technologies</li> <li>Optimise and streamline processes</li> </ul>
<p><b>Risk, cost, financial and capital management</b></p> <ul style="list-style-type: none"> <li>Maintain stable risk level, including steady non-performing loans ratio and high provision coverage ratio</li> <li>Achieve operational excellence: optimise branch structure, relocate the Contact Centre, review the scope of control</li> <li>Deliver the digitalisation project in the following areas: DIGI business, DIGI process, DIGI support</li> <li>Monitor key profitability and growth indicators</li> <li>Maintain secure capital position in line with the CRR and regulatory requirements</li> </ul>

## Strategic objectives delivered in H1 2018

In the pursuit of H1 2018 objectives, SCB Group:

- Strengthened its business position and perception as a leading institution in the consumer finance market, achieving:



- Maintained strong sales of high-margin consumer loans (cash loans and credit cards) and increased the volume of car finance with a growing share of lease solutions chosen over car loans;
- Diversified and built up stable sources of funding and optimised its cost in an environment of low interest rates and a changing regulatory regime owing to a higher share of the most stable sources (long-term deposits, securitisation bonds, mid- and long-term bonds issued as part of the bank's issuance programme) and increased activity on the corporate deposit market.
- Maintained a stable risk level, high provision coverage ratio and a steady non-performing loans ratio compared with the end of June 2017.
- Ensured a stable level of operating costs and improved cost effectiveness.
- Maintained a strong capital position.

# V. Human Resources

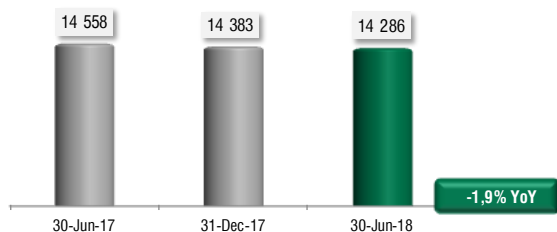
## 1. Human Resources Management

### Employment

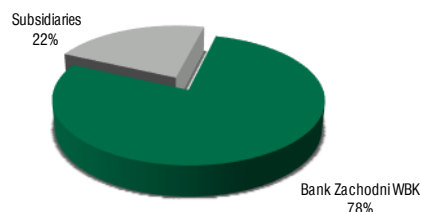
As at 30 June 2018, the number of FTEs in Bank Zachodni WBK Group was 14,286 vs. 14,383 as at 31 December 2017. These headcount figures include 11,174 FTEs of Bank Zachodni WBK (11,291 as at 31 December 2017) and 2,678 FTEs of SCB Group (2,664 as at 31 December 2017).

The year-to-date decrease results primarily from reduced employment in BZ WBK Branch Banking resulting from the gradual rationalisation of the branch network through natural attrition;

Employment in BZ WBK Group from 30.06.2017 to 30.06.2018 (in FTEs)



Employment Structure in BZ WBK Group as at 30.06.2018



### Human Resources Management Strategy

The Business Partnership Division leads the bank’s corporate culture transformation process which is fundamental to changes taking place in the bank aimed at building the best commercial bank in Poland by 2019. The BZ WBK human resources management strategy is based on the following pillars:

Employer branding	Engagement	Development
<ul style="list-style-type: none"> <li>The employer branding initiatives are aimed at ensuring a steady inflow of talented people to Bank Zachodni WBK.</li> <li>The bank plans to increase its presence at the universities, career fairs and the internet.</li> <li>The model for recruitment and induction of new employees is planned to be further modified.</li> </ul>	<ul style="list-style-type: none"> <li>The bank is committed to increasing the engagement of its employees by catering to their needs on each stage of their professional life.</li> <li>The processes connected with recruitment, induction, development, training and termination of employment are improved on an ongoing basis.</li> <li>The Engagement Survey held in the third quarter each year helps the bank identify the areas for improvement and build up staff engagement.</li> </ul>	<ul style="list-style-type: none"> <li>Focus has been placed on training and development initiatives for experts and managers, including senior executives (such as Leaders for Employees, talent management programmes, Leader’s Quest, Future Organisation University and training activities).</li> </ul>
<p><b>Leadership underpinned by the bank’s values and behaviours</b></p> <ul style="list-style-type: none"> <li>In their day-to-day work, they actively collaborate, support people, talk straight, truly listen, show respect, keep promises, embrace change and bring passion.</li> <li>Leaders build up their skills so as to lead and develop their teams and deliver on the business objectives in an even more effective way.</li> <li>The above approach to management enables leaders to successfully achieve their objectives.</li> </ul>		

## Key HR initiatives

Initiative	Leadership development programmes
<b>Leaders for Employees</b>	<ul style="list-style-type: none"> <li>A programme delivered in cooperation with Korn Ferry Hay Group in response to the needs identified during the Engagement Survey of 2017.</li> <li>The programme offers a range of initiatives for senior executives aimed at developing leadership behaviours and attitudes to stimulate staff engagement.</li> <li>The bank's Management Board members and key managers participated in general workshops and working group sessions where they discussed such issues as the bank's identity, sense of pride, authenticity and leadership in a modern and changing environment.</li> <li>The project included the survey of leadership styles, organisational climate and learning agility. Subsequently, senior managers worked on their own development plans during individual feedback sessions.</li> <li>As part of the project, employees could meet with the Management Board members as part of Open Sessions or informal lunches.</li> </ul>
<b>Leadership style survey</b>	<ul style="list-style-type: none"> <li>Apart from Management Board members and other senior executives, the leadership style survey covered a wide group of managers.</li> <li>The participants also attended group feedback sessions during which they defined their own development plans.</li> <li>In all, 1,140 managers took part in the survey.</li> </ul>
<b>Programme for the newly appointed managers: Leader's Quest</b>	<ul style="list-style-type: none"> <li>In March, the bank launched another edition of Leader's Quest, a programme for new managers.</li> <li>The programme is delivered in cooperation with Nowe Motywacje and consists of two webinars, two workshop modules, video workshops and mentoring sessions.</li> <li>In H1 2018, 74 managers participated in the programme.</li> </ul>
<b>Leadership development of SME1 managers</b>	<ul style="list-style-type: none"> <li>Sales managers of the SME1 segment were offered an additional development opportunity: an individual supervision process consisting of six one-to-one meetings.</li> <li>The role of the supervisor is to monitor the day-to-day performance of the manager, mainly during individual and group meetings with employees, and to provide coaching and feedback.</li> </ul>
Initiative	Talent management programmes
<b>Local talent management programmes</b>	<ul style="list-style-type: none"> <li>At the beginning of 2018, the following talent management programmes were launched: <ul style="list-style-type: none"> <li>✓ <b>"Become an Advisor with a Customer Portfolio"</b> – a programme addressed to personal customer advisors looking to take on the role involving the management of a customer portfolio (Premium or VIP customer advisor)</li> <li>✓ <b>"Become a Transformation Leader"</b> – a programme during which the employees are trained to occupy the role of a transformation leader (team or project manager) in one of the three business units (Risk Management Division, Financial Accounting and Control Division or Business Model Transformation Area).</li> </ul> </li> <li>The programme participants are provided with essential guidance and develop their skills through a range of activities such as workshops, webinars, online classes, mentoring, internships, task forces and knowledge sharing sessions.</li> <li>Measures have been taken in relation to the <b>User Experience Programme</b> whose objective is to train the participants to take on the role of UX designer in the Agile structures. The recruitment and launch of the programme is scheduled for Q3 2018.</li> </ul>
<b>Global talent management programmes</b>	<ul style="list-style-type: none"> <li>BZ WBK employees also participate in the global talent management programmes run by Santander Group: <ul style="list-style-type: none"> <li>✓ <b>Global Risks Talent Development Programme</b> – a programme whose objective is to select and support the development of 60 most talented employees in the area of risk management across the Group. The programme participants include seven key employees from BZ WBK Risk area.</li> <li>✓ <b>IT&amp;OPs Key Positions Assessment</b> – a programme focused on IT &amp; Operations whose objective is to identify, develop the skills and ensure the succession of the key individuals from the above-mentioned business areas.</li> <li>✓ <b>Young Leaders of Tomorrow</b> – a programme whose objective is to support the development of future top leaders who have the potential to take on the key roles in Santander Group over the next 10 years. At the end of H1 2018, a global recruitment process was held. The first development initiatives, which are planned for September 2018, will cover more than ten employees from BZ WBK.</li> <li>✓ <b>Talent in Motion</b> – a continuation of the programme which promotes professional mobility and enables participants to gain experience in international business by working in another country for up to two years. Currently, there are two foreigners working in BZ WBK as part of the programme.</li> <li>✓ <b>Mundo</b> – an international programme aimed at sharing professional experience and best practice. Recruitment to the programme took place at the end of H1 2018. The programme participants deliver selected business projects in another company of Santander Group for the maximum period of three months. The programme is to be launched in late Q3/early Q4 2018.</li> </ul> </li> </ul>
<b>New talent management strategy</b>	<ul style="list-style-type: none"> <li>The purpose of development of a new talent management strategy is to work out a systemic approach to the selection of employees who have the potential to become ambassadors of the transformed bank and to retain the most talented individuals. In May 2018, more than 450 employees of the bank completed a dedicated questionnaire. The results will be used to define talent potential and formulate a comprehensive talent management strategy.</li> </ul>

Initiative		Other development programmes
<b>Development initiatives related to Agile</b>	<ul style="list-style-type: none"> <li>In relation to the implementation of Agile methods and structures in the bank, a range of development initiatives have been put in place, such as "Agile Lab", a new performance review process and a pulse survey.</li> <li>Working in a dynamic, Agile environment requires a new way of thinking and achieving objectives and innovative ideas. In order to respond to such challenge, the "Agile Lab" programme was launched for Chapter Leads, Product Owners and Agile Coaches to facilitate taking on the new roles. The workshops for the first participants were started in June and will continue until September 2018.</li> <li>Ongoing feedback is key to the Agile way of working, therefore a <b>new performance review system</b> has been put in place with feedback as a fundamental element.</li> <li>Furthermore, an anonymous monthly online <b>Pulse Survey</b> has been launched to help self-organising teams improve their working conditions and methods.</li> </ul>	
<b>DISC</b>	<ul style="list-style-type: none"> <li>The employees taking part in the initiatives scheduled for 2018/2019 (such as development programmes, workshops for top performers (3:3), team building workshops, workshops as part of the network transformation programme, recruitment processes, assessments for the purpose of talent management programmes and other projects) are offered an opportunity to be subject to the Extended DISC assessment using a 4-quadrant human behaviour model developed on the basis of Carl Gustav Jung's theory. It is a clear way to describe and analyse an individual's reaction to the environment.</li> <li>The purpose of the analysis is to:                             <ul style="list-style-type: none"> <li>✓ identify and confirm one's individual style;</li> <li>✓ use individual and team efficiency;</li> <li>✓ get to know each other better to collaborate in an even more effective way;</li> <li>✓ identify team's strengths and challenges.</li> </ul> </li> <li>More than 1,800 DISC reports have been generated to date.</li> </ul>	
<b>Changes in the induction programme for branch employees</b>	<ul style="list-style-type: none"> <li>Measures are continued to optimise the induction programme for new branch employees.</li> <li>A project is underway to replace a significant part of traditional induction training with an engaging remote training in the form of gamification.</li> <li>The new induction process is intended to take less time and be more effective and provide new employees with an opportunity to learn on the job.</li> </ul>	
<b>Retail Banking Transformation/ Gamification</b>	<ul style="list-style-type: none"> <li>A development programme has been launched for employees of the distribution network to support the Retail Banking Transformation and customer experience management and to promote positive attitude towards digitalisation (Digital Enthusiast/omnichannel).</li> <li>The programme will use a remote gamification platform accessible to all branch employees and will include a series of classroom training courses for directors and the best advisors (around one thousand individuals).</li> <li>The programme is intended to be modern and user-friendly thanks to the combination of traditional forms of training with an IT platform.</li> <li>The initiative is planned to be launched in Q4 2018.</li> </ul>	
<b>Future Organisation University</b>	<ul style="list-style-type: none"> <li>An initiative addressed to employees who want to develop themselves and others through a range of bottom-up activities available in one place (training, one-to-one sessions, mentoring, webinars, courses, etc.). The objective is to:                             <ul style="list-style-type: none"> <li>✓ encourage self-development;</li> <li>✓ share knowledge and experience;</li> <li>✓ identify and use digital forms of education and development.</li> </ul> </li> <li>The initiative is planned to be launched in Q4 2018.</li> </ul>	
Initiative		Digital programmes
<b>Digitalisation of HR processes</b>	<ul style="list-style-type: none"> <li>A range of optimisation and digitalisations measures were taken as a result of the review of HR processes in 2017.</li> <li>In 2018, a work time management application was implemented across the organisation ("Czasownik") and a workflow for HR decision-making processes has been put in place.</li> <li>Further steps have been taken towards process digitalisation, including e-File project or optimisation of eHR portal (extended employee self-service functionality). Projects aimed at the robotisation of payroll across the bank have been launched.</li> <li>The optimisation and digitalisation initiatives are planned to be gradually delivered in relation to other processes.</li> </ul>	

## Awards received by Bank Zachodni WBK S.A.

Major awards and recognitions for Bank Zachodni WBK S.A. as an employer:

- The Top Employer certificate awarded following an independent research conducted by the Top Employers Institute in numerous countries to identify top global employers who provide excellent employee conditions, nurture and develop talent at all levels of the organisation and continually improve their HR practices.
- Top position in the banking category and an award in the Poland-wide category in the 2017 Reliable Employer competition awarding companies and organisations which create a favourable work environment, deliver on best practice in terms of staff recruitment and development and engage in interesting projects as well as social and marketing campaigns.

- The Employer of Choice accolade awarded to the Bank for investing in talent development, creating the best working conditions for their personnel and improving their recruitment processes.
- The award in the competition Best Benefits Strategy 2018 for the most interesting and most effective strategy of non-salary benefits for its employees.

## Remuneration Policy of Bank Zachodni WBK Group

### Remuneration Policy of Bank Zachodni WBK Group

In H1 2018, Bank Zachodni WBK continued to modify its remuneration policy to support the bank's strategic priorities and develop an engaging work environment by expanding the range of compensation and benefit solutions.

Satisfactory financial results for 2017 enabled the bank to launch annual bonus payments for employees. Furthermore, in accordance with the EBA guidelines No. GL/2016/06 and 13/12/2016, a greater focus has been placed on the quality of customer service in the incentive schemes of Retail Banking, SME Banking and Business and Corporate Banking for 2018 as they now include the Net Promoter Score next to the business performance.

In Q2 2018, the bank conducted a salary review against the market. One of the objectives of this process was to recognise the individual contribution and behaviours of employees, retain talents and build a strong reputation of the bank as an employer.

The total remuneration package for 2017 including additional benefits was presented to each employee in the form of a TRS report "Here I work – here I gain" to build their awareness and increase their satisfaction with the scope and value of total remuneration offered by the bank.

### Long-Term Incentive Programme

The bank continues the three-year share-based incentive programme adopted by the Annual General Meeting of 17 May 2017 for the employees of the bank and the subsidiaries that have a key contribution to the value of the organisation.

The incentive programme covers no more than 250 key employees of Bank Zachodni WBK Group indicated by the Management Board and approved by the Supervisory Board, inclusive of all Management Board members. The participants include a specific group of material risk takers (identified participants) to whom separate award criteria apply. For the purpose of the Programme, the bank will issue up to 250,000 performance shares.

Based on the information presented to the Remuneration Committee in February 2018, the criteria for granting the annual award for 2017 had been met. The awards will be paid at the dates stipulated in the AGM Resolution No. 44 of 17 May 2017 and agreements with the participants.

## 2. Training and Development

The Business Partnership Division delivers high quality training and development programmes to foster the development of employees and executives of Bank Zachodni WBK that is fundamental to the implementation of the bank's strategy. To that end, it uses a wide variety of tools such as remote training (e-learning and webcasts), workshops (internal and external), language courses and specialist courses.

## Training and Development Activity

In H1 2018, the number of registered attendees totalled 120,757, with 11.6% of training held in the form of workshops and the remainder on a remote basis.

### Branch staff developed their knowledge and skills through the participation in the following training:

- new branch format (development of digital mindset and customer experience management skills, sales and customer service)
- insurance under the new IDD directives
- savings and investment products and certification
- level 1, 2, 3 SME credit certification
- sales training, including “sales navigator”
- SME lending and certification
- international business
- “Our Best” development programme
- “Barrier-Free Banking”
- mortgage loans and quality training

### The following training was delivered to the BSC employees in accordance with the bank’s strategy:

- changes in banking legislation, GDPR, enhanced protection of professional secrecy under the new data protection act
- use of professional tools
- risk analysis
- audit
- development of interpersonal skills



## VI. Business Development

### 1. Bank Zachodni WBK and Selected Subsidiaries

#### 1.1. Retail Banking Division

##### Key development trends

In H1 2018, the Retail Banking Division focused on:

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

Work was also underway to ensure compliance with a range of regulatory changes for banking and finance sectors (GDPR, PSD2, MIFID II, IDD).

In the analysed period, the sales of cash loans, mortgage loans and investment funds grew at a double digit rate compared to H1 2017.

##### Development of business and products for retail customers

###### Consumer loans

In H1 2018, Bank Zachodni WBK offered a range of special deals on cash loans to grow sales, including:

- a cash loan for employees of the bank's business partner from the fuel sector (February 2018);
- a cash loan available in electronic channels (BZWBK24 internet and BZWBK24 mobile) at a lower fee: up to 6.99% in the first edition (February 2018) and 5.99% in the second edition (June 2018);
- a Zero Gravity (Brak Ciężenia) III loan granted to repay debt with other banks and support the sale of consolidation loans (February 2018);
- a loan offered to selected customers with a prelimit at a maximum amount of 30 times the income (March 2018);
- a cash loan with the Account As I Want It (Konto Jakie Chcę) (second edition in March 2018) and with the Account As I Want It and the Customised Visacard or Mastercard (3rd edition in June 2018);
- a cash loan with a lower interest rate (APR of 2.99%) available to all customers applying for a loan up to PLN 4k in BZ WBK branches, partner outlets and the Multichannel Communication Centre.

In H1 2018, cash loan sales increased by 15.9% YoY, reaching PLN 2.4bn. The cash loan portfolio was up 10.3% YoY and totalled PLN 8.2bn at the end of June 2018.

###### Mortgage loans

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

- reduced the currency spread to 2%;
- applied a negative CHF LIBOR interest rate;
- provided an opportunity to extend maturity, use interest-only option or reduce loan instalments free of charge for 3, 6 or 12 months;
- provided flexible loan restructuring options, waiving a fee for annexes;
- offered loan conversion to PLN at the mean NBP rate with no additional fees charged, ensuring a preferential credit margin thereafter;

- did not require customers to provide additional collateral if the acceptable LTV was exceeded as a result of the FX rate increase.

In H1 2018, the bank introduced further changes to mortgage lending processes and rules to enhance customer experience:

- In January 2018, the acceptable LDSR was increased from 60% to 65% for low risk borrowers.
- In March 2018, the maximum loan amount offered to customers with a prelimit was increased from 20 times to 30 times the income.
- In May 2018, the availability of the fast-track procedure was extended to include credit applications up to PLN 24k and to PLN 48k in the case of customers with a good credit history.
- A new functionality was introduced as part of the buy-by-click option (available in BZWBK24 internet, BZWBK24 mobile) whereby customers who do not have a sufficient credit capacity to be granted a loan in the amount sought are offered a lower amount.
- In January 2018, the model of cooperation with mortgage loan agents was modified and is now based on outsourcing agreements, flexible rules of cooperation and local and central channels for processing credit applications.

In H1 2018, the bank introduced the following special deals on mortgage loans:

- an offer for employees of the bank's business partners, i.e. a group from the fuel sector and a retailer from the furniture industry (February 2018);
- an offer called "Lower margins in spring" ("Obniżamy marże na wiosnę") for mortgage loans with the minimum amount of PLN 200k (February 2018);
- "Summer home loan" ("Kredyt mieszkaniowy w letniej odsłonie") for customers applying for a loan at min. PLN 150k with max. LTV of 80% (June 2018).

During the first six months of 2018, the value of new mortgage loans totalled nearly PLN 3.2bn, up 16.8% YoY. In the analysed period, the bank reported a significant number of applications for a subsidised home loan submitted as part of the last stage of the "Home for the Young" ("Mieszkanie dla Młodych") programme, reaching a 26% market share.

The gross mortgage portfolio grew by 6.9% YoY, reaching PLN 36.8bn as at 30 June 2018. The value of PLN mortgage loans amounted to PLN 26.2bn, up 15.8% YoY.

## Accounts and payment cards

### Personal accounts

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

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

The number of personal accounts grew by 3.2% YoY and reached 3.3m as at the end of June 2018, including 0.7m Accounts as I Want It. Including FX accounts, the personal accounts base totalled nearly 4m.

### Debit cards

In March 2018, Bank Zachodni WBK, as the first bank in Poland, offered contactless payments with Garmin Pay watches to holders of MasterCard cards. In June 2018, it launched Apple Pay contactless payments to iPhone users holding Visa or MasterCard cards. Furthermore, it extended the functionality of the BLIK service to include an option to indicate registered users of the system for the purpose of BLIK transfers to a phone.

As at the end of June 2018, the personal debit card portfolio of Bank Zachodni WBK (excluding prepaid cards) comprised more than 3.5 million cards and increased by 6.3% YoY. Taking business cards into account, the total number of debit cards reached 3.7m, up 6.4% YoY.

## Credit cards

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

In H1 2018, the bank took further measures to increase sales of credit cards and accounts. In particular, it launched:

- another edition of the Referrals Programme for customers recommending a personal account with a card or a credit card offered by the bank;
- second edition of a promotional campaign of a credit card linked to the Account As I Want It (World MasterCard, 1|2|3, Visa Silver Akcja Pajacyk);
- a promotional campaign called “PLN 100 for anything you want” (“Stówa na co chcesz”) targeted at prospective credit card holders under 26.

As at 30 June 2018, the credit card portfolio of Bank Zachodni WBK comprised 804.8k instruments, an increase of 2.3% YoY.

## Deposits and investment products

In H1 2018, Bank Zachodni WBK intensified measures to grow deposit and investment volumes and continued to increase the strength of relationship with deposit customers and deliver projects aimed at extending the range of services provided in remote channels in connection with investment products.

The steps taken by the bank in a record low interest rate environment contributed to YoY growth in the balance of term deposits, savings accounts and current accounts held by individuals and increase in the popularity of Arka investment funds.

### Deposits

In H1 2018, the bank used a range of savings accounts to attract new funds. Customers could choose from the following special deals:

- ✓ another edition of the promotion for new funds up to PLN 200k deposited in a savings account in PLN, offering an interest rate of 2.30%;
- ✓ Mobile Savings Account (with an interest rate of 2.7% for deposits up to PLN 100k until the end of July 2018) available in remote channels only (internet and mobile application);
- ✓ Regular Savings Account (Konto Systematyczne) offering 2.70% for amounts up to PLN 20k as part of a bundled offer of an Account as I Want It (Konto Jakiej Chce).

As a result, the number of regular saving holders of the Account As I Want It reached 120k at the end of June 2018.

The bank modified the term deposit negotiation policy in order to increase the deposit base in the VIP and Private Banking segments. At the same time, it continued to reward active deposit customers, increasing product penetration as part of the following initiatives:

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

As a result of measures taken in H1 2018, the fastest balance growth was reported for personal and savings accounts, negotiated deposits offered to VIP and Private Banking customers as well as term deposits available only via remote channels: 1-month eDeposit (eLokata) and eInvestor Deposit (elnwestor) for customers purchasing investment products.

The effectiveness of the product and pricing policy of Bank Zachodni WBK is confirmed by an increase of 8.3% YoY in the total personal customer deposit base to PLN 63.9bn as at 30 June 2018. The total balance of savings and current accounts was PLN 44.4bn, an increase of 7.7% YoY, while term deposits grew at 9.5% YoY to PLN 19.4bn.

### Investment funds

In accordance with the development strategy in place, in H1 2018, BZ WBK TFI, a company managing Arka investment funds, focused on effective communication with investors, maintenance of outstanding investment performance and extension of the product range.

In February 2018, the range of Arka investment funds was extended to include nine new products (increasing the total number of funds managed by BZ WBK TFI to 33):

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

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

In June 2018, Bank Zachodni WBK launched a monthly online campaign called “Invest however and wherever you want” (“Inwestuj, jak chcesz i skąd chcesz”) to promote investments in Arka funds via BZWBK24.

In H1 2018, the highest net sales were reported by money market subfunds (Arka BZ WBK Gotówkowy, Arka Prestiż Gotówkowy), Arka BZ WBK Small and Medium Caps Equity subfund (launched in November 2017) and Arka Prestiż Alfa subfund (launched in January 2018). Higher demand for money market subfunds was determined by trends on global stock markets, in particular the volatility of equity markets.

As at 30 June 2018, the total net assets in investment funds managed by BZ WBK TFI were nearly PLN 16.3bn and up 9.8% on 30 June 2017 and 2.1% on 31 December 2017.

### **Dom Maklerski BZ WBK (BZ WBK Brokerage House)**

In H1 2018, BZ WBK Brokerage House introduced a range of improvements for customers, including easier access to investment advice (recommendations of instruments that suit customers’ investment profiles) as part of the Investment Guide services (Drogowskaz Inwestycyjny). Furthermore, the process of brokerage agreement execution was modified in accordance with customers’ expectations and access to historical data was provided to enable customers to view their closed accounts.

A strong focus was placed on ensuring compliance with the requirements arising from MIFID II, PRIIP, GDPR or NBP guidelines. New Terms and Conditions of Brokerage Services were introduced and brokerage processes were modified in response to changes in legal provisions.

In January 2018, the value of assets in customers’ brokerage accounts reached a record high level in the last three years, followed by an all-time high volume of trading in foreign stock markets reported in February 2018. During the first six months, customers’ trading was under downward pressure caused by a decline in the stock market, yet BZ WBK Brokerage House managed to maintain its leadership position in the options market.

In H1 2018, BZ WBK Brokerage House completed a successful public offering of a company from the biotechnology sector, acting as the lead underwriter and accepting orders for shares in the retail tranche. It also accepted orders for shares in the second tranche of the Long-Term Incentive Plan of a debt collection company.

BZ WBK Brokerage House analysts topped the annual equity research ranking in a number of sectors (Parkiet, 8 January 2018). The performance of the whole analyst team was rated high, too. Furthermore, BZ WBK Brokerage House took the third position in the IPO ranking (Parkiet, 13 January 2018) owing to its participation in the largest IPOs in 2017.

### **Wealth Management Programme**

In H1 2018, the bank took measures to increase its share in the wealth management market:

- Wealth Management Programme was set up, including private banking and BZ WBK TFI;
- A project was started to define a new wealth management development strategy in relation to the business and operating model;
- Arrangements were made with respect to the planned acquisition of the demerged business of Deutsche Bank Polska along with a large base of private banking customers.

In H1 2018, the range of wealth management services was expanded to include nine new Arka investment subfunds set up by BZ WBK TFI. For more information on the above-mentioned subfunds, see “Investment funds” in the “Retail Banking Division” section.

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

## Insurance

In H1 2018, Bank Zachodni WBK expanded its range of insurance products to include the following:

- a comprehensive motor insurance offered to passenger car owners since 12 March 2018 in cooperation with Benefia Ubezpieczenia and TU Compensa S.A. Vienna Insurance Group via remote channels, i.e. the bank's website, the Multichannel Communication Centre or BZWBK24 mobile application;
- changes to the Worry-Free Loan (Spokojny Kredyt) CPI cash loan insurance introduced on 19 February 2018 in accordance with the new Insurance Distribution Act, the KNF recommendations, feedback from the bank's advisors as well as analysis of customers' needs including:
  - ✓ new insurance options: Spokojny Kredyt – życie plus (life insurance available in all sales channels), Spokojny Kredyt – życie i praca (life and employment insurance available in all sales channels except for BZWBK24);
  - ✓ simplified insurance cover and product terms and conditions;
  - ✓ attractive insurance premiums for loans above PLN 25k.
- changes in the sales process introduced on 19 February 2018 to address the requirements arising from the new Insurance Distribution Act to be enacted by October 2018.

In H1 2018, NPS (Net Promoter Score) for insurance products continued at a high level (88.9%). The newly introduced Insurance Product Sales Code should contribute to further improvement of this ratio.

## Development of business and products for SME1

### Extension of customer base of the Retail Banking Division

As a result of the vertical reorganisation of the Business Support Centre in H1 2018, the Retail Banking Division took over services for SME1 customers, whereas the SME2 segment was incorporated into the customer base of the Business and Corporate Banking Division. Both the SME customer segments mentioned above had been identified on the basis of turnover and preferred way of banking.

### Development of services for business customers

In H1 2018, the bank focused on the work of customer advisors and service model for SME1 in bank branches and remote channels.

- A system was set up to group SME1 advisors into teams and a new work agenda was introduced along with a new incentive scheme.
- Services for SME1 available via the Multichannel Communication Centre were further developed.
- Work was underway to implement remote advisor services for SME customers who prefer to bank remotely. A team of remote advisors was set up, first sales and after-sales processes were designed and a target group of customers was preliminarily selected.

In the first six months of the year, an increase was reported in the number of customers using voice biometrics as an authorisation tool during the contact with the bank over the phone. The bank implemented a fast, simple and secure process to sign agreements (e.g. in relation to a business account) via remote channels using video verification solutions: face recognition, verification of ID details in external databases and customer identification by the bank's video-advisor.

### Development of products for business customers

In H1 2018, the range of products for micro and small companies was gradually extended:

- In February 2018, customers from the above segment were provided with an option to install BZ WBK POS terminal as part of a three-year Non-Cash Payments Initiative. Customers who qualify for the initiative and sign an agreement may rent and use the payment terminal free of charge for the first 12 months. As part of the above-mentioned initiative customers may set up a free-of-charge business account with the bank.
- Companies using internet banking services were provided with an opportunity to set up a trusted profile without the need to visit an office or the bank's branch. This solution enables customers to attend to administrative matters remotely, using the same password and login as a bank account.

- In June 2018, sole traders registered in Poland were offered an option to buy a range of products online, including a business account such as Business Account Worth Recommending (Konto Firmowe Godne Polecenia) or Premium Business Account (Konto Firmowe Premium) with BZWBK24 Mini Firma electronic banking services and, optionally, a payment card (Visa Business Electron BZ WBK, MasterCard Business Debit BZ WBK or Visa Business BZWBK). A fast and convenient process for setting up a business account is required under the act amending the VAT act and certain other acts (“split payment”).
- Leveraging the global presence of Santander Group and an innovative blockchain technology, in March 2018 the bank expanded its range of products and services for the bank’s foreign customers (exporters and importers) to include instant transfers in GBP to accounts with Santander UK.

As part of the strategy to support exporters and importers, Bank Zachodni WBK encourages small and medium enterprises to make currency exchange transactions via the BZ WBK FX platform, without the need to transfer funds to other institutions. To that end, a lottery called “Exchange your currency for a car” (“Wymień walutę na samochód”) was held by the bank for companies using the BZ WBK FX platform.

## Lease business

BZ WBK Leasing is a universal lessor which offers financing for a wide range of assets to SME, corporate and large corporate customers, in particular financing of machines and equipment, properties and vehicles.

In H1 2018, the company successfully delivered its development strategy in the selected market segments based on specialised sales networks. As part of its commitment to environmentally friendly initiatives, in mid-March 2018 the company launched a special deal, i.e. 100% Lease of Electric Vehicles (100% na finansowanie pojazdów elektrycznych). The deal covers all new electric cars from approved dealers.

As part of the cooperation with Bank Zachodni WBK, since April 2018, the products of BZ WBK Leasing have been marketed as part of the bank’s special offer for MasterCard business card (with a zero arrangement fee).

In H1 2018, BZ WBK Leasing financed fixed assets of more than PLN 2.4bn, achieving record high six-month sales (up 20.2% YoY). In the segment of vehicles, sales totalled PLN 1.3bn net, up 27.1% YoY. In the segment of machines and equipment, where BZ WBK Leasing has been the leader for years, the lease volumes came in at PLN 1.1bn net (up 13.9% YoY), including PLN 440m net in the segment of agricultural machinery and equipment (an increase of 25% YoY).

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

## Cooperation with financial institutions

As at the end of June 2018, Bank Zachodni WBK cooperated with more than 20 Polish and foreign banks and financial institutions in terms of outsourcing services related mainly to card personalisation, issuance and handling, and ATM network management. It managed a network of over 300 third-party ATMs and handled nearly 3m Visa/MasterCard cards for third party institutions.

In H1 2018, Bank Zachodni WBK prepared a new offer of multi-currency cards for existing banking partners. It also finalised the terms of expanding the scope of cooperation with one of the banks to provide end-to-end credit card support and signed the general card services agreement with a foreign bank. Furthermore, new products and features were developed, such as personalisation of custom cards. They will be offered to banks in subsequent periods.

## 1.2. Business and Corporate Banking Division

### Main development directions

#### Initiatives to support international trade

The strategic objective and the top priority of the Business and Corporate Banking Division is to help customers prosper and to understand their business in order to provide them with tailored products and services.

In accordance with the strategy in place, in H1 2018 further measures were taken to support foreign expansion of customers. The main focus was placed on the development of trade finance and investment corridors (Germany, Spain, Latin America, the UK and the USA), as a result of which the Division earned the expected income from international business of its customers. Corridors with the USA and the UK were launched in order to strengthen trade relations with these countries. Managers were appointed to actively support customers operating in the above markets. Leveraging the global presence of Santander Group, in March 2018 the bank introduced instant transfers in GBP to accounts with Santander UK. Payments up to GBP 10k are automatically qualified to be sent using blockchain technology, which means that a specific amount is paid to a payee's account almost right away. The blockchain technology used by the Group is currently regarded to be the safest method for cross-border transfers.

2018 is the fourth year in a row in which Bank Zachodni WBK has delivered its Export Development Programme. It is a flagship project providing an effective platform to share knowledge and experience and promote networking among business partners. As part of the programme, the bank organised a range of trade missions and initiatives for exporters:

- A meeting was organised during which food and agri wholesalers and importers from the Mercamadrid, the largest food market in Europe, met with entrepreneurs from Poland. The event provided an opportunity to establish business relationships and learn about prospects of international expansion.
- A similar meeting was held for manufacturers from the airline industry.
- Customers were invited to participate in Automechanika Birmingham exhibition and a series of meetings with the German Chamber of Commerce.
- A letter of intent was signed with the Agency for Special Economic Zone in Mexico to provide professional support to Polish companies looking to expand into the Latin America (March 2018).

#### Focus on key sectors

In view of the growing importance and potential of the agriculture and food, automotive, TSL (transport, shipping and logistics) and industrial production sector, the bank strives to become the best partner for all companies from these industries. In H1 2018, further initiatives were launched to increase brand awareness and strengthen the bank's position in the strategic sectors, such as programmes aimed at developing sector knowledge and skills of the bank's employees and initiatives targeted at customers, including:

- meetings organised as part of the Export Development Programme (for customers from the transport and furniture sectors, among other things);
- a series of eight conferences for customers from the agriculture sector, focused on trends in the food and agri market and financing solutions for local farmers;
- seminars for corporate and SME customers from the meat and TSL sectors to discuss the industry trends and business opportunities;
- active participation in major sector events (e.g. Automotive CEE Days and AutoEvent);
- partnership with industry associations;
- pro-active media inserts (commentaries, sector analyses, expert opinions);
- sector analyses and reports for the bank's customers.

The above measures delivered in cooperation with sector partners will be continued in H2 2018. The bank also plans to organise a trade mission for customers from the food and agri sector as well as meetings for customers from selected sectors.

In order to make the product range more attractive and support the international expansion of customers (particularly in high risk market segments), the bank signed an agreement with Bank Gospodarstwa Krajowego (BGK), under which BGK will guarantee payments arising from letters of credit confirmed or discounted by Bank Zachodni WBK.

## Expanded customer base

Following the decision on reorganisation of the Business Support Centre, the customer base of the Business and Corporate Banking Division was extended to include SME 2 customers. The above change did not have any impact on the bank's operating model or the quality of customer service.

In H1 2018, after migrating SME 2 customers to remote channels in the SME Service Centre, the bank took efforts to promote operations in this channel, while streamlining banking operations and reducing the workload for branch advisors. An increase was reported in the number of customers using voice biometrics as an authorisation tool during the contact with the bank over the phone. The bank also implemented a fast, simple and secure process to sign agreements (e.g. in relation to a business account) via remote channels using video verification solutions: face recognition, verification of ID details in external databases and customer identification by the bank's video-advisor.

Companies using internet banking services were provided with an opportunity to set up a trusted profile without the need to visit an office or the bank's branch. This solution enables customers to attend to administrative matters remotely, using the same password and login as for a bank account.

Another new feature, which was introduced in May 2018, is the possibility to submit an insurance policy for an asset used as security for a business loan, along with evidence of payment of insurance premiums, via online banking services. This option facilitates timely delivery of insurance policies required by the bank.

Furthermore, the bank launched a special deal called "Spring with POS terminals" ("Wiosna z terminalami POS") under which SME customers can sign an agreement and rent a terminal free of charge for the first six months. As part of the above offer, customers may set up a free-of-charge business account with the bank.

## Business volumes

Excellent sales performance of the Business and Corporate Banking Division reported in H1 2018, driven by respective product lines and expanded customer base, translated into strong growth of business volumes compared with the end of December 2017, with credit and deposit portfolios increasing by 6.0% and 9.9%, respectively.

## Development of digital channels

The bank continued to develop the functionality of digital channels for customers of the Business and Corporate Banking Division. The following changes were introduced in H1 2018:

- Changes arising from new regulations, in particular ALM Directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (update of customers' ID documents), the General Data Protection Regulation (GDPR), Split Payment Act (the split payment mechanism);
- Functional changes to the application:
  - ✓ The self-service zone in the iBiznes24 platform was developed to enhance customer experience in remote channels (fast, secure, paperless, 24/7 banking services), in particular the eRequest (eWniosek) was upgraded along with the introduction of a user-friendly layout and many new functionalities.
  - ✓ BZ WBK was the first bank to launch "External Banks" service, as part of which accounts held by corporate customers with other banks may be managed in the iBiznes24 platform, including balance reports and initiation of domestic and cross-border payments (the solution received the Leader 2017 award from *Gazeta Bankowa*).
  - ✓ eGuarantee solution was implemented in the Trade Finance module.
- New features added to iBiznes24 mobile such as an option to log into iOS devices using face recognition.

## Factoring business

In H1 2018, the receivables purchased by BZ WBK Faktor came in at PLN 12.8bn, up 15% YoY. This gave the company a market share of 11.7% and second position in the ranking of members of the Polish Association of Factoring Companies. As at the end of June 2018, the company's credit exposure was PLN 4.6bn, higher by 27% YoY.



## 1.3. Corporate and Investment Banking Division (formerly Global Corporate Banking Division)

### Main Directions

In H1 2018, the Global Corporate Banking Division changed its name to the Corporate and Investment Banking Division (CIB), in line with the structure of Santander Group.

The Corporate and Investment Banking Division provided an end-to-end support to the largest corporate customers of Bank Zachodni WBK and rendered services to corporations under the global Corporate and Investment Banking framework of Santander Group. As at 30 June 2018, the active customer base of the CIB Division included nearly 250 of the largest companies and groups (allocated to that segment based on the turnover) representing all economic sectors in Poland.

The Division had a comprehensive proposal covering a wide range of products and services, including transactional banking, working capital, short, mid and long-term financing, guarantees, M&A solutions, share issues, liquidity management and custodian services. It conducted the bank's business on financial markets and provided specialist financial products (including treasury, brokerage and capital market offers).

The CIB Division leveraged opportunities from the global presence of Santander Group and rendered services to corporations within international Corporate and Investment Banking structures and cooperated with several Santander Group units on the sale of Polish bonds to foreign investors or trade in Latin American bonds in Poland.

The ambition of Bank Zachodni WBK is to become a bank of choice for the largest corporate customers with an unparalleled investment offering. To that end, the Corporate and Investment Banking Division puts customers at the heart of its business, trying to suit their needs and enhance their positive experience, while focusing on service quality, market position and staff development. Service quality is continually improved through the customisation, digitalisation and diversification of products and services. The market position is strengthened through business growth, whereas staff professionalism is supported by training programmes and development in accordance with the Group's values.

In order to raise customer service quality, in H1 2018 the CIB Division:

- Further improved the features of the FX Kantor BZWBK24 currency exchange platform, which is regarded as best practice model at the Santander Group level in terms of IT, marketing, CRM, product range and incentive scheme.
- Continued to develop new products in the area of securities and derivatives, which will be gradually implemented over the next three years.
- Steadily increased the range of underwriting solutions offered by the Credit Markets Department.
- Gradually expanded the range of transactional banking solutions, particularly in the area of cash management, through the implementation of the host-to-host service and solutions for financial institutions;
- Optimised the structure of the income statement and the balance sheet by growing the fee-generating business and selling selected credit exposures.

Implemented new regulations (MIFID II, FRTB, PRIIPs, IFRS 9, EMIR, GDPR) in cooperation with other organisational units.

### Performance of Selected Areas

In H1 2018, individual units of the CIB Division focused on the initiatives described below.

#### Credit Markets Department

- Credit Markets Department provided funding towards medium and long-term investment projects delivered by CIB customers through loans and corporate bonds issues, including funding extended in cooperation with other units, both within its Division (e.g. with Global Transactional Banking and Financial Markets) and outside it (e.g. with the Business and Corporate Banking Division). Credit Markets closed several financing deals with companies from economically-important sectors such as the food, construction or TMT (technology, media, and telecom) sectors. The Department optimised its balance sheet position through the sale of selected credit exposures.

### Capital Markets Department

- In H1 2018, Capital Markets closed two largest deals in the capital market this year. The Department also provided analytical and advisory services to customers and were engaged as a financial/transactional advisor for companies from the biotechnology, finance, food and property sectors.

### Global Transactional Banking Department

- The Global Transactional Banking Department closed a number of deals in relation to financing, guarantees and supply chain finance with companies from the electronic (UMC), energy, clothing, production, mining, finance and railway sectors. As regards cash management, the Department focused on solutions for banks and financial institutions, including instant payments.

### Treasury Services Department

- In the reporting period, the Treasury Services Department continued a number of projects aimed at ensuring excellent customer service. They included, among other things, development of an innovative education tool for corporate and SME customers.
- The Department further developed the distribution channels for treasury products (such as the Kantor BZWBK24 currency exchange platform) in order to ensure higher level of digitalisation and penetration of customer base and to achieve competitive advantage.

### Financial Market Transactions Department

- In H1 2018, the Financial Market Transactions Department focused on further growth of the portfolio of international business customers using the global know-how of Santander Group. It cooperated in this respect with a London branch of Santander Corporate and Investment Banking. It organised a road-show in London to attract global financial institutions, including banks, hedge funds and other asset management companies. It acted as an intermediary in relation to the sale of products and services offered by the bank and Santander Group in Poland (including government bonds issued by Eurozone peripheral and South American countries).
- The Department focused on further development of products, mainly in relation to hedging instruments. It leveraged the new features of the global foreign exchange platform and became one of the leaders of the global electronic trading platforms for Polish treasury bonds.

### Institutional Sales Department

- The Department continued to develop systems in order to automate processes connected with brokerage services offered to business customers. It launched works in relation to a new product that would offer new investment opportunities both in Poland and abroad.

### Equity Research Department

- The Department made more than 50 analyst recommendations regarding listed companies (several of which were prepared for the first time) and reports related to investment and pension funds as well as performance of stock market indexes. In Q2 2018, the Department organised a construction sector conference, which was attended by 9 companies and nearly 60 institutional investors.

### Key transactions made by the Corporate and Investment Banking Division

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

The key achievements of the CIB Division in H1 2018 include:

- Completion of two largest deals in the capital market this year
- Debt refinancing of a company from the TMT sector
- Financing the acquisition of a company from the food sector
- Issuance of bonds in the Polish market for customers from the construction and technology sectors
- New issue of shares for a company from the biotechnology sector and private placement of shares in a biotechnology company in the US
- Sale of stake in a company from the financial sector as part of the accelerated book building

- Optimisation of the balance sheet position through the sale of selected credit exposures
- Significant loan agreements signed with customers from the technology, railway, mining or finance sectors
- Supply chain finance with companies from the electronic, energy, clothing and production sectors.

## Core Business Volumes

In the Corporate and Investment Banking segment, the growth in credit receivables (+6.5% Ytd) was mainly driven by the supply chain finance which supports the core business of customers. The value of those transactions increased by a third compared to the last year as the number of programmes and suppliers went up.

## 2. Santander Consumer Bank Group

### Business Profile

Santander Consumer Bank (SCB) is a financial institution with many years of experience and a strong position in the consumer finance sector, specialising in provision of credit facilities to households and businesses, mainly car dealers and importers.

Its lending business is based on the following credit facilities: cash loans, instalment loans, car loans, business loans and credit cards. Retail and business deposits and insurance products are also important elements of the bank's product range.

The bank's offer is supplemented with car finance through lease facilities provided by Santander Consumer Multirent, a wholly-owned subsidiary of Santander Consumer Bank, and through lease and factoring solutions offered by PSA Finance Polska, in which Santander Consumer Bank holds a 50% stake.

In addition, PSA Consumer Finance Polska, a subsidiary of PSA Finance Polska which is indirectly 50% owned by SCB, provides consumer finance solutions to support car sales.

Other entities controlled by Santander Consumer Bank are: Santander Consumer Finance (investment of cash surpluses and cooperation with BZ WBK and Warta in terms of financial intermediary services), and SC Poland Consumer 15-1 and SC Poland Consumer 16-1 (SPVs set up for the purpose of securitisation transactions)..

### Business Development

#### Main development directions in terms of customer services

In H1 2018, Santander Consumer Bank (SCB) focused on:

- Maintaining the leadership position in the hire purchase market, with a stable share in traditional sales and a growing share in online sales, as well as identifying new sales growth opportunities and maintaining the profitability of collaboration with trade partners;
- Continuing its customer acquisition strategy based on instalment loans and credit cards, maximising sales opportunities by cross-selling and up-selling;
- Extending cooperation with key partners in terms of hire purchase;
- Delivering a campaign for customers to inform them about their rights arising from the General Data Protection Regulation;
- Maximising the effectiveness of interactions with customers in terms of cash loan sales, with increased growth in sales of the New Profile facility and intensified sales in remote channels in accordance with the strategy in place;
- Maintaining strong, above-market results of the Net Promoter Score/NPS survey (comparable to the last year's level of 57%), as a measure of effectiveness of the product and sales strategy adopted by the bank;

- Developing products and services:
  - ✓ successful delivery of implementation tests with respect to digital signature on instalment loan agreements;
  - ✓ optimisation of cash loan terms, including the extension of the maximum lending period and an increase in the maximum credit limit for customers who meet specific credit assessment criteria;
  - ✓ introduction of changes to CPI insurance (in accordance with legal and regulatory requirements) which is now available at more attractive terms;
  - ✓ introduction of a new platform for branch employees (April 2018) and launch of new insurance solutions which are not linked to bank products;
  - ✓ introduction of a procedure for paperless execution of co-branded card agreements, e.g. using a text message.

## Core business portfolios

### Loans to customers

As at 30 June 2018, gross loans and advances granted by SCB Group amounted to PLN 16.8bn and were 9.1% higher YoY due to growth in cash loans, credit cards and lease facilities.

The increase in the balance of consumer loans was achieved due to higher sales supported by a modified product range and effective cooperation with existing customers of the bank (cross-selling of cash loans and credit cards) and retail networks (household appliances, furniture and DIY). Particularly notable growth was observed in cash loan sales, which was driven by optimised lending terms, including higher maximum loan amount and longer tenor. An increase was also reported in the personal car finance segment. Growth of lease receivables was attributed to market trends and competitive product range.

### Deposits from customers

As at the end of June 2018, deposits from customers of SCB Group totalled PLN 8.6bn and increased by 7.3% YoY driven by higher volume of deposits from retail customers combined with a decrease in deposits from corporate customers.

The balance of deposits from individuals grew on the back of promotional campaigns and attractive terms of 15-month deposits. The bank focuses on the sale of deposits with tenors longer than one year, offering particularly attractive pricing for 12-month, 15-month, 24-month and 36-month deposits.

### Other significant events

In order to respond to the challenges of modern banking, the Strategy, Innovation and Development Division was set up in SCB in H1 2018 with the following responsibilities: strategic support, search for market innovations, cooperation with universities and fintechs, management of projects and processes, mobile banking and digitalisation.

Towards the end of H1 2018, SCB was granted a subordinated loan by its shareholders: Santander Consumer Finance and Bank Zachodni WBK (each having an equal share in the loan) to improve its capital ratios. On 18 July 2018, SCB received the consent of Polish Financial Supervision Authority for qualifying PLN 100m as a Tier 2 instrument.

In H1 2018, SCB issued securities of PLN 451m with maturity of three to four years. The funds raised are allocated to finance the bank's working capital needs in accordance with the strategy in place.

In June 2018, the bank paid a dividend of PLN 433m.

In H1 2018, SCB sold the written-off portfolio of cash loans, instalment loans, credit cards and car loans of PLN 691.4m in total.

## Distribution network of Santander Consumer Bank

In H1 2018, Santander Consumer Bank took further measures to optimise the sales network. To that end, the structure of branches and franchise outlets was reviewed, taking into account customers' needs and the development of remote and mobile services.

As at 30 June 2018, Santander Consumer Bank sold its products through the following distribution channels:

- an own network of 153 branches and 168 franchise outlets (161 and 153 at the end of June 2017, respectively) which offered consumer loans and retail deposits;
- a mobile sales channel for car loans;
- a mobile sales channel for corporate deposits;
- remote channels, including a call centre and the internet, where customers can sign up for consumer loans or retail deposits;
- a network of 693 partners offering the bank's car loans plus 8,737 active partners offering the bank's instalment loans (651 and 11,931 at the end of June 2017);
- a remote channel for car loans.

The number of SCB customers using electronic and mobile banking services was 146.2k as at 30 June 2018.

## Awards, recognitions and positions in rankings

Cash loans rankings:

- 1st place in the cash loans ranking published by bankier.pl (January and February 2018);
- 1st place in the cash loans ranking published by comperia.pl (March 2018);
- 1st place for the Master Cash Loan (Mistrzowski Kredyt Gotówkowy) in the cash loan ranking published by comperia.pl (April 2018);
- 1st place for the Master Cash Loan (Mistrzowski Kredyt Gotówkowy) in the cash loan ranking published by eBroker (May 2018);
- 1st place for the Master Cash Loan (Mistrzowski Kredyt Gotówkowy) in the cash loan ranking published by eBroker (June 2018).

Other business rankings:

- 2nd place for Turbocard (Turbokarta) in the Golden Banker credit card ranking (April 2018);
- 1st place in the Best Bank 2018 Awards organised by *Gazeta Bankowa*, in the category: Small and Medium Commercial Banks (June 2018).

Awards and accolades for specific areas of general management:

- 1st place in the Banking Stars 2018 Awards organised by *Dziennik Gazeta Prawna* in the category: Specialist Banks (June 2018);
- Service Quality Star (March 2018);
- Top Employer Poland (February 2018).

## VII. Financial Situation of Bank Zachodni WBK Group

### 1. Income Statement of Bank Zachodni WBK Group

#### Bank Zachodni WBK Group Profit for 6 Months of 2018

The table below illustrates changes in the key items of the Group's consolidated income statement in H1 2018 compared with the corresponding period of the previous year.

#### Structure of Bank Zachodni WBK Group profit before tax

PLN m			
Condensed Consolidated Income Statement of BZ WBK Group (for analytical purposes)	H1 2018	H1 2017	YoY Change
<b>Total income</b>	<b>4 162,9</b>	<b>3 801,6</b>	<b>9,5%</b>
- Net interest income	2 786,0	2 556,5	9,0%
- Net fee & commission income	1 044,9	970,8	7,6%
- Other income <sup>1)</sup>	332,0	274,3	21,0%
<b>Total costs</b>	<b>(1 887,0)</b>	<b>(1 694,6)</b>	<b>11,4%</b>
- Staff, general and administrative expenses	(1 613,9)	(1 497,8)	7,8%
- Depreciation/amortisation	(162,4)	(152,1)	6,8%
- Other operating expenses	(110,7)	(44,7)	147,7%
<b>Impairment losses on loans and advances</b>	<b>(474,8)</b>	<b>(245,9)</b>	<b>93,1%</b>
Profit/loss attributable to the entities accounted for using the equity method	25,5	23,8	7,1%
Tax on financial institutions <sup>2)</sup>	(218,5)	(210,9)	3,6%
<b>Consolidated profit before tax</b>	<b>1 608,1</b>	<b>1 674,0</b>	<b>-3,9%</b>
Tax charges	(353,2)	(412,5)	-14,4%
<b>Net profit for the period</b>	<b>1 254,9</b>	<b>1 261,5</b>	<b>-0,5%</b>
- <b>Net profit attributable to BZ WBK shareholders</b>	<b>1 073,7</b>	<b>1 104,2</b>	<b>-2,8%</b>
- Net profit attributable to non-controlling shareholders	181,2	157,3	15,2%

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

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

In H1 2018, Bank Zachodni WBK Group posted a profit before tax of PLN 1,608.1m, down 3.9% YoY. Aside from growth in net income from the core business (i.e. an increase of 9.0% YoY and 7.6% YoY in net interest income and net fee and commission income, respectively), the Group's profit reflects the impact of development initiatives and market environment, in particular regulatory changes. This may be illustrated by the following changes to the income statement:

- Increase of 7.8% YoY in staff, general and administrative expenses in connection with the scheduled acquisition of a demerged business of Deutsche Bank Polska and other development and transformation projects.
- Increase of 93.1% YoY in net impairment allowances due to a significantly lower positive impact from the sale of a smaller portfolio of matured receivables compared to the same period last year, and also the first-time application of the expected credit loss model under IFRS 9.

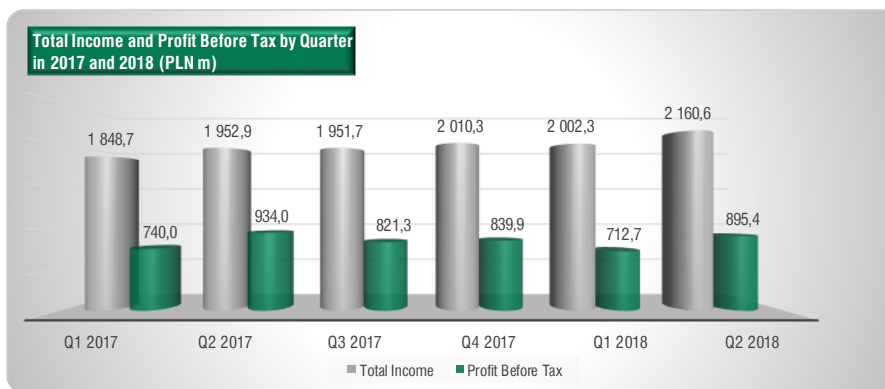
Other income and other operating costs for H1 2018 include released and raised provisions for legal claims with a negative net total impact of PLN 24.6m, which increased a respective charge to the profit before tax by PLN 22.4m on a YoY basis.

Profit attributable to the shareholders of Bank Zachodni WBK was PLN 1,073.7m and decreased by 2.8% YoY, with lower effective tax rate attributed to a smaller loss on the sale of a portion of credit receivables compared to the previous year.

## Comparability of periods

Application of the new IFRS	
<b>IFRS 9</b>	<ul style="list-style-type: none"> <li>Pursuant to IFRS 9 Financial Instruments effective since 1 January 2018, BZ WBK Group has changed the classification and measurement of financial instruments on the basis of a detailed analysis of its business models for managing financial assets and analysis of cash flows arising from existing agreements.</li> <li>The financial impact of the changed approach to classification and measurement of financial assets, allowances for expected credit losses and provisions for liabilities is presented in Note 2 "Basis of preparation of condensed interim consolidated financial statements" in the "Condensed Interim Consolidated Financial Statement of Bank Zachodni WBK Group for the 6-month period ended 30 June 2018". The value of other assets and liabilities has not changed significantly as a result of implementation of IFRS 9.</li> <li>The Group elected to use an option for exemption of the obligation to restate comparative information for prior periods in relation to the changes arising from classification, measurement and impairment. Differences in the carrying amounts of financial assets and liabilities resulting from the application of IFRS 9 are reported in equity in retained earnings and in revaluation reserve as at 1 January 2018 (-PLN 254.5m).</li> <li>On 30 June 2018, the Group completed the analysis of its credit card portfolio in terms of contractual cash flows (resulting from the application of IFRS 9). As a result, it changed the classification and measurement of credit cards sold till 1 August 2016, whose contractual structure of interest rate was based on four times the NBP Lombard rate and the contractual clauses did not include a direct reference to the Civil Code in terms of the maximum statutory interest. The above-mentioned credit card portfolio has been 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 measurement at fair value. The impact of the change in classification and measurement is recognised in profit for the current period instead of retained earnings as at 1 January 2018.</li> </ul>
<b>IFRS 15</b>	<ul style="list-style-type: none"> <li>Pursuant to IFRS 15 Revenue from Contracts with Customers effective since 1 January 2018, a new 5-step model was applied to revenue-generating contracts with customers, excluding the contracts which are subject to separate standards. The application of IFRS 15 did not require any significant changes in presentation.</li> </ul>

Selected items affecting the comparability of periods in the income statement of BZ WBK Group for H1 2018 vs H1 2017 (excluding the impact of newly implemented IFRS)		
Items of the income statement	H1 2018	H1 2017
<b>Dividend income</b>	<ul style="list-style-type: none"> <li>PLN 98.5m, including a dividend of PLN 91.4m paid by Aviva Group companies from BZ WBK portfolio of equity investments</li> </ul>	<ul style="list-style-type: none"> <li>PLN 75.9m, including a dividend of PLN 68.6m paid by Aviva Group companies from the bank's portfolio of equity investments</li> </ul>
<b>Income on sale or liquidation of fixed assets and assets held for sale</b>	<ul style="list-style-type: none"> <li>PLN 41.5m, including PLN 44.3m on account of the sale of real estate owned by BZ WBK</li> </ul>	<ul style="list-style-type: none"> <li>PLN -237k</li> </ul>
<b>Profit before tax on the sale of credit receivables</b>	<ul style="list-style-type: none"> <li>PLN 15.8m</li> </ul>	<ul style="list-style-type: none"> <li>PLN 191.1m</li> </ul>



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

PLN m

Components of Bank Zachodni WBK Group Profit Before Tax by contributing entities	H1 2018	H1 2017	YoY Change
<b>Bank Zachodni WBK S.A.</b>	<b>1 415,7</b>	<b>1 348,7</b>	<b>5,0%</b>
<b>Subsidiary undertakings:</b>	<b>560,8</b>	<b>497,2</b>	<b>12,8%</b>
Santander Consumer Bank and its subsidiaries <sup>1)</sup>	410,2	421,6	-2,7%
BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.	122,2	37,1	229,4%
BZ WBK Finanse Sp. z o.o., BZ WBK Leasing S.A. and BZ WBK Faktor Sp. z o.o., BZ WBK F24 S.A. <sup>2)</sup>	28,3	38,6	-26,7%
BZ WBK Inwestycje Sp. z o.o. <sup>3)</sup>	0,1	(0,1)	-
<b>Equity method valuation</b>	<b>25,5</b>	<b>23,8</b>	<b>7,1%</b>
<b>Elimination of dividends received by BZ WBK and consolidation adjustments</b>	<b>(393,9)</b>	<b>(195,7)</b>	<b>101,3%</b>
<b>Profit before tax</b>	<b>1 608,1</b>	<b>1 674,0</b>	<b>-3,9%</b>

1) As at 30 June 2018, SCB Group comprised Santander Consumer Bank and the following entities: Santander Consumer Multirent, Santander Consumer Finanse, SC Poland Consumer 15-1 and SC Poland Consumer Finance 16-1, PSA Finance Polska and PSA Consumer Finance Polska. AKB Marketing Services has been liquidated and removed from the court register. The amounts provided above represent profit before tax (after intercompany and consolidation adjustments) of SCB Group for the periods indicated.

2) BZ WBK Nieruchomości was renamed BZ WBK F24, and as a result of ownership changes (an exchange of shares between BZ WBK and BZ WBK Finanse, and the repurchase of shares from the other shareholder), it became 100%-owned by BZ WBK Finanse.

3) Profit before tax for H1 2017 includes the following companies: BZ WBK Inwestycje and Gieldokracja (struck off the court register on 5 March 2018).

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

In H1 2018, the unconsolidated profit before tax of Bank Zachodni WBK increased by 5% YoY to PLN 1,415.7m as a combined effect of the following:

- A major improvement of 7.0% YoY in net interest income driven by lending to retail and business customers and the optimisation of a deposit range focused on the maintenance of stable current account balances;
- A decrease of 3.5% YoY in net fee and commission income driven by lower net income from mutual fund distribution fees (suspended payment of remuneration by BZ WBK TFI for the sale of investment funds pending legal changes), brokerage fees (decline in the stock market) and also account maintenance and cash management services was partly offset by increases in other business lines such as: electronic banking and payments, foreign exchange transactions, credit delivery, guarantees and sureties;
- An increase of 80.8% YoY in dividend income attributed to higher dividend paid by SCB (PLN 259.9m in 2018 vs. PLN 108.3m in 2017), Aviva Group companies (PLN 152.1m in 2018 vs. PLN 113.4m in 2017) and BZ WBK Finanse (PLN 38.8m in 2018 vs. PLN 4.9m in 2017);
- An increase of 52.6% YoY in impairment allowances due to the sale of a lower amount of matured receivables from retail and corporate customers, and the first-time application of the expected credit loss model under IFRS 9;
- A rise of 12.7% YoY in total operating expenses on account of costs incurred in relation to the project aimed at acquisition of a demerged business of Deutsche Bank Polska and provisions raised for legal claims;
- Lower gains on other financial instruments (-66.2% YoY) amid lower gains on securities trading.



## Subsidiaries

The subsidiaries consolidated by Bank Zachodni WBK reported an increase of 12.8% YoY in their total profit before tax as a result of a significant rise in profitability of BZ WBK TFI.

### SCB Group

The contribution of SCB Group to the consolidated profit before tax of Bank Zachodni WBK Group for H1 2018 was PLN 410.2m (after intercompany transactions and consolidation adjustments) and decreased by 2.7% YoY due to the following factors:

- An increase of 13.9% YoY in net interest income to PLN 737.2m, driven by steady growth of the credit portfolio and favourable changes in its structure (e.g. a bigger share of high-margin products such as cash loans and credit cards);
- An increase of 30.4% YoY in net fee and commission income to PLN 84m mainly due to higher net income from a growing credit card portfolio;
- Higher net impairment allowances of PLN 124.6m (up PLN 108.7m YoY) connected with the changing structure of the credit portfolio (lower share of mortgage loans and increasing share of cash loans) and lower base effect related to the positive impact of one-off items from H1 2017 (extension of the recovery horizon to 36 months for cash loans and higher income on the sale of overdue receivables);
- An increase of 18.9% YoY in other operating income (i.e. non-interest and non-fee income) to PLN 36.3m,
- A rise of 5.6% YoY in total operating expenses to PLN 303.1m driven by higher costs related to marketing and implementation of changes connected with GDPR, increase in amortisation/depreciation on account of IT investments and higher staff expenses due to business development and pressure in the labour market.

### Other subsidiaries

The 229.4% YoY rise in profit before tax reported by BZ WBK TFI resulted from the suspension of remuneration to Bank Zachodni WBK (the main distributor of the company's investment funds) until a revised settlement model is established in accordance with MIFID II transposed into the Polish law. At the same time, a fast increase was reported in fee and commission income from asset management driven by higher average net assets.

Total profit before tax posted by companies controlled by BZ WBK Finanse decreased by 26.7% YoY.

- The profit before tax earned by BZ WBK Faktor went up by 24.2% YoY to PLN 10.7m due to a decrease in impairment allowances for factoring receivables and an increase in net interest income on credit exposures growing at a rate of 27% YoY.
- The total profit before tax of BZ WBK Leasing, BZ WBK Finanse and BZ WBK F24 declined by 41.2% YoY to PLN 17.6m as a result of negative measurement of instruments hedging a fixed-rate lease portfolio and higher costs of financing credit exposures. The rapid development of the lease business in that period caused a double digit YoY increase in the leasing portfolio (+18% YoY) and interest income.

## Structure of Bank Zachodni WBK Group profit before tax

### Total income

Total income of Bank Zachodni WBK Group for H1 2018 increased by 9.5% YoY to PLN 4,162.9m.

### Net interest income

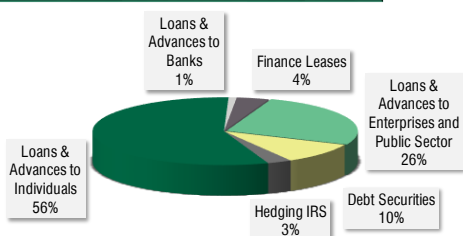
In H1 2018, net interest income amounted to PLN 2,786.0m and increased by 9.0% YoY, with interest income outpacing the growth of interest expenses. Interest income went up by 7.7% YoY to PLN 3,425.2m while interest expense rose by 2.4% YoY to PLN 639.2m.



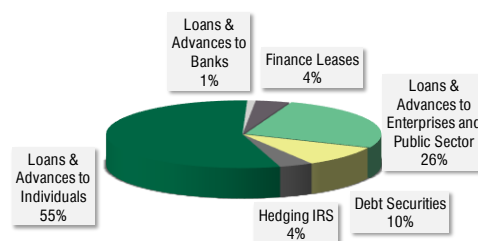
The growth rate of interest income was driven by loans to retail and business customers, lease receivables, repurchase transactions and investment debt securities but slowed down by loans to banks, CIRS/IRS cash flow hedging transactions and trading debt securities.

The downward trend in interest expenses observed in the previous periods reversed due to higher interest expenses originating from the issue of securities, sell-buy-back transactions, deposits from enterprises and the public sector. In the reporting period, a decline in interest expense was only observed in relation to deposits from retail customers and banks.

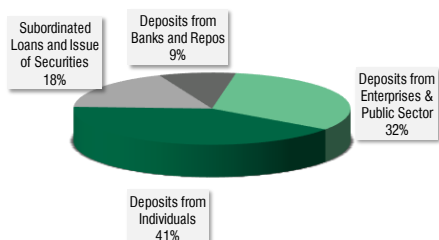
Structure of Interest Revenues of BZ WBK Group in H1 2018



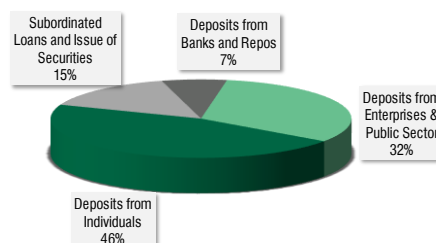
Structure of Interest Revenues of BZ WBK Group in H1 2017



Structure of Interest Expense of BZ WBK Group in H1 2018

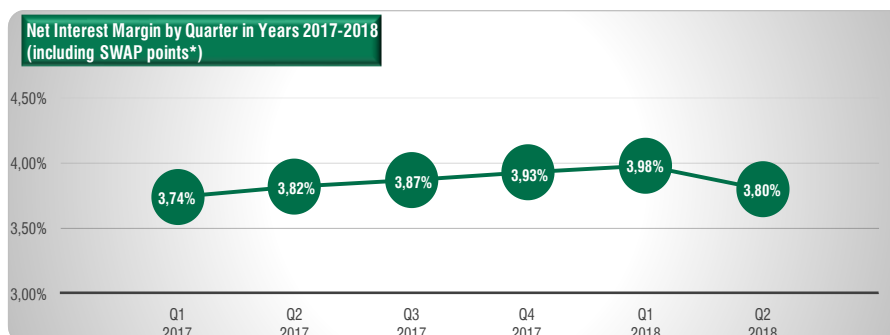


Structure of Interest Expense of BZ WBK Group in H1 2017



In a stable, record-low interest rate environment, the Group’s cumulative net interest margin (annualised on a semi-annual basis) held relatively steady YoY and totalled 3.87% (up 7 bps YoY). Similarly to the corresponding period of 2017, during the first six months of 2018, the margin was supported by effective management of parameters of deposit and credit products, measures and tools taken to improve their quality, accessibility and competitiveness, and favourable sales trends affecting the balance sheet structure. The Group reported positive changes (from the perspective of a net interest margin) in core business volumes such as a YoY increase in loans and advances to retail customers (notably cash loans) and a rise in low-cost current account balances of individuals and companies.

A QoQ decline of 18 bps in net interest margin to 3.80% in Q2 2018, following a sustained growth trend, is due to higher funding costs driven by an increase in term deposits and own securities issued in preparation for the acquisition of a carveout of Deutsche Bank Polska. With fast growing interest earning assets (loans for individuals and enterprises and debt securities) and a mild cost pressure, annualised net interest income stabilised at the level reported in the preceding period, which resulted in a lower quarterly net interest margin.



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

### Net fee and commission income

In H1 2018, net fee and commission income amounted to PLN 1,044.9m and increased by 7.6% YoY driven by the performance of business lines of the bank and its subsidiaries.

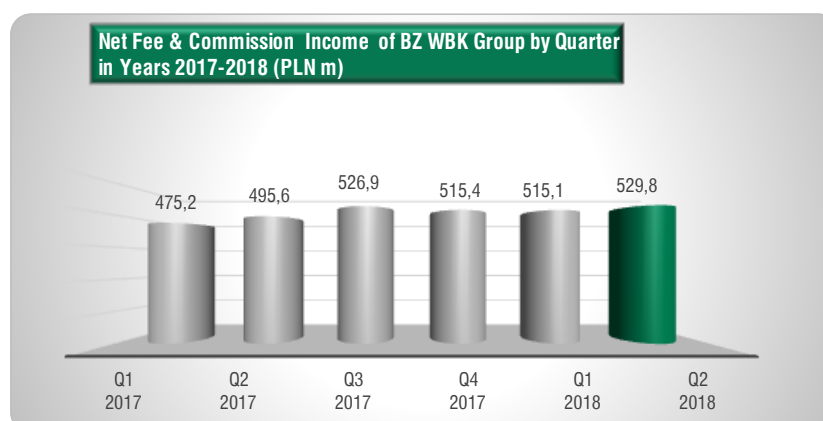
PLN m

Net Fee and Commission Income of BZ WBK Group	H1 2018	H1 2017	YoY Change
E-Business and payments <sup>1)</sup>	205,5	194,6	5,6%
FX fees	189,6	163,0	16,3%
Account maintenance and cash transactions	161,9	168,9	-4,1%
Asset management and distribution	148,8	136,0	9,4%
Credit fees <sup>2)</sup>	134,7	94,8	42,1%
Insurance fees	98,9	102,3	-3,3%
Credit cards	66,4	63,6	4,4%
Brokerage activities	32,1	38,8	-17,3%
Other <sup>3)</sup>	7,0	8,8	-20,5%
<b>Total</b>	<b>1 044,9</b>	<b>970,8</b>	<b>7,6%</b>

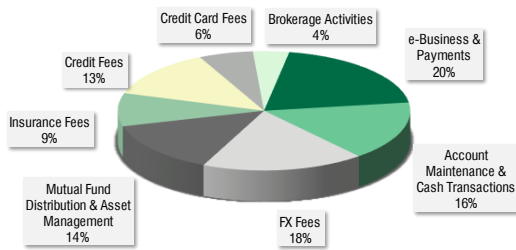
1) Fees for foreign and mass payments, Western Union transfers, trade finance, debit cards, services for third party institutions as well as other electronic and telecommunications services.

2) Fee and commission income from lending, factoring and lease activities which is not amortised to net interest income. This line item includes inter alia the cost of credit agency fees.

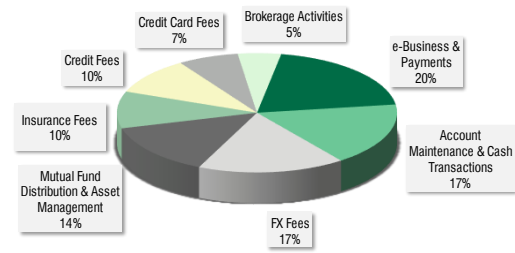
3) Fees on guarantees, issue arrangement and other.



Net Commission Income Structure of BZ WBK Group for H1 2018



Net Commission Income Structure of BZ WBK Group for H1 2017



Net fee and commission income from the lending business grew by 42.1% YoY on account of higher fees generated by credit exposures of enterprises and a significant decrease in one-off credit agency fees paid by SCB in order to maintain and develop its sales network.

An improvement in FX fee income (+16.3% YoY) is attributed to a steady increase in turnover driven by the Group’s comprehensive measures taken to support foreign trade and develop e-FX services in iBiznes24.

The higher net fee and commission income from fund distribution and asset management (+9.4% YoY) reflects an increase in the average net value of assets under management in BZ WBK TFI arising from an inflow of funds amid the bullish stock market prevailing in 2017 (until its downturn in February 2018) and increased competitiveness of investment funds (as an alternative to traditional bank deposits) in a record low interest rate environment.

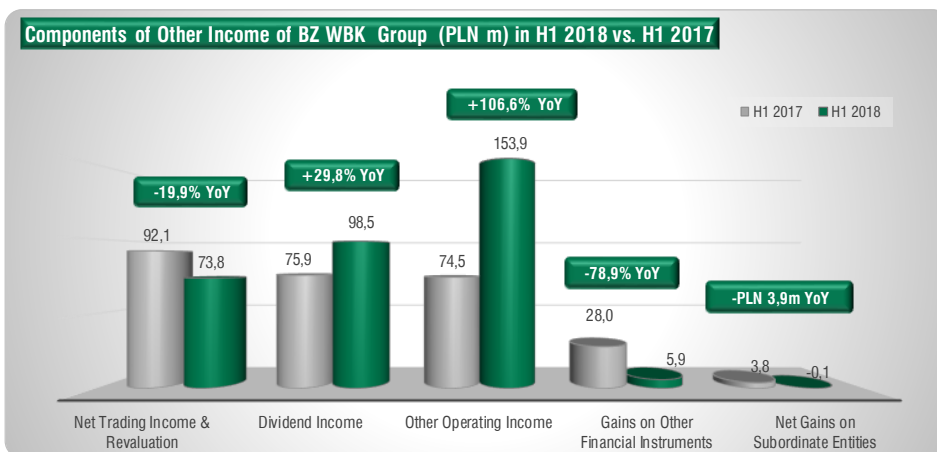
Net fee and commission income aggregated under the “eBusiness and payments” line rose by 5.6% YoY as a result of an increase in income from issuance and management of debit cards driven by the expanding base of such instruments (+6.4 YoY) and their growing use for non-cash payments made in Poland and abroad.

Net fee and commission income from issuance and management of credit cards went up by 4.4% YoY on account of a 3.2% YoY increase in the size of the combined credit card portfolio of Bank Zachodni WBK and SCB and a higher volume of credit card transactions.

Brokerage fees reduced by 17.3% YoY along with a decline in trading in the secondary market amid deteriorating investor sentiment observed since February 2018.

The decline of 3.3% YoY in net fee and commission income from insurance business was due to changes to the Group’s insurance sales model in accordance with the new EU regulatory requirements. A smaller insurance coverage of the Group’s cash loans was partly offset by growing sales of non-linked insurance products, e.g. Locum Insurance and Family Care (Opiekun Rodziny) Insurance.

**Other income**



Other income of the Group presented above totalled PLN 332.0m and decreased by 21.0% YoY.

**Net trading income and revaluation (“Net trading income”)**

Net trading income and revaluation reported by Bank Zachodni WBK Group for H1 2018 was PLN 73.8m, down 19.9% YoY.

The Group generated a profit on derivatives and interbank FX trading of PLN 63.6m vs. PLN 68.8m a year before. The above figure excludes net interest income from the CIRS and IRS transactions designated as hedging instruments under the cash flow hedge accounting (PLN 105.4m for H1 2018 vs. PLN 116.7m for H1 2017), which is disclosed under “Interest income”.

Other FX trade transactions generated a loss of PLN 0.1m vs. a profit of PLN 23.0m in H1 2017.

Trading in debt and equity securities measured at fair value through profit or loss brought in a total profit of PLN 8.5m vs. PLN 0.3m in the corresponding period.

**Dividends**

In H1 2018, the Group disclosed dividend income of PLN 98.5m, i.e. up PLN 22.6m YoY on account of higher dividends from Aviva Group companies from the portfolio of equity investments of Bank Zachodni WBK.

**Gains on other financial instruments**

In H1 2018, the gains on other financial instruments totalled PLN 5.9m vs. PLN 28.0m in H1 2017. Debt and equity securities trading brought in a total profit of PLN 7.7m vs. PLN 26.0m in the corresponding period.

**Other operating income**

Other operating income totalled PLN 153.9m and increased by 106.6% YoY, mainly on account of the profit of PLN 44.3m from the sale of the bank’s real estate and the release of provisions for legal claims related to the Group’s operating activity in a changing macroeconomic and regulatory environment.

**Impairment allowances**

Impairment losses on loans and advances	Measured at amortised cost			Total IFRS 9 <sup>1)</sup>	Total IAS 39 <sup>2)</sup>
	Stage 1	Stage 2	Stage 3	H1 2018	H1 2017
				PLN m	
Impairment charge for loans and advances to banks	(0,1)	-	-	(0,1)	-
Impairment charge on loans and advances to customers	(22,2)	30,4	(501,1)	(492,9)	(294,0)
Recoveries of loans previously written off	-	-	16,4	16,4	47,0
Off-balance sheet credit related facilities	(0,6)	5,5	(3,1)	1,8	1,1
<b>Total</b>	<b>(22,9)</b>	<b>35,9</b>	<b>(487,8)</b>	<b>(474,8)</b>	<b>(245,9)</b>

1) Valuation of impairment allowances on loans and advances in accordance with IFRS 9, based on the expected loss model.

In Q2 2018, Bank Zachodni WBK Group reclassified a part of the portfolio of credit cards (with a defined structure of interest rate, sold till 1 August 2016) to loans and advances to customers measured at fair value through profit or loss and ceased to recognise impairment allowances on such instruments. Credit risk assessment of these products is now an integral part of measurement at fair value.

2) Valuation of impairment allowances on loans in accordance with IAS 39, based on the incurred loss model.

In H1 2018, the loan impairment charge to the income statement of Bank Zachodni WBK Group was PLN 474.8m vs. PLN 245.9m in H1 2017. SCB Group posted allowances of PLN 124.6m vs. PLN 15.9m a year before.

The increase in net impairment allowances on loans to the Group’s customers (from PLN 294m in H1 2017 to PLN 492.9m in H1 2018) reflects the difference in sales of credit receivables in the periods under review and the changed approach to the assessment of impairment allowances on loans in accordance with IFRS 9 Financial Instruments. These impairment allowances were made with respect to the credit portfolio growing at a solid rate of 8.8% YoY (of which loans to enterprises and the public sector increased by 9.7%, retail loans by 7.5% YoY and lease facilities by 17.4% YoY).

In H1 2018, Bank Zachodni WBK sold non-performing receivables of PLN 319.3m vs. PLN 726.2m in the corresponding period (including the principal amount of PLN 271.4m and PLN 662.9m, respectively). The respective transactions brought a gross loss of PLN 6.0m in the current reporting period and a gross profit of PLN 142.2m in the comparative period.

SCB sold the written-off portfolios of cash loans, instalment loans, credit cards and car loans of PLN 691.4m with a gross profit of PLN 21.8m, while a year ago the value of sold credit portfolios was PLN 371.7m and generated a gross profit of PLN 48.9m.

Bank Zachodni WBK Group's NPL ratio was totalled 5.8% versus 5.9% on 30 June 2017. At the same time, the cost of credit increased from 0.66% for H1 2017 to 0.80% for H1 2018.

## Total costs

PLN m			
Total costs of BZ WBK Group	H1 2018	H1 2017	YoY Change
Staff, general and administrative expenses, of which:	(1 613,9)	(1 497,8)	7,8%
- Staff expenses	(789,0)	(771,9)	2,2%
- General and administrative expenses	(824,9)	(725,9)	13,6%
Depreciation/amortisation	(162,4)	(152,1)	6,8%
Other operating expenses	(110,7)	(44,7)	147,7%
<b>Total costs</b>	<b>(1 887,0)</b>	<b>(1 694,6)</b>	<b>11,4%</b>

The total costs of BZ WBK Group for H1 2018 were PLN 1,887.0m and 11.4% higher YoY, with increases across all the key cost components. The cost base was under pressure from strategic and transformation projects, development and extension of IT infrastructure, requirements of competition and legislation, and provisioning for legal claims.

Along with the total cost base, the Group's cost to income ratio grew from 44.6% in H1 2017 to 45.3% in H1 2018.

### Staff expenses

Staff expenses of Bank Zachodni WBK Group for H1 2018 totalled PLN 789.0m and increased by 2.2% YoY. SCB Group's contribution to the above figure was PLN 127.7m and up 6.3% YoY.

The key staff expense lines, i.e. "Salaries and bonuses" and "Statutory deductions from salaries", increased by 4.6% YoY to PLN 779.4m in total as a result of salary review and costs connected with the optimisation of headcount (decrease in the number of FTEs of BZ WBK Group by 272 YoY).

### General and administrative expenses

In H1 2018, general and administrative expenses of Bank Zachodni WBK Group went up by 13.6% YoY to PLN 824.9m. Costs incurred by SCB Group totalled PLN 141.5m and were 3.1% higher YoY.

The increase in the total general and administrative expenses was driven by:

- IT usage costs (+30.0% YoY) and consultancy and advisory fees (+71.3% YoY) connected with the project of acquisition of a demerged part of Deutsche Bank Polska;
- cost of other third party services (+80.5% YoY) resulting from document processing in accordance with the General Data Protection Regulation, modification of the system of settlements with the ultimate parent and relocation of the Business Support Centre in Wrocław to a new building;
- cost of machine repair (+176.3% YoY) arising from the purchase of equipment for the modified branches and the new building of the Business Support Centre;
- cost of marketing and entertainment (+9.4% YoY) connected with rebranding.

At the same time, cost of maintenance and rental of premises went down by 3.2% YoY due to the optimisation of the branch network, as did fees payable to market regulators (-4.7% YoY) when BFG determined the amount of the BZ WBK contribution to the bank resolution fund.

## Effective tax rate

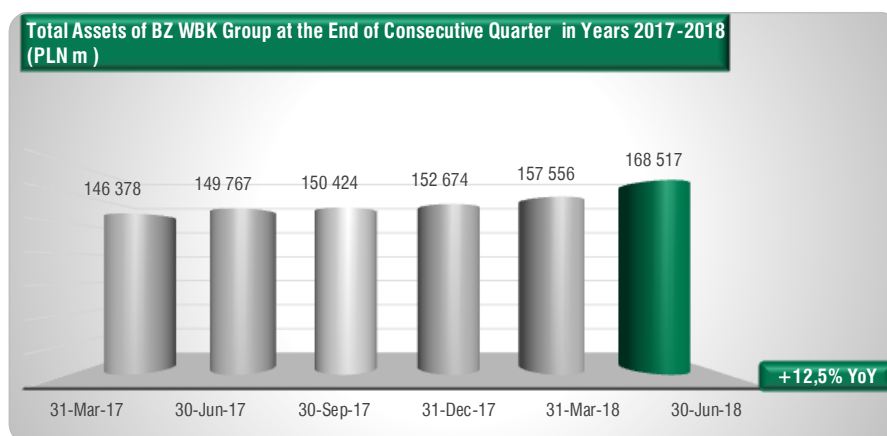
In H1 2018, the effective tax rate (on a consolidated basis) was 22.0% vs. 24.6% in the corresponding period, due to a lower loss on non-tax deductible debt sale.

## 2. Financial Position of Bank Zachodni WBK Group

### Consolidated assets

As at 30 June 2018, the total assets of Bank Zachodni WBK Group were PLN 168,517.2m, an increase of 10.4% vs. 31 December 2017 and of 12.5% vs. 30 June 2017.

The value and structure of the Group's financial position is determined by the parent entity, which accounts for 87.6% of the consolidated total assets vs. 87.0% as at the end of December 2017.



### Structure of consolidated assets

Assets of BZ WBK Group (condensed presentation for analytical purposes)	PLN m							
	30.06.2018 (under IFRS 9)	Structure 30.06.2018	31.12.2017 (under IAS 39)	Structure 31.12.2017	30.06.2017 (under IAS 39)	Structure 30.06.2017	Ytd Change	YoY Change
	1	2	3	4	5	6	1/3	1/5
Loans and advances to customers <sup>1)</sup>	114 177,0	67,8%	107 839,9	70,6%	105 053,7	70,2%	5,9%	8,7%
Investment financial assets <sup>2)</sup>	34 865,9	20,7%	28 415,8	18,6%	26 735,3	17,9%	22,7%	30,4%
Financial assets held for trading and hedging derivatives	6 178,3	3,7%	3 634,1	2,4%	5 715,9	3,8%	70,0%	8,1%
Cash and operations with Central Banks	4 681,4	2,8%	4 146,2	2,7%	4 113,0	2,7%	12,9%	13,8%
Fixed assets, intangibles and goodwill	3 108,1	1,8%	3 133,1	2,1%	2 983,3	2,0%	-0,8%	4,2%
Loans and advances to banks	1 704,5	1,0%	2 136,5	1,4%	1 870,8	1,2%	-20,2%	-8,9%
Other assets <sup>3)</sup>	3 802,0	2,2%	3 368,8	2,2%	3 294,7	2,2%	12,9%	15,4%
<b>Total</b>	<b>168 517,2</b>	<b>100,0%</b>	<b>152 674,4</b>	<b>100,0%</b>	<b>149 766,7</b>	<b>100,0%</b>	<b>10,4%</b>	<b>12,5%</b>

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

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

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

In the above statement of financial position as at 30 June 2018, net loans and advances to customers, which are the largest item of the consolidated assets, increased by 5.9% Ytd to PLN 114,177.0m on account of strong credit delivery to retail and business customers. SCB Group contributed PLN 15,052.0m to this line (after intercompany and consolidation adjustments), up 5.0% Ytd.

During H1 2018, the line aggregating financial assets held for trading and hedging derivatives grew significantly (+70.0% Ytd) as a result of the expansion of the trading bond portfolio. The purchases of treasury bonds also increased the value of investment financial assets (+22.7% Ytd). SCB Group contributed PLN 2,791.8m to this item, which is an increase of 7.0% on 31 December 2017.

As part of the Group's ongoing liquidity management, the balance of funds deposited with NBP increased, which caused the cash and operations with central banks to rise by 12.9% Ytd, while the loans and advances to banks decreased by 20.2% Ytd along with placements and credit facilities.

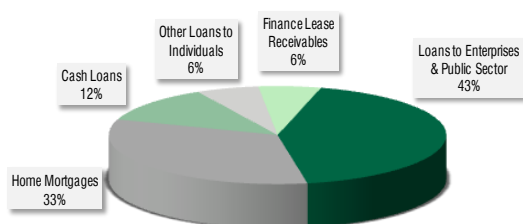
**Credit portfolio of Bank Zachodni WBK Group**

PLN m

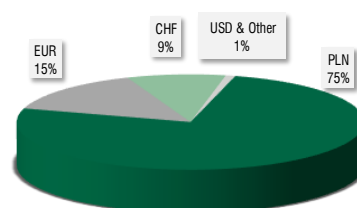
Gross Loans and Advances to Customers of BZ WBK Group	30.06.2018 <sup>1)</sup> under IFRS 9	31.12.2017 under IAS 39	30.06.2017 under IAS 39	YoY Change	YoY Change
	1	2	3	1/2	1/3
Loans and advances to individuals	61 063,2	57 822,4	56 782,1	5,6%	7,5%
Loans and advances to enterprises and public sector customers	50 922,2	48 005,2	46 431,7	6,1%	9,7%
Finance lease receivables	7 504,8	6 849,0	6 393,3	9,6%	17,4%
Other	13,4	9,4	202,1	42,6%	-93,4%
<b>Total</b>	<b>119 503,6</b>	<b>112 686,0</b>	<b>109 809,2</b>	<b>6,1%</b>	<b>8,8%</b>

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

**Product Structure of Consolidated Loans & Advances to Customers as at 30.06.2018**



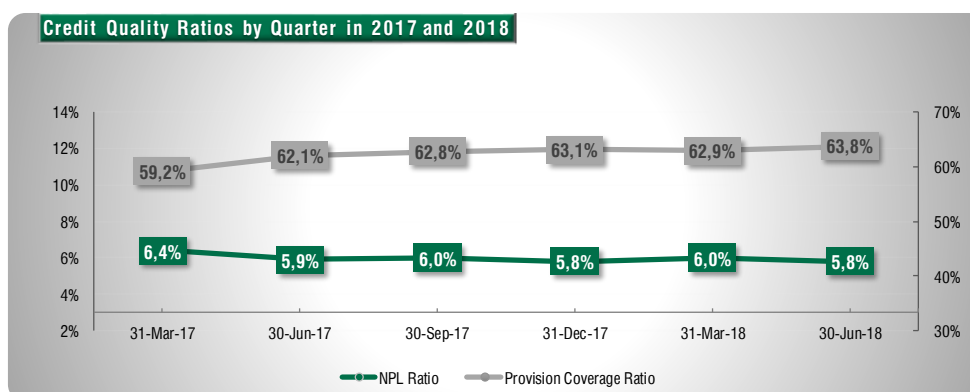
**FX Structure of Consolidated Loans and Advances to Customers as at 30.06.2018**



As at 30 June 2018, consolidated gross loans and advances to customers were PLN 119,503.6m and increased by 6.1% on 31 December 2017. The portfolio includes loans and advances to customers measured at fair value through profit or loss, totalling PLN 1,502m, including the credit card portfolio reclassified as of 31 March 2018.

Loans and advances to individuals increased by 5.6% Ytd to PLN 61,063.2m. Housing loans, representing the major portion of loans and advances to individuals, increased by 5.5% Ytd to PLN 39,336.9m, with housing loans of Bank Zachodni WBK growing by 6.2% and SCB's mortgage portfolio decreasing by 0.9%. The second significant constituent item, i.e. cash loans, went up by 8.2% Ytd to PLN 14,126.0m.

Loans and advances to enterprises and public sector entities were PLN 50,922.2m, 6.1% higher on 31 December 2017, mainly driven by lending to SME and corporate customers. Finance leases, which include the portfolios of BZ WBK Leasing, Santander Consumer Multirent and PSA Finance Polska, increased by 9.6% to PLN 7,504.8m on account of dynamic sales growth in machines and equipment, and vehicles. Loans granted by BZ WBK Leasing to finance machines and vehicles for business customers, which totalled PLN 2,227.7m as at 30 June 2018 (vs. PLN 2,027.7m as at 31 December 2017), were disclosed outside the lease portfolio, as loans and advances to enterprises.



\* As of 30 June 2018, the calculation of credit quality indicators does not include the portfolio measured at fair value.

As at 30 June 2018, non-performing (impaired) loans to customers accounted for 5.8% of the gross portfolio of Bank Zachodni WBK Group vs. 5.8% six months before and 5.9% twelve months before. The provision coverage ratio for impaired loans was 63.8% as at 30 June 2018 compared with 63.1% as at 31 December 2017 and 62.1% as at 30 June 2017. As of 30 June 2018, the calculation of credit quality indicators does not include the portfolio measured at fair value.



## Structure of consolidated equity and liabilities

PLN m								
Liabilities & Equity of BZ WBK Group S.A. (condensed presentation for analytical purposes)	30.06.2018 (under IFRS 9)	Structure 30.06.2018	31.12.2017 (under IAS 39)	Structure 31.12.2017	30.06.2017 (under IAS 39)	Structure 30.06.2017	Ytd Change	YoY Change
	1	2	3	4	5	6	1/3	1/5
Deposits from customers	122 024,3	72,4%	111 481,1	73,0%	109 111,2	72,9%	9,5%	11,8%
Subordinated liabilities and debt securities in issue	8 734,6	5,2%	7 384,4	4,9%	6 891,2	4,6%	18,3%	26,8%
Sell-buy-back transactions	5 376,7	3,2%	2 650,9	1,7%	4 168,3	2,8%	102,8%	29,0%
Deposits from banks	3 252,6	1,9%	2 783,1	1,8%	2 591,6	1,7%	16,9%	25,5%
Financial liabilities held for trading and hedging derivatives	2 205,9	1,3%	1 816,5	1,2%	2 696,3	1,8%	21,4%	-18,2%
Other liabilities <sup>1)</sup>	2 934,7	1,8%	3 214,8	2,1%	2 407,6	1,6%	-8,7%	21,9%
Total equity	23 988,4	14,2%	23 343,6	15,3%	21 900,5	14,6%	2,8%	9,5%
<b>Total</b>	<b>168 517,2</b>	<b>100,0%</b>	<b>152 674,4</b>	<b>100,0%</b>	<b>149 766,7</b>	<b>100,0%</b>	<b>10,4%</b>	<b>12,5%</b>

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

The total liabilities of consolidated statement of financial position of Bank Zachodni WBK Group as at 30 June 2018 show major increases compared with 31 December 2017 resulting from sell-buy-back transactions (+102.8% Ytd) made with banks and other financial market institutions.

In H1 2018, a strong upward trend was also observed for hedging derivatives (which together with liabilities held for trading increased by 21.4% Ytd), deposits from banks (+16.9% Ytd) and the aggregated line encompassing subordinated liabilities and debt securities in issue (+18.3% Ytd).

The latter item grew as a result of the Group's increased issuance activity in relation to own securities. In the reporting period, Bank Zachodni WBK issued two series of certificates of deposit with a total nominal value of PLN 1bn as part of its issue programme and subordinated series F bonds with a nominal value of PLN 1bn. BZ WBK Faktor and SCB issued bonds with a nominal value of PLN 850m and PLN 451m, respectively.

In H1 2018, Bank Zachodni WBK, BZ WBK Faktor and SCB redeemed matured own securities for a total amount of PLN 1,235m, PLN 700m and PLN 190m, respectively.

Within the analysed aggregated line, subordinated series F bonds with a nominal value of PLN 1bn, maturing on 5 April 2028, were transferred from debt securities in issue to subordinated liabilities pursuant to the KNF decision.

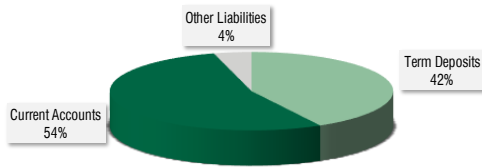
The total equity of Bank Zachodni WBK Group increased by 2.8% as the bank's profit generated in the current period and the entire profit for 2017 were retained in accordance with guidelines issued by the regulator. The equity was reduced by dividend payout of PLN 307.6m from the undistributed profit for 2016. The retained profit and the revaluation reserve reflect the differences in the carrying amounts of financial assets and liabilities as at 1 January 2018 arising from adoption of IFRS 9, in the total amount of PLN -254.5m.

### Deposit base of Bank Zachodni WBK Group.

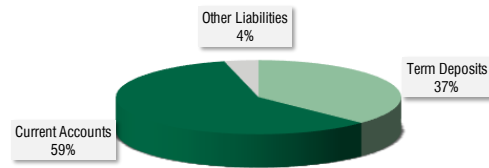
PLN m					
Deposits of BZ WBK Group from Customers	30.06.2018	31.12.2017	30.06.2017	Ytd Change	YoY Change
	1	2	3	1/2	1/3
Deposits from individuals	70 021,9	64 987,7	64 704,5	7,7%	8,2%
Deposits from enterprises and public sector customers	52 002,4	46 493,4	44 406,7	11,8%	17,1%
<b>Total</b>	<b>122 024,3</b>	<b>111 481,1</b>	<b>109 111,2</b>	<b>9,5%</b>	<b>11,8%</b>

During the first six months of 2018, consolidated deposits from customers increased by 9.5% to PLN 122,024.3m as at 30 June 2018, including PLN 8,552.9m relating to SCB Group after intercompany eliminations (vs. PLN 8,148.6m as at the end of December 2017).

Structure of Consolidated Customer Deposits as at 30.06.2018

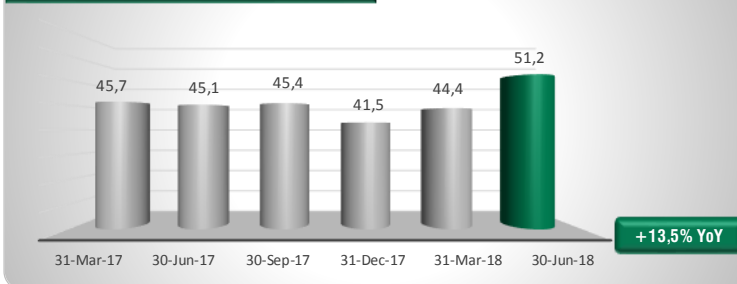


Structure of Consolidated Customer Deposits as at 31.12.2017

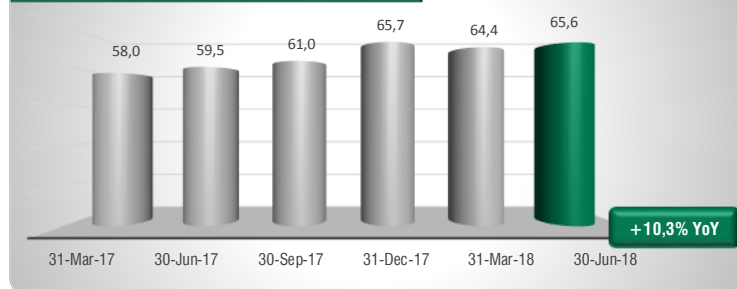


The Group's total term deposits from customers increased by 23.4% Ytd to PLN 51,201.6m. Current account balances were stable at PLN 65,573.4m, and other liabilities went up by 21.1% Ytd to PLN 5,249.4m.

Term Deposits at the End of Consecutive Quarters of 2017 and 2018 (PLN bn)



Current Accounts\* at the End of Consecutive Quarters of 2017 and 2018 (PLN bn)



\* Including savings accounts

The retail deposit base stood at PLN 70,021.9m, higher by 7.7% Ytd as a result of a fast increase in term deposit balances (+16.0%) and current account balances (+3.4%). In H1 2018, the acquisition of new money was propelled by the intended purchase of a demerged business of Deutsche Bank Polska. It was supported by special deals on savings accounts, including the Max Savings Account (Konto Max Oszczędnościowe) and the Regular Savings Account (Konto Systematyczne) sold together with the Account As I Want It (Konto Jakie Chcę), as well as flexible pricing and mechanisms that rewarded customer activity with a higher interest rate.

In H1 2018, deposits from enterprises and the public sector increased by 11.8% Ytd to PLN 52,002.4m, driven by term deposits which grew at a rate of 31.8% Ytd, i.e. much faster than current account balances were declining (-6.9% Ytd).

The largest constituent of other liabilities were loans and advances (PLN 4,122.9m vs. PLN 3,552.4m as at 31 December 2017), reported under deposits from enterprises which included loans granted by international financial organisations (the European Investment Bank, the European Bank for Reconstruction and Development and the Council of Europe Development Bank) to finance the bank's credit delivery and the lease business of the bank's subsidiaries. The increase in loans and advances results from drawdowns of PLN 334.1m under the agreement signed in November 2017 with EIB for financing digitalisation programmes and of EUR 50m under the loan agreement signed in December 2017 between the EBRD and BZ WBK Leasing.

## Diversification of funding sources of Bank Zachodni WBK and Bank Zachodni WBK Group

In H1 2018, Bank Zachodni WBK continued endeavours to diversify the funding sources of Bank Zachodni WBK Group. Major undertakings are provided below:

### Financing from financial institutions

- On 22 June 2018, BZ WBK Leasing entered into a loan agreement with a domestic bank. The loan amount is PLN 300m. It bears a variable interest rate and matures on 30 June 2019.

### Own issues of securities

- On 5 April 2018, Bank Zachodni WBK issued 2000 subordinated series F bonds on the following terms:
  - ✓ Total nominal value: PLN 1bn;
  - ✓ Nominal value per bond: PLN 500k;
  - ✓ Type: unsecured variable-rate bearer bonds with a 10-year maturity and a call option enabling the issuer to redeem all instruments after five years of their issuance (subject to the KNF consent);
  - ✓ Interest rate: variable interest rate equal to the sum of 6M WIBOR and the margin of 1.6%;
  - Issue price: equal to the nominal value;
  - ✓ Issue date: 5 April 2018;
  - ✓ Form: dematerialised bonds (to be registered on the issuance date in the securities depository kept by KDPW);
  - ✓ Purpose: to increase the bank's supplementary funds (subject to the KNF consent);
  - ✓ Target secondary market: alternative trading system on the Catalyst market.

All the bonds totalling PLN 1bn were taken up by bondholders. On 12 June 2018, the KNF gave its approval for classifying the bonds as the bank's Tier 2 instruments.

- Bank Zachodni WBK issued the following series of certificates of deposit:
  - ✓ Series G, issued on 26 April 2018, with a nominal amount of PLN 500m, a fixed interest rate of 2.02% p.a. and a maturing date of 26 April 2019;
  - ✓ Series H, issued on 27 June 2018, with a nominal amount of PLN 500m, a fixed interest rate of 2.25% p.a. and a maturing date of 27 September 2019;
- On 18 April 2018, BZ WBK Faktor issued series B bonds of PLN 850m with a variable rate based on 1M WIBOR and a maturity date of 18 October 2018.

### Loan repayment

On 22 January 2018, Bank Zachodni WBK repaid the loan of EUR 50m obtained on 22 January 2016 from a foreign bank. On 15 March 2018, a loan of EUR 50m (disbursed in CHF) granted by the EIB to the former Kredit Bank on 2 February 2011 was also paid off in full.

## Selected ratios for Bank Zachodni WBK Group

Selected Financial Ratios of BZ WBK Group	H1 2018	H1 2017
Total costs/Total income	45,3%	44,6%
Net interest income/Total income	66,9%	67,2%
Net interest margin <sup>1)</sup>	3,87%	3,80%
Net commission income/Total income	25,1%	25,5%
Customer net loans/Customer deposits	93,6%	96,3%
NPL ratio	5,8%	5,9%
NPL coverage ratio	63,8%	62,1%
Credit risk ratio <sup>2)</sup>	0,80%	0,66%
ROE <sup>3)</sup>	11,3%	11,0%
ROTE <sup>4)</sup>	13,3%	12,9%
ROA <sup>5)</sup>	1,4%	1,3%
Capital ratio <sup>6)</sup>	17,78%	16,51%
Tier I ratio <sup>7)</sup>	15,63%	15,53%
Book value per share (in PLN)	241,5	220,7
Earnings per share (in PLN) <sup>8)</sup>	10,8	11,1

1) Annualised net interest income (excluding interest income from the portfolio of trading securities) to average net interest-bearing assets (excluding the trading portfolio) as at the end of successive quarters starting from the previous year-end.

2) Impairment allowances (for four consecutive quarters) to average gross loans and advances to customers (as at the previous year-end and the end of the reporting period).

3) Profit attributable to the parent's shareholders (for four consecutive quarters) to average equity (as at the previous year-end and the end of the reporting period), net of non-controlling interests, current period profit, recommended/ paid dividends and the undistributed portion of the profit.

4) Profit attributable to the parent's shareholders (for four consecutive quarters) to average tangible equity (as at the previous year-end and the end of the reporting period) defined as common equity attributable to the parent's shareholders less revaluation reserve, current period profit, recommended/ paid dividends, undistributed portion of the profit, intangible assets and goodwill.

5) Profit attributable to the parent's shareholders (for four consecutive quarters) to average total assets (as at the previous year-end and the end of the reporting period).

6) The capital adequacy ratio was calculated on the basis of own funds and the total capital requirements established for the individual risk types by means of the standardised approach, in line with the CRD IV/CRR package.

7) Tier 1 ratio is Tier 1 capital expressed as a percentage of risk weighted assets for credit, market and operational risk.

8) Profit for the period attributable to shareholders of the parent entity divided by the number of ordinary shares.

### Capital ratios

The table below present calculation of the combined capital ratio and Tier 1 ratio of Bank Zachodni WBK Group as at 30 June 2018 and 31 December 2017.

BZ WBK Group	30.06.2018	31.12.2017
I Total capital requirement	10 061,6	9 520,2
II Own funds after reductions	22 357,2	19 860,5
<b>Total Capital Ratio [II/(I*12.5)]</b>	<b>17,78%</b>	<b>16,69%</b>
<b>Tier I Ratio</b>	<b>15,63%</b>	<b>15,28%</b>

The tables below shows the combined capital ratio and Tier 1 ratio of Bank Zachodni WBK and Santander Consumer Bank as at 30 June 2018 and 31 December 2017.

BZ WBK Capital Ratios	30.06.2018	31.12.2017
Total Capital Ratio	20,48%	18,95%
Tier I Ratio	17,90%	17,37%

SCB Capital Ratios	30.06.2018	31.12.2017
Total Capital Ratio	18,26%	17,19%
Tier I Ratio	18,26%	17,19%

### 3. Additional Financial Information on BZ WBK Group

#### Selected transactions with related entities

##### Key intercompany transactions with subsidiaries

Transactions between Bank Zachodni WBK and its related entities are banking operations carried out on an arm's length basis as part of their ordinary business and mainly represent loans, bank accounts, deposits, guarantees and leases.

As at 30 June 2018, the bank's total exposure on loans to non-banking subsidiaries (e.g. BZ WBK Faktor, BZ WBK Leasing) amounted to PLN 9,648.3m compared with PLN 8,816.5m as at 31 December 2017. Loans and advances to SCB totalled PLN 112.5m vs. PLN 28.9m as at 31 December 2017.

The deposits held with the bank by its subsidiaries (e.g. BZ WBK Finanse, BZ WBK TFI) totalled PLN 203.5m vs. PLN 154.5m as at 31 December 2017.

Contingent financial liabilities totalled PLN 2,695.1m compared with PLN 1,185.4m as at 31 December 2017. Guarantees to subsidiaries amounted to PLN 1,505.1m vs. PLN 63.5m as at 31 December 2017.

These intercompany items are excluded from the consolidated accounts.

##### Leaseback

On 16 April 2015, Bank Zachodni WBK signed an agreement with BZ WBK Leasing regarding finance leaseback of the existing properties (building, land and perpetual usufruct) and the lease of the planned property (office building to be developed within three years) located in Wrocław.

The final total value of the assets arising from the lease agreement (building and land) was estimated at PLN 156.3m as at the start date of the transaction. As at 30 June 2018, the current value of the fixed assets under the finance leaseback agreement was PLN 124.3m, and the value of fixed assets under construction totalled PLN 8.1m.

The basic lease period was set at 153 months. The purchase of the assets and construction of the office building by BZ WBK Leasing is financed with a loan from Bank Zachodni WBK.

##### Intercompany transactions with the parent entity

The bank's receivables from the parent entity (Banco Santander) amounted to PLN 296.0m compared with PLN 308.7m as at 31 December 2017, while obligations amounted to PLN 550.7m compared with PLN 63.0m as at 31 December 2017.

A full disclosure on related party transactions is available in Note 34 of the "Interim Consolidated Financial Statements of Bank Zachodni WBK Group for the 6-month period ended 30 June 2018" and in Note 34 of the "Condensed Interim Financial Statements of Bank Zachodni WBK for the 6-month period ended 30 June 2018".

## Financial commitments and court proceedings

The tables below present the value of financial commitments of Bank Zachodni WBK Group and pending court proceedings.

### Financial commitments

	PLN m	
Guarantees and Commitments of BZ WBK Group	30.06.2018	31.12.2017
<b>Financial commitments:</b>	<b>24 988,9</b>	<b>24 642,3</b>
- credit lines	20 371,6	20 279,5
- credit cards debits	3 782,8	3 730,7
- import letters of credit	827,8	624,2
- term deposits with future commencement term	6,7	7,9
<b>Guarantees</b>	<b>4 776,2</b>	<b>4 885,7</b>
<b>Allowance for impairment</b>	<b>(64,3)</b>	<b>(50,7)</b>
<b>Total</b>	<b>29 700,8</b>	<b>29 477,3</b>

### Pending court proceedings

	PLN m	
Court Proceedings with BZ WBK Group as a Party	30.06.2018	31.12.2017
Amounts claimed by the Group	777,3	717,6
Claims against the Group <sup>1)</sup>	453,1	359,4
Receivables due to bankruptcy or arrangement cases	40,3	3,8
<b>Value of all litigation</b>	<b>1 270,7</b>	<b>1 080,8</b>
<b>Share [%] of all litigation in equity</b>	<b>5,3%</b>	<b>4,6%</b>
Completed significant court proceedings	336,1	532,5

## 4. Factors Which May Affect Future Financial Results in the Perspective of the Next Half-Year

The following external developments will have a significant impact on the financial performance and activity of Bank Zachodni WBK Group in 2018:

- Gradual slowdown of economic growth in Poland amid low inflation growth.
- Rising protectionism in the global economy and escalation of trade wars.
- Rise of households' real disposable income due to continued wage growth.
- Further rise of labour market tensions due to a lack of qualified workforce and the lower retirement age.
- Low financing costs for households and companies, which should be supportive of a gradual rise in demand for bank loans. At the same time, low interest rates on deposits should encourage banks' clients to look for alternative forms of saving/ investing.
- Further developments in the global stock market and its impact on willingness to purchase investment fund units or keeping savings on safe bank deposits as an alternative.
- Changes in asset funding costs linked to the pace and scale of changes of the main interest rates, changes of the zloty exchange rate, development of the liquidity situation in the banking sector and the intensity of price competition between banks to attract deposits.
- Possible increase in volatility of the financial market in the case of disappointment with the pace of global economic revival, rising worries about excessive monetary tightening by the US Fed and fears of escalation of trade wars.
- Possible changes in the monetary policy of ECB and Fed.
- Effect of the UK-EU negotiations about the "Brexit".
- Fluctuations in commodity prices.
- Changes in regulations.

## VIII. Risk Management

### 1. Key Risk Management Principles

Bank Zachodni WBK and other members of BZ WBK Group are exposed to various risks within their day-to-day activities which adversely affect the delivery of strategic priorities of the organisation. The main types of risks include: credit risk, concentration risk, market risk (in the banking book and in the trading book), liquidity risk, operational risk, compliance risk and reputational risk.

The main objective of risk management in the bank and BZ WBK Group is to ensure effective and safe operations to support development within approved risk parameters. Risk management practice is in keeping with the industry benchmark, regulatory guidance and recommendations from supervisory authorities, and covers operational risk, credit risk, market risk and liquidity risk, among other things.

Risk management in the bank and BZ WBK Group is consistent with the risk profile which corresponds to the general risk appetite defined by the Group. Risk appetite is expressed as quantitative limits and captured in the Risk Appetite Statement approved by the Management Board and the Supervisory Board. Limits are set using stress tests and scenario analyses to ensure stability of the bank's position even if adverse circumstances materialise. Global limits are used to set watch limits and define risk management policies.

The integrated risk management structure contains separate units responsible for identification, measurement, monitoring and mitigation of risks in a way that ensures independence of risk management functions from risk-taking units (the first and second line of defence). The responsibilities of risk management units are defined by the risk management framework that governs the process of identifying, measuring and reporting the risks taken. Furthermore, limits are set on a regular basis to mitigate exposure to individual risks.

### Risk Management Structure

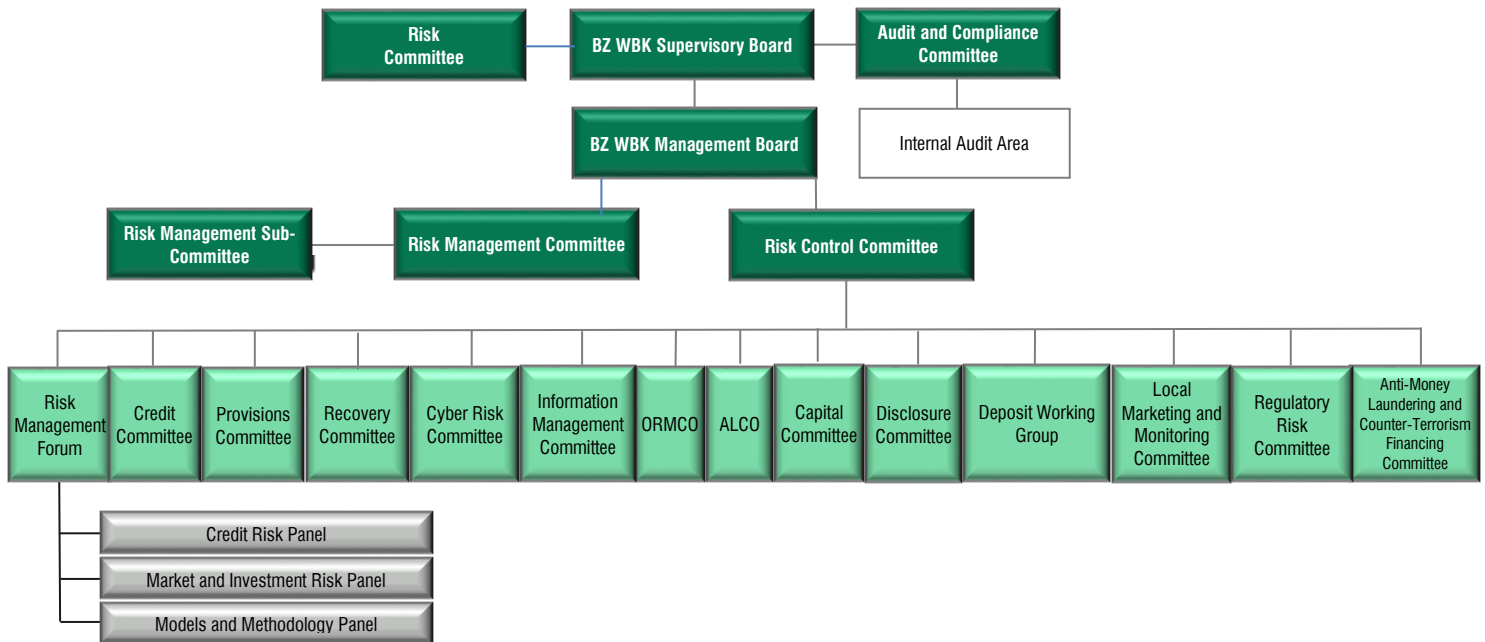
The bank's Supervisory Board is responsible for ongoing supervision of the risk management system in Bank Zachodni WBK, supported by the Audit and Compliance Committee of the Supervisory Board and the Risk Committee. The Supervisory Board approves the strategy, key risk management policies and risk appetite, and monitors the use of internal limits from the perspective of current business strategy and the macroeconomic environment. It conducts the reviews of the key risk areas, the identification of threats and the process of defining and monitoring remedial actions. The Supervisory Board also assesses the effectiveness of measures taken by the Management Board.

The bank's Management Board is responsible for implementing an effective risk management system compliant with the bank's regulatory obligations and internal regulations. Specifically, the bank's role in this regard is to set up an organisational structure tailored to the size and profile of the risks taken, to segregate responsibilities in order that risk assessment and control functions remain independent of operational functions, to introduce and update a risk management strategy and ensure an adequate information policy.

The Management Board fulfils its risk management role through the following three committees:

- The Risk Management Committee, which is an executive committee responsible for taking key decisions concerning risk management across the Group;
- The Risk Management Sub-Committee set up as part of the Risk Management Committee to approve the key decisions taken by the main lower-level risk committees;
- The Risk Control Committee, which monitors the risk level across different areas of the bank's operations and supervises the activities of lower-level risk management committees set up by the Management Board.

## Corporate Governance Structure for Risk Supervision and Management



The Risk Control Committee supervises the following committees responsible for risk management in the Group:

- The Risk Management Forum composed of panels dedicated to credit risk, market risk, equity investments and underwriting and models and methodology
- Credit Committee
- Recovery Committee
- Provisions Committee
- Information Management Committee
- Operational Risk Management Committee / ORMCO
- Cyber Risk Committee
- Assets and Liabilities Management Committee / ALCO
- Capital Committee
- Disclosure Committee
- Deposit Working Group
- Local Marketing and Monitoring Committee
- Regulatory Risk Committee
- Anti-Money Laundering and Counter-Terrorism Financing Committee.

These committees, acting within the respective remits defined by the Management Board, are directly responsible for developing risk management methods and monitoring risk levels in specific areas. Through these committees, the bank also supervises the risk attached to the operations of its subsidiaries.

The subsidiaries implement risk management policies and procedures that reflect the approach adopted by Bank Zachodni WBK, which ensures the consistency of risk management processes across the Group.

Acting under the applicable law, the bank exercises oversight of risk management in Santander Consumer Bank (SCB) in line with the same oversight rules as applied to other Bank Zachodni WBK Group companies. Bank Zachodni WBK Management Board members in charge of the Risk Management Division and Retail Banking Division (respectively) sit on the Supervisory Board of SCB.

Pursuant to the BZ WBK strategy of investments in capital market instruments, they are responsible for supervision over SCB and they ensure, together with the SCB Supervisory Board, that the company operates in line with the adopted plans and operational security procedures. The bank monitors the profile and level of SCB risk via BZ WBK risk management committees.



## 2. Risk Management Priorities

Sustained economic growth, record low interest rates and significant demand for mortgage loans had a positive impact on credit delivery and overall risk of the credit portfolio in H1 2018. In view of the Group's priority to maintain high quality of the loan book, any adverse developments in the environment and their potential influence on the customer risk profile were analysed in detail.

The bank continuously optimises its processes and products to increase the profitability of business, while ensuring attractive products and services for customers.

In response to these emerging challenges, the bank continues the Transformation Programme, which will introduce significant changes in the credit processes and technologies in place. The bank also consistently develops and promotes the remote channels in relationships with customers. It regularly optimises its existing processes and products to remain both competitive and profitable at the same time. Furthermore, it develops innovative risk management solutions to facilitate the safe and stable growth of business volumes while ensuring compliance with regulatory requirements relating to advanced risk management methods.

Work is well under way to implement a centralised system for identifying, measuring, modelling and reporting on interest rate risk and liquidity risk to facilitate balance sheet management and ensure best-in-class standards in data quality assurance. The bank completed the first stage of the project involving the development of a data model and measurement of interest rate risk on the banking book. Measures are continued to implement advanced balance sheet scenario analysis and measurement of liquidity risk.

In H1 2018, focus was also placed on preparations for the safe acquisition of a part of the portfolio of Deutsche Bank Polska which is planned for Q4 2018. A number of projects were started such as the integration of data to ensure sound risk management with respect to the acquired credit exposures, calibration of models for risk assessment of the combined customer base, steps taken to ensure liquidity following the takeover of assets, compliance with provision calculation and reporting standards. The integration process will continue in H2 2018.

On 1 January 2018, IAS 39 was replaced by IFRS 9, which introduced significant changes to the classification and measurement of financial instruments. At the beginning of 2018, the bank completed the initiatives started in the previous years to ensure the compliance of operational, accounting and reporting processes with the new standard. The bank continued analyses connected with the implementation of IFRS 9, including the review of the bank's processes and procedures in relation to emerging market practice and interpretations aimed at ensuring consistent application of the standard. At the same time, the bank took relevant measures to guarantee the stability of models used to classify and measure exposures and performed the activities related to the model life cycle, such as the required calibration or validation.

## 3. Significant Risk Factors Expected in the Next Half-Year

The key challenges facing the bank in the near future include the possibility of legislative solutions being introduced with respect to loans indexed to/denominated in foreign currency, which may substantially affect the bank's performance and risk profile. The bank is actively involved as a member of a working group set up by the Polish Bank Association (ZBP) and monitors the impact of potential solutions on the bank's loan book on an ongoing basis. The bank's position is secure in all the analysed scenarios.

Adverse macroeconomic developments such as increased risk of trade conflict following the steps taken by the US, growing geopolitical tensions connected with ongoing armed conflicts and difficult political and military situation in certain regions, concerns about the global economic outlook, risk of continued depreciation of the zloty as a result of the British exit from the European Union, labour market tension resulting in an increased wage pressure and labour shortage may have a negative impact on the performance of companies and their investments, which in turn may affect the results of the banking sector. The bank monitors potential impact on an ongoing basis. So far, the situation has been stable.

A significant risk factor is the scope and rate of changes in the regulatory environment, which engage considerable resources from monitoring legislative initiatives, through analysis and change designs, to the implementation stage. In the second half of 2018 work will continue to implement the Directive of the European Parliament and of the Council on payment services in the internal market ("PSD2") may reduce banks' competitive advantage that they enjoy at present as the only institutions that have access to information about customers' income and expense. Under PSD2, non-banking entities will be able to examine behavioural data on customers' accounts while being subject to less stringent legal requirements than those imposed on banks. The directive comes into effect in 2019, but the bank has already launched a programme to ensure compliance.

Particularly important to the banking sector is the continuation of talks regarding the legislation on the resolution of banks ensuring stability of the financial system. The new regulations will result in new requirements for banks as regards the issuance of debt which is deemed to meet new prudential requirements. At the same time, talks are underway to ensure consistency between the EU regulations (CRR and G20) which set out the definition of MREL (minimum requirement for own funds and eligible liabilities) and TLAC (total loss-absorbing capacity).

## IX. Governing Bodies

### General Meeting of Shareholders of Bank Zachodni WBK

#### Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders of Bank Zachodni WBK held on 16 May 2018 (AGM) approved the reports for 2017 submitted by the Management Board and the Supervisory Board, granted discharge to members of these governing bodies for the performance of their duties in the previous year and agreed on the distribution of the net profit for 2017 and dividend payment from retained earnings for 2016 (see Chapter X “Additional Information”). The AGM adopted a resolution on the change of the bank’s business name from “Bank Zachodni WBK Spółka Akcyjna” to “Santander Bank Polska Spółka Akcyjna”, relocation of the bank’s registered office from Wrocław to Warsaw and amendment of the bank’s statutes and the terms of reference of the General Meeting of Shareholders. The change of the business name, registered office and statutes will become effective upon registration by a relevant registry court.

#### Extraordinary General Meeting of Shareholders

The Extraordinary General Meeting of Shareholders of Bank Zachodni WBK held on 29 May 2018 (EGM) approved the demerger of DB Polska in accordance with Article 529(1)(4) of the Code of Commercial Companies, i.e. through the transfer to Bank Zachodni WBK of an organised part of the enterprise of DB Polska and shares of DB Securities held by DB Polska. The EGM approved the demerger plan of 23 February 2018 providing for an increase in the share capital of Bank Zachodni WBK, dematerialisation of demerger shares (series N shares of the bank) and their admission and introduction to trading on the regulated market of the Warsaw Stock Exchange. Furthermore, the EGM approved relevant amendments to the statutes of Bank Zachodni WBK and agreed on their consolidated text.

### Supervisory Board

The table below presents the composition of Bank Zachodni WBK Supervisory Board as at 30 June 2018 and 31 December 2017:

Role in the Supervisory Board	Ref.	Composition as at 30.06.2018 and 31.12.2017
Chairman of the Supervisory Board:	1.	Gerry Byrne
Vice Chairman of the Supervisory Board:	2.	José Luis de Mora
Members of the Supervisory Board:	3.	José Manuel Campa
	4.	José Garcia Cantera
	5.	Danuta Dąbrowska
	6.	David Hexter
	7.	Witold Jurcewicz
	8.	John Power
	9.	Jerzy Surma
	10.	Marynika Woroszyńska-Sapieha

The bank’s Supervisory Board, in its composition as at 30 June 2018, was appointed for a new term of office by the Annual General Meeting held on 17 May 2017.

Detailed information about the qualification, academic background and professional experience of the bank’s Supervisory Board members can be found on the bank’s website:

<https://www.bzwbk.pl/investor-relations/company/supervisory-board/supervisory-board.html> or  
[https://static3.bzwbk.pl/asset/r/e/p/report-13-2017-Supervisory\\_Board\\_Members\\_resumes\\_78173.pdf](https://static3.bzwbk.pl/asset/r/e/p/report-13-2017-Supervisory_Board_Members_resumes_78173.pdf).

The Supervisory Board members sit on the following Supervisory Board Committees:

Role in the Supervisory Board	Ref.	Composition as at 30.06.2018	Supervisory Board Committees as at 30.06.2018			
			Audit and Compliance Committee	Risk Committee	Nominations Committee	Remuneration Committee
Chairman of the Supervisory Board:	1.	Gerry Byrne			●	●
Vice Chairman of the Supervisory Board	2.	José Luis de Mora			●	●
Members of the Supervisory Board:	3.	José Manuel Campa		●		
	4.	José Garcia Cantero				
	5.	Danuta Dąbrowska	●		●	●
	6.	David Hexter	●	●		
	7.	Witold Jurcewicz	●		●	●
	8.	John Power		●		
	9.	Jerzy Surma	●	●	●	●
	10.	Marynika Woroszyńska-Sapieha	●		●	●

● Chairman  
● Members

As at 30 June 2018, the following members of the Supervisory Board held independent status: Ms Danuta Dąbrowska, Mr David Hexter, Mr Witold Jurcewicz, Mr Jerzy Surma and Ms Marynika Woroszyńska-Sapieha.

## Management Board

The table below presents the composition of the Bank Zachodni WBK Management Board as at 30 June 2018 and 31 December 2017 and the roles and responsibilities of its members.

Role in the Management Board	Ref.	Composition as at 30.06.2018	Reporting Areas as at 30.06.2018	Composition as at 31.12.2017	Reporting Areas as at 31.12.2017
President:	1.	Michał Gajewski	Units reporting directly to the President: Legal & Compliance Division, Internal Audit Area, Corporate Communications, Marketing and Service Quality Management Area, Business Model Transformation Area, Board Office, Strategic Transformation Office	Michał Gajewski	Units reporting directly to the President: Internal Audit Area, Corporate Communications, Marketing and Service Quality Management Area, Business Model Transformation Area, Board Office, Strategic Transformation Office
Vice Presidents:	2.	Andrzej Burliga	Risk Management Division, Business Intelligence Area	Andrzej Burliga	Risk Management Division, Business Intelligence Area
	3.	Michael McCarthy	Business & Corporate Banking Division	Michael McCarthy	Business & Corporate Banking Division
	4.	Juan de Porras Aguirre	Santander Corporate & Investment Banking	Juan de Porras Aguirre	Global Corporate Banking Division
	5.	Arkadiusz Przybył	Retail Banking Division, Wealth Management Programme	Arkadiusz Przybył	Retail Banking Division
	-	-	-	Miroslaw Skiba	Wealth Management Programme
	6.	Feliks Szyszowskiak	Digital Transformation Division	Feliks Szyszowskiak	Digital Transformation Division
Board Members:	-	-	-	Artur Chodacki	Small & Medium Enterprise Banking Division
	7.	Maciej Reluga	Financial Management Division	Maciej Reluga	Financial Management Division
	8.	Carlos Polaino Izquierdo	Financial Accounting & Control Division	Carlos Polaino Izquierdo	Financial Accounting & Control Division
	-	-	-	Marcin Prell	Legal & Compliance Division, Classified Data Protection Unit
	9.	Dorota Strojowska	Business Partnership Division	Dorota Strojowska	Business Partnership Division

On 16 May 2018, the Supervisory Board of Bank Zachodni WBK appointed the Management Board members for a new three-year term of office, except for Mr Artur Chodacki, Mr Marcin Prell and Mr Mirosław Skiba. Reduction in the number of the Management Board members was accompanied by the reorganisation of the Business Support Centre, i.e. transfer of the organisational units managed by the above-mentioned persons (who were not appointed for a new term of office) to other divisions (Wealth Management Programme, SME segments) or transformation into units directly reporting to the President of the Management Board (Legal and Compliance Division).

Detailed information about the qualification, academic background and professional experience of the bank's Management Board members can be found on the bank's website:

<https://www.bzwbk.pl/investor-relations/company/management-board/management-board.html> lub

<https://www.bzwbk.pl/investor-relations/reports/2018/current-report-no-18-2018.html>.

## Shares and conditional rights held by Supervisory and Management Board members

As at the release dates of the H1 2018 Report of Bank Zachodni WBK Group and the Q1 2018 Report and the 2017 Annual Report, none of the members of the Supervisory Board held any Bank Zachodni WBK shares or conditional rights.

The table below shows Bank Zachodni WBK shares and attached conditional rights held by Management Board members as at the release dates of reports for the periods ended 30 June 2018, 31 March 2018 and 31 December 2017.

Management Board Members	25.07.2018		24.04.2018		13.02.2018	
	No. of BZ WBK shares	Rights (6th Incentive Scheme)	No. of BZ WBK shares	Rights (6th Incentive Scheme)	No. of BZ WBK shares	Rights (6th Incentive Scheme)
Michał Gajewski	-	5 420	-	5 420	-	5 420
Andrzej Burliga	4 389	2 820	4 389	2 820	4 389	2 820
Artur Chodacki <sup>1)</sup>			790	2 030	790	2 030
Michael McCarthy	1 528	3 250	1 528	3 250	1 528	3 250
Carlos Polaino Izquierdo	631	2 820	631	2 820	631	2 820
Juan de Porras Aguirre	1 397	2 240	1 397	2 240	1 397	2 240
Marcin Prell <sup>1)</sup>			1 250	2 540	1 250	2 540
Arkadiusz Przybył	-	3 390	-	3 390	-	3 390
Maciej Reluga	505	2 030	505	2 030	505	2 030
Mirosław Skiba <sup>1)</sup>			2 474	2 880	2 474	2 880
Dorota Strojowska	635	2 370	635	2 370	635	2 370
Feliks Szyszkowiak	1 621	2 880	1 621	2 880	1 621	2 880
<b>Total</b>	<b>10 706</b>	<b>27 220</b>	<b>15 220</b>	<b>34 670</b>	<b>15 220</b>	<b>34 670</b>

1) Mr Artur Chodacki, Mr Marcin Prell and Mr Mirosław Skiba were not appointed for a new term of office by the Supervisory Board on 16 May 2018.

In relation to the launch of the 6th Incentive Programme for 2017-2019, approved by the Annual General Meeting of Shareholders held on 17 May 2017, the Management Board members – as obligatory participants – were awarded conditional rights to buy 34,670 performance shares out of the maximum number of 250k shares. As a result of the reduction in the number of Management Board members appointed for a new term on 16 May 2018 (i.e. without Mr Artur Chodacki, Mr Marcin Prell and Mr Mirosław Skiba), the number of Management Board members' rights to shares decreased by 7,450 to 27,220.

# X. Organisational Development

## 1. Organisational Changes

### Organisational changes in the Business Support Centre

#### Implementation of the Agile methodology

In H1 2018, Bank Zachodni WBK continued to implement a new working method based on the Agile methodology and interdisciplinary teams which demonstrate high effectiveness and efficiency in a dynamic environment. The main reasons for transforming the bank into an Agile organisation are as follows:

- to reduce turnaround time and time to market;
- to increase customer satisfaction;
- to facilitate cooperation between organisational units, mainly business and IT;
- to enhance development opportunities for employees;
- to extend the range of valuable financial tools;
- to strengthen financial performance.

In April 2018, the first Agile tribes were set up in the Retail Banking Division:

Tribe	Omnichannel	Individual Client	Consumer Finance	Risk Engineering
Objective	<ul style="list-style-type: none"> <li>• Develop an omnichannel distribution platform which will ensure an outstanding customer experience, security and high sales effectiveness and will be flexibly extended to include new processes and external modules</li> </ul>	<ul style="list-style-type: none"> <li>• Develop the range of products and services to reinforce customers' relationships with the bank and increase the likelihood to recommend BZ WBK as the bank of choice</li> </ul>	<ul style="list-style-type: none"> <li>• Provide and develop credit facilities that suit the needs of personal customers and create simple and transparent processes and services in all channels</li> </ul>	<ul style="list-style-type: none"> <li>• Develop tools to facilitate credit risk assessment</li> </ul>

The next tribes and teams are planned to be set up in Q3 2018.

#### Changes in the vertical organisational structure

In May 2018, changes were introduced to the scope and allocation of responsibilities among the Management Board appointed for a new term of office, with a reduced number of members (from 12 to 9). In effect, the internal structures were streamlined and an increased focus was placed on customers and the market.

The SME Banking Division was liquidated and services for SME 1 (micro companies) and SME 2 (larger enterprises) were taken over by the Retail Banking Division and the Business and Corporate Banking Division, respectively. Lease companies which used to report to the Head of the SME Banking Division now report to the Head of the Retail Banking Division.

The Wealth Management Area, a unit covering the activities of Asset Management and Private Banking and operating outside the divisional structure, became a part of the Retail Banking Division and reports to the Head of the Division.

The above structural changes in the Retail Banking Division and the Business and Corporate Banking Division are to ensure consistent development of business and uniform, top quality products, services and customer experience in the following segments:

- personal customers, Private Banking customers and SME 1 customers (Retail Banking Division);
- corporate customers, business customers and SME 2 customers (Business and Corporate Banking Division).

Certain responsibilities were moved outside the Legal and Compliance Division, which involved some structural changes and enabled the unit to focus more on increasing legal requirements connected with competition and consumer protection. The above Division now reports to the President of the Management Board, whereas the issues related to conduct risk and reputational risk are managed by the Risk Management Division.

The Global Corporate Banking Division was renamed the Corporate and Investment Banking Division in accordance with changes in the corresponding structures of Santander Group at the global level.

## 2. Transformation of distribution model

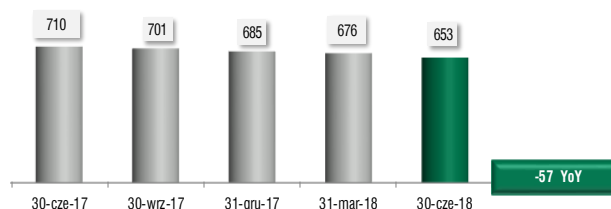
### Branch Network

#### Branch Network

Pursuant to the retail business distribution strategy, in H1 2018, the bank launched ten branches in a new, innovative format, one branch in a smart red format (consistent with the new visual identity) and two customer acquisition stands in shopping centres. The above outlets not only render financial services to customers with the support of the bank's customer advisors but also provide educational support to develop customers' knowledge of self-service remote channels. The 24-hour zones, which complement the network of bank outlets, provide customers with 24-hour access to an account and limit cash services provided by branch employees.

In H1 2018, Bank Zachodni WBK continued to review its franchise, taking into account customers' needs and changes in their banking behaviour, development of electronic services (including mobile ones) and the distribution strategy of the bank. In effect, 12 branches were transformed into partner outlets and the branch network was further optimised. During the first six months of 2018, the number of branches (locations) decreased by 36 to 540 as at 30 June 2018, while the number of partner outlets went up by 4 to 113.

Number of BZ WBK Branches and Outlets from 30 June 2017 to 30 June 2018



### Remote Channels

#### Internet and mobile banking

Along with the modernisation of a physical network, the bank continued to develop the functionality of digital contact channels to increase the scope of self-service and user-friendliness.

The BZWKB24 mobile application was further extended to include a new feature related to BLIK payments: an option to indicate payees registered in BLIK. Furthermore, the bank launched the sale of accounts with video verification and motor insurance and offered an option to manage alerts.

The functionality of BZ WBK24 internet was further upgraded to facilitate online transactions. In the "Your activities" tab of the "Customer service" section, the list of services are displayed to enable customers to single-handedly modify existing products to suit their needs and introduce relevant changes or instructions to the application (e.g. change of the address of residence or a phone number for smsCodes, request for an account statement, cancellation of an incorrect transfer). The platform also facilitates planning and management of payments by providing customers with an option to plan a transfer ahead ("Upcoming payments" tab) or view

suggested transfers (“To be planned” tab) based on payment history. In order to improve credit processes, the bank launched a co-browsing functionality in BZWBK24 internet which enables a customer and an advisor to share a credit request and complete it together. In the case of a negative credit decision for the sought loan amount, a lower amount is suggested.

As at 30 June 2018, the number of digital customers, i.e. BZWBK24 users who at least once logged into the bank’s electronic banking system, was 2.1 million (vs. 3.5 million customers with access to BZWBK24) and increased by 6.4% YoY. The number of mobile application users went up by 22.8% YoY and exceeded 1.2 million (including 257.8 thousand customers who use BZWBK24 mobile only).

### **Multichannel Communication Centre (MCK)**

In H1 2018, the BZ WBK Multichannel Communication Centre implemented new or modified processes, including end-to-end processes (E2E) enabling customers to buy products and services in remote channels. Customers may now apply for a loan up to PLN 100k or grant consent to raising a loan by their spouse over the phone. Furthermore, customers may sign up for motor insurance or switch their joint accounts to the Account As I Want It (Konto Jakie Chcę) by calling the Multichannel Communication Centre. A range of new customer instructions are now processed remotely: earlier renewal of a credit card, reposting of overpayment/payment from a credit card account, disabling/opting out of/activating BLIK service, transfer of remuneration, set up/modification/revocation of a power of attorney to accounts.

### **Network of self-service devices**

In H1 2018, Bank Zachodni WBK continued measures taken to develop self-service channels in order to reduce cashier-services in branches and enhance customer experience, including:

- installation of cash recyclers (devices enabling withdrawal of cash that is previously deposited in a recycler by other customers), which helped to reduce costs associated with cash services and increase accessibility of cash deposits and withdrawals;
- replacement of the legacy machines with new models and continued branch network rationalisation;
- initiatives taken to promote cash deposit machines and their functionality to increase the migration of cash deposits to these devices.

In May 2018, the bank reported record high number and value of deposits made with the use of the bank’s cash deposit machines (730k and PLN 1.5bn, respectively), whereas the ratio of deposit migration (the percentage share of all deposits made in BZ WBK cash deposit machines to own accounts in PLN) was 84% and increased by 12 p.p. YoY.

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

## **Customer Relationship Management (CRM)**

At the beginning of the year, work started as part of the second stage of the CRM system development project aimed at upgrading the functionality of CRM tools in distribution channels. The universal features available to all customer segments were further developed and new solutions were put in place to support the new SME customer service model. In April 2018, a new management model was put in place in relation to CRM tasks transferred to NEOCRM+ tools. The model takes into account customers’ life cycle and facilitates interaction with customers and portfolio management.

The bank launched promotional campaigns (e.g. in relation to the Account As I Want It) based on cross-channel communication to a wider extent. Furthermore, the bank maximised the potential of its customer base as part of the analysis of customer propensity arising from the models in place by modifying the cut-off points qualifying customers for marketing campaigns.

At the beginning of the year, customers were reassigned to new portfolios based on their preferred branch location. Customers who use services of a branch other than the home one were assigned to that branch, which improved sales results in this customer group. In addition, customers using only branch banking were identified and covered by campaigns delivered by the Multichannel Communication Centre, which ensured a more optimum use of both channels and increased effectiveness.

### 3. Planned Development Projects

#### Planned acquisition of a demerged business of Deutsche Bank Polska

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

Pursuant to the transaction agreement of 14 December 2017 signed by Bank Zachodni WBK and Banco Santander with Deutsche Bank AG (DB AG), Bank Zachodni WBK (the acquiring bank) intends to purchase a carve-out of Deutsche Bank Polska (DB Polska/ the demerged bank), consisting of retail banking, private banking, business banking (SME) and 100% shares in DB Securities. The transaction involves, among other things, the takeover of branch network and external sales channels of DB Polska (agents and intermediaries) and the transfer of asset management agreements with customers. Corporate and investment banking business and foreign currency mortgage portfolio are excluded from the transaction and will remain in DB Polska (retained business).

##### Demerger agreement between Bank Zachodni WBK and Deutsche Bank Polska

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

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

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

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

##### Regulatory and corporate consents required to close the transaction

The following regulatory consents had been obtained by the date these financial statements were submitted to the Management Board for approval:

- a clearance granted on 2 March 2018 by the Office of Competition and Consumer Protection (UOKiK) to integrate the demerged business of DB Polska into the structures of Bank Zachodni WBK
- a decision issued by the KNF on 29 May 2018, confirming the absence of grounds for objecting to the planned direct acquisition of shares in DB Polska by Bank Zachodni WBK representing more than 10% of share capital and voting power at the General Meeting of Shareholders;
- a decision by the KNF issued on 17 July 2018 granting consent for the carve-out of DB Polska and transfer of assets in exchange for shares issued to Deutsche Bank AG.

In view of the economic and financial benefits for both banks and their shareholders, on 29 May 2018 the Extraordinary General Meeting of Shareholders of Bank Zachodni WBK approved the demerger plan of 23 February 2018 providing for an increase in the share capital of Bank Zachodni WBK and introduction of amendments to the bank's statutes.

The transaction now depends on results of:

- a decision by the KNF confirming there are no grounds for objecting to the parent entity of the acquiring bank exceeding 50% of the share capital and voting power of DB Polska (through the acquiring bank);
- approval from the General Meeting of Shareholders of DB Polska.

##### Economic justification of the demerger

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



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

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

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

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

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

### Integration process

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

The bank works closely with DB Polska and DB Securities to prepare for the operational merger based on the Migration and Outsourcing Agreement of 23 February 2018, which sets out a detailed action plan and responsibilities of individual parties, and using own experience from the process of integration with Kredyt Bank. In accordance with the schedule in place, a target business model has been defined, including product range and service channels. A detailed plan of communication with customers and employees has been prepared to minimise business risks connected with the transaction. The key personnel of the demerged company is covered by the retention programme. The IT tools required to complete data migration have been designed, developed and tested to ensure high quality of the data transferred. The bank successfully completed the first out of the five dress rehearsals of the migration weekend to be held.

The legal merger, branch rebranding and operational merger (including data migration) will be completed during the migration weekend. Once the operational merger is completed, the bank will operate based on a uniform business model, combining the elements of the demerged business model and strong competences of DB Polska in the area of private banking, cooperation with external distribution channels and credit products dedicated to selected market segments. The integration process will be executed in such a way as to ensure that the bank is fully operational once the demerged business of DB Polska is incorporated into its structures and that customer service is not affected. After the data of customers of the demerged part of DB Polska are transferred to the platform of Bank Zachodni WBK, they will be serviced with unchanged account numbers.

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

On 16 February 2018, Banco Santander sold 1.2m shares of Bank Zachodni WBK to Deutsche Bank AG, London Branch. As a result, the number of shares held by Banco Santander reduced from 68,880,774 to 67,680,774, which means a decrease in the share in the registered capital and voting power at the BZ WBK General Meeting from 69.34% to 68.13%.

### Intention to establish a mortgage bank by Bank Zachodni WBK

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

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

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

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

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

## XI. Additional Information

### Auditor

In accordance with the Statutes of Bank Zachodni WBK and applicable laws, on 19 April 2017, the bank's Supervisory Board appointed PricewaterhouseCoopers to:

- review the bank's unconsolidated financial statements and the Group's consolidated financial statements for H1 2018 and
- audit the bank's unconsolidated financial statements and the Group's consolidated financial statements for 2018.

The bank signed agreements with PricewaterhouseCoopers for the terms required to carry out the specified work.

Bank Zachodni WBK and Banco Santander hire the same auditor, which ensures a consistent approach to the audit process.

The bank used consulting and tax advice services provided by PricewaterhouseCoopers and other entities from the PwC network. In the bank's view, the above services do not affect the impartiality or independence of the auditor.

### Dividend per Share

On the basis of a proposal from the Management Board and the Supervisory Board, and in accordance with recommendation of the KNF of 16 March 2018 re increase in own funds, the bank's Annual General Meeting of Shareholders held on 16 May 2018 approved the distribution of the net profit for 2017 without making any dividend allocation.

Taking into account the strong capital position of the bank and its Group, the Management Board and the Supervisory Board made a proposal, subsequently approved by the AGM of 16 May 2018, to allocate to dividend an amount of PLN 307.6m from the retained profit for 2016. The dividend of PLN 3.10 per share was paid out on 14 June 2018. Pursuant to the resolution of the Annual General Meeting of Shareholders of Bank Zachodni WBK No. 43 of 17 May 2017, the dividend paid out of the profit earned in 2016 does not include the bank's series M shares.

Last year, the AGM of 17 April 2017 decided to allocate PLN 535.9m of the undistributed net profit for 2014 and 2015 for dividend payment. The dividend of PLN 5.4 per share was paid out on 14 June 2017.



## XII. Representations of the Management Board

### True and Fair Presentation of the Financial Statements

To the best of the Management Board's knowledge, the financial figures and the comparable data presented in the financial statements incorporated in the "Condensed Interim Consolidated Financial Statement of Bank Zachodni WBK Group for the 6 month period ended 30 June 2018" and "Condensed Interim Financial Statement of Bank Zachodni WBK for the 6 month period ended 30 June 2018" were prepared in keeping with the applicable accounting policies and give a true and fair view of the state of affairs and earnings of Bank Zachodni WBK and Bank Zachodni WBK Group.

The half-yearly Management Board's Report contained in this document shows a true picture of the development, achievements and position of the parent entity and the Bank Zachodni WBK and Bank Zachodni Group (including the underlying risks) in the first half of 2018.

#### Signatures of all the required persons

Date	Name and Surname	Position/Function	Signature
24.07.2018	Michał Gajewski	President of the Board	
24.07.2018	Andrzej Burliga	Vice President of the Board	
24.07.2018	Michael McCarthy	Vice President of the Board	
24.07.2018	Juan de Porras Aguirre	Vice President of the Board	
24.07.2018	Arkadiusz Przybył	Vice President of the Board	
24.07.2018	Feliks Szyszkowiak	Vice President of the Board	
24.07.2018	Carlos Polaino Izquierdo	Member of the Board	
24.07.2018	Maciej Reluga	Member of the Board	
24.07.2018	Dorota Strojowska	Member of the Board	