



**REPORT OF
BANK ZACHODNI WBK GROUP
FOR QUARTER 3 2017**

2017



Bank Zachodni WBK

 Grupa Santander

FINANCIAL HIGHLIGHTS	PLN k		EUR k	
	01.01.2017- 30.09.2017	01.01.2016- 30.09.2016	01.01.2017- 30.09.2017	01.01.2016- 30.09.2016
Consolidated financial statements of Bank Zachodni WBK Group				
I Net interest income	3 897 449	3 495 572	915 625	800 122
II Net fee and commission income	1 497 740	1 430 783	351 863	327 500
III Operating profit	2 773 580	2 653 220	651 595	607 311
IV Profit before tax	2 495 302	2 411 018	586 220	551 872
V Net profit attributable to owners of BZ WBK S.A.	1 664 063	1 705 898	390 937	390 473
VI Total net cash flows	(3 303 647)	(6 582 028)	(776 123)	(1 506 599)
VII Profit of the period attributable to non-controlling interests	230 080	168 934	54 053	38 668
VIII Profit per share in PLN/EUR	16,64	17,19	3,91	3,93
IX Diluted earnings per share in PLN/EUR	16,63	17,17	3,91	3,93
Financial statements of Bank Zachodni WBK				
I Net interest income	2 799 854	2 556 537	657 768	585 181
II Net fee and commission income	1 278 036	1 194 152	300 248	273 336
III Operating profit	2 200 254	2 384 555	516 904	545 815
IV Profit before tax	1 909 913	2 128 064	448 694	487 105
V Profit for the period	1 466 993	1 719 204	344 640	393 519
VI Total net cash flows	(3 121 091)	(5 257 791)	(733 236)	(1 203 486)
VII Profit per share in PLN/EUR	14,67	17,32	3,45	3,96
VIII Diluted earnings per share in PLN/EUR	14,66	17,30	3,44	3,96

FINANCIAL HIGHLIGHTS	PLN k		EUR k	
	30.09.2017	31.12.2016	30.09.2017	31.12.2016
Consolidated financial statements of Bank Zachodni WBK Group				
I Total assets	150 424 368	150 099 716	34 908 535	33 928 507
II Deposits from banks	2 730 481	2 561 281	633 655	578 951
III Deposits from customers	111 022 779	112 522 457	25 764 726	25 434 552
IV Total liabilities	127 768 426	129 081 240	29 650 838	29 177 495
V Total equity	22 655 942	21 018 476	5 257 697	4 751 012
VI Non-controlling interests in equity	1 361 825	1 237 649	316 035	279 758
VII Number of shares	99 333 481	99 234 534	-	-
VIII Net book value per share in PLN/EUR	228,08	211,81	52,93	47,88
IX Capital ratio	16,90%	15,05%		
X Declared or paid dividend per share in PLN/EUR	5,40*	-	1,25*	-
Financial statements of Bank Zachodni WBK				
I Total assets	131 480 872	131 417 988	30 512 374	29 705 693
II Deposits from banks	1 322 870	1 212 765	306 995	274 133
III Deposits from customers	101 737 670	103 381 249	23 609 958	23 368 275
IV Total liabilities	111 157 603	112 388 468	25 796 014	25 404 265
V Total equity	20 323 269	19 029 520	4 716 360	4 301 429
VI Number of shares	99 333 481	99 234 534		
VII Net book value per share in PLN/EUR	204,60	191,76	47,48	43,35
VIII Capital ratio	18,97%	16,52%		
IX Declared or paid dividend per share in PLN/EUR	5,40*	-	1,25*	-

* Detailed information are described in Note 40.

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

- for balance sheet items – average NBP exchange rate as at 30.09.2017: EUR 1 = PLN 4.3091 and as at 30.12.2016: EUR 1 = PLN 4.4240
- for profit and loss items – as at 30.09.2017 - the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month in 2017: EUR 1 = PLN 4.2566; as at 30.09.2016 - the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month in 2016: EUR 1 = PLN 4.3688

As at 30.09.2017, FX denominated balance sheet positions were converted into PLN in line with the NBP FX table no. 189/A/NBP/2017 dd. 29.09.2017.



**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENT OF
BANK ZACHODNI WBK GROUP
FOR THE 9-MONTH PERIOD
ENDED 30 SEPTEMBER 2017**

2017



Bank Zachodni WBK

 Grupa Santander

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In thousands of PLN

Condensed consolidated income statement

for reporting period:		01.07.2017- 30.09.2017	01.01.2017- 30.09.2017	01.07.2016- 30.09.2016	01.01.2016- 30.09.2016
Interest income		1 663 808	4 844 578	1 527 630	4 468 633
Interest expense		(322 842)	(947 129)	(309 250)	(973 061)
Net interest income	Note 4	1 340 966	3 897 449	1 218 380	3 495 572
Fee and commission income		667 457	1 870 857	613 910	1 767 109
Fee and commission expense		(140 552)	(373 117)	(126 687)	(336 326)
Net fee and commission income	Note 5	526 905	1 497 740	487 223	1 430 783
Dividend income		712	76 636	1 730	96 524
Net gains/(losses) on subordinated entities	Note 28	-	3 757	-	100
Net trading income and revaluation	Note 6	55 567	147 653	56 023	228 882
Gains (losses) from other financial securities	Note 7	3 962	31 909	7 449	395 113
Other operating income	Note 8	23 671	98 215	32 181	98 908
Impairment losses on loans and advances	Note 9	(231 653)	(477 531)	(254 119)	(565 252)
Operating expenses incl.:		(807 694)	(2 502 248)	(822 124)	(2 527 410)
<i>Bank's staff, operating expenses and management costs</i>	<i>Notes 10, 11</i>	<i>(686 366)</i>	<i>(2 184 163)</i>	<i>(742 316)</i>	<i>(2 215 028)</i>
<i>Depreciation/amortisation</i>		<i>(82 167)</i>	<i>(234 276)</i>	<i>(68 350)</i>	<i>(202 510)</i>
<i>Other operating expenses</i>		<i>(39 161)</i>	<i>(83 809)</i>	<i>(11 458)</i>	<i>(109 872)</i>
Operating profit		912 436	2 773 580	726 743	2 653 220
Share in net profits (loss) of entities accounted for by the equity method		14 734	38 546	15 443	36 139
Tax on financial institutions		(105 892)	(316 824)	(105 097)	(278 341)
Profit before tax		821 278	2 495 302	637 089	2 411 018
Corporate income tax	Note 12	(188 610)	(601 159)	(156 985)	(536 186)
Consolidated profit for the period		632 668	1 894 143	480 104	1 874 832
of which:		-	-	-	-
<i>attributable to owners of BZ WBK S.A.</i>		<i>559 908</i>	<i>1 664 063</i>	<i>425 933</i>	<i>1 705 898</i>
<i>attributable to non-controlling interests</i>		<i>72 760</i>	<i>230 080</i>	<i>54 171</i>	<i>168 934</i>
Net earnings per share (PLN/share)					
Basic earnings per share		5,51	16,64	4,29	17,19
Diluted earnings per share		5,52	16,63	4,29	17,17

Condensed consolidated statement of comprehensive income

for reporting period:		01.07.2017- 30.09.2017	01.01.2017- 30.09.2017	01.07.2016- 30.09.2016	01.01.2016- 30.09.2016
Consolidated profit for the period		632 668	1 894 143	480 104	1 874 832
Other comprehensive income which can be transferred to the profit and loss account:		117 619	376 399	10 406	(165 467)
Available-for sale financial assets valuation, gross		70 142	414 958	(20 990)	(331 600)
Deferred tax		(13 327)	(78 842)	3 988	63 004
Cash flow hedges valuation, gross		75 066	49 732	33 837	127 320
Deferred tax		(14 262)	(9 449)	(6 429)	(24 191)
Other comprehensive income which can't be transferred to the profit and loss account		-	(4)	431	431
Provision for retirement allowances – actuarial gains/losses, gross		-	(5)	532	532
Deferred tax		-	1	(101)	(101)
Other comprehensive income for the period, net of income tax		117 619	376 395	10 837	(165 036)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		750 287	2 270 538	490 941	1 709 796
Attributable to:					
<i>owners of BZ WBK S.A.</i>		<i>673 546</i>	<i>2 033 079</i>	<i>436 577</i>	<i>1 543 909</i>
<i>non-controlling interests</i>		<i>76 741</i>	<i>237 459</i>	<i>54 364</i>	<i>165 887</i>

Notes presented on pages 14 – 47 constitute an integral part of these financial statements.

In thousands of PLN

Condensed consolidated statement of financial position

as at:		30.09.2017	31.12.2016
ASSETS			
Cash and balances with central banks	Note 13	5 117 186	4 775 660
Loans and advances to banks	Note 14	2 179 043	3 513 278
Financial assets held for trading	Note 15	2 359 802	3 180 985
Hedging derivatives		115 143	67 645
Loans and advances to customers	Note 16	106 475 429	103 068 538
Financial assets available for sale	Note 17	27 586 847	29 307 878
Investments in associates	Note 18	868 482	871 491
Intangible assets		430 607	486 762
Goodwill	Note 30	1 712 056	1 688 516
Property, plant and equipment		857 240	878 298
Net deferred tax assets		1 430 858	1 534 322
Assets classified as held for sale		733	629
Other assets		1 290 942	725 714
Total assets		150 424 368	150 099 716
LIABILITIES AND EQUITY			
Deposits from banks	Note 19	2 730 481	2 561 281
Hedging derivatives		992 306	2 023 344
Financial liabilities held for trading	Note 15	1 487 405	1 809 060
Deposits from customers	Note 20	111 022 779	112 522 457
Sell-buy-back transactions		1 861 557	1 632 613
Subordinated liabilities	Note 21	951 054	440 457
Debt securities in issue	Note 22	5 895 475	5 529 187
Current income tax liabilities		143 726	84 151
Provisions	Note 23	160 755	130 128
Other liabilities	Note 24	2 522 888	2 348 562
Total liabilities		127 768 426	129 081 240
Equity			
Equity attributable to owners of BZ WBK		21 294 117	19 780 827
Share capital		993 335	992 345
Other reserve capital		16 920 093	15 791 555
Revaluation reserve		645 109	276 093
Retained earnings		1 071 517	553 987
Profit for the current period		1 664 063	2 166 847
Non-controlling interests in equity		1 361 825	1 237 649
Total equity		22 655 942	21 018 476
Total liabilities and equity		150 424 368	150 099 716

Notes presented on pages 14 – 47 constitute an integral part of these financial statements.

In thousands of PLN

Condensed consolidated statement of changes in equity

Consolidated statement of changes in equity	Equity attributable to equity holders of BZ WBK SA					Non-controlling interests in equity	Total equity
	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total		
Opening balance as at 31.12.2016	992 345	15 791 555	276 093	2 720 834	19 780 827	1 237 649	21 018 476
Total comprehensive income	-	-	369 016	1 664 063	2 033 079	237 459	2 270 538
Consolidated profit for the period	-	-	-	1 664 063	1 664 063	230 080	1 894 143
Other comprehensive income	-	-	369 016	-	369 016	7 379	376 395
Issue of shares*	990	-	-	-	990	-	990
Distributions of profits and losses	-	1 117 265	-	(1 117 265)	-	-	-
Share scheme charge	-	3 684	-	-	3 684	-	3 684
Dividends	-	-	-	(535 866)	(535 866)	(110 962)	(646 828)
Equity adjustment due to merger and liquidation of subsidiaries and controlling stake at the subsidiaries	-	7 589	-	3 814	11 403	(2 321)	9 082
As at 30.09.2017	993 335	16 920 093	645 109	2 735 580	21 294 117	1 361 825	22 655 942

As at the end of the period revaluation reserve in the amount of PLN 645,109 k comprises of debt securities and equity shares classified as available for sale of PLN 153,314 k and PLN 553,356 k respectively and additionally cash flow hedge activities of PLN (69,579) k and accumulated actuarial gains - provision for retirement allowances of PLN 8,018 k.

* On 3 August 2017, Bank Zachodni WBK was informed that on 3 August 2017, the District Court for Wrocław-Fabryczna, VI Commercial Division of the National Court Register, entered into the National Court Register the changes to the Bank's statute adopted by the Annual General Meeting of the shareholders of the Bank held on 17 May 2017. Given the above, the Bank's share capital was increased from PLN 992,345,340 to PLN 993,334,810, i.e. by PLN 989,470. The shares acquired in the increased share capital were paid up in full.

This increase of the share capital took place within the private placement with the exclusion of the pre-emptive rights of the present shareholders in respect of the shares of the M series ordinary bearer shares covered by Incentive Scheme V participants.

Consolidated statement of changes in equity	Equity attributable to equity holders of BZ WBK SA					Non-controlling interests in equity	Total equity
	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total		
Opening balance as at 31.12.2015	992 345	14 685 919	776 914	2 936 851	19 392 029	1 176 101	20 568 130
Total comprehensive income	-	-	(161 989)	1 705 898	1 543 909	165 887	1 709 796
Consolidated profit for the period	-	-	-	1 705 898	1 705 898	168 934	1 874 832
Other comprehensive income	-	-	(161 989)	-	(161 989)	(3 047)	(165 036)
Distributions of profits and losses	-	1 177 730	-	(1 177 730)	-	-	-
Share scheme charge	-	12 115	-	-	12 115	-	12 115
Dividends	-	-	-	(1 290 049)	(1 290 049)	(226 025)	(1 516 074)
Other	-	(87 381)	(61)	87 442	-	-	-
As at 30.09.2016	992 345	15 788 383	614 864	2 262 412	19 658 004	1 115 963	20 773 967

As at the end of the period revaluation reserve in the amount of PLN 614,864 k comprises of debt securities and equity shares classified as available for sale of PLN 136,481 k and PLN 567,793 k respectively and additionally cash flow hedge activities of PLN (92,267) k and accumulated actuarial gains - provision for retirement allowances of PLN 2,857 k.

Notes presented on pages 14 – 47 constitute an integral part of these financial statements.

In thousands of PLN

Condensed consolidated statement of cash flows

	for the period	01.01.2017- 30.09.2017	01.01.2016- 30.09.2016
Profit before tax		2 495 302	2 411 018
Total adjustments:			
Share in net profits (losses) of entities accounted for by the equity method		(38 546)	(36 139)
Depreciation/amortisation		234 276	202 510
Impairment losses		432	7 010
Profit (loss) from investing activities		(35 922)	(403 681)
		2 655 542	2 180 718
Changes:			
Provisions		30 627	(12 446)
Trading portfolio financial instruments		(200 355)	522 845
Hedging derivatives		(1 078 536)	(142 661)
Loans and advances to banks		(123)	4 652
Loans and advances to customers		(3 406 891)	(6 240 483)
Deposits from banks		83 919	(158 442)
Deposits from customers		(1 255 114)	4 454 014
Buy-sell/ Sell-buy-back transactions		228 944	(4 002 720)
Other assets and liabilities		(240 735)	78 258
		(5 838 264)	(5 496 983)
Interest accrued excluded from operating activities		(327 451)	(298 413)
Dividend		(76 091)	(96 040)
Paid income tax		(527 023)	(803 497)
Net cash flows from operating activities		(4 113 287)	(4 514 215)
Inflows		3 533 635	4 803 600
Sale of subordinated entities		-	100
Sale/maturity of financial assets available for sale		2 969 491	4 330 571
Sale of intangible assets and property, plant and equipment		21 390	15 869
Dividend received		76 041	94 854
Interest received		466 713	362 206
Outflows		(2 624 500)	(7 758 111)
Purchase of financial assets available for sale		(2 449 994)	(7 609 519)
Purchase of intangible assets and property, plant and equipment		(174 506)	(148 592)
Net cash flows from investing activities		909 135	(2 954 511)
Inflows		3 204 439	4 340 428
Debt securities in issue		2 288 789	1 967 000
Proceeds from issuing/shares		990	-
Drawing of loans		914 660	2 373 428
Outflows		(3 303 934)	(3 453 730)
Debt securities buy out		(1 410 000)	(1 054 700)
Repayment of loans		(1 070 899)	(757 327)
Dividends and other payments to shareholders		(646 828)	(1 516 074)
Interest paid		(176 207)	(125 629)
Net cash flows from financing activities		(99 495)	886 698
Total net cash flows		(3 303 647)	(6 582 028)
Cash and cash equivalents at the beginning of the accounting period		11 838 799	12 677 692
Cash and cash equivalents at the end of the accounting period		8 535 152	6 095 664

Notes presented on pages 14 – 47 constitute an integral part of these financial statements.

In thousands of PLN

Condensed income statement of Bank Zachodni WBK

	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017	01.07.2016- 30.09.2016	01.01.2016- 30.09.2016
	for reporting period:			
Interest income	1 199 733	3 498 231	1 128 275	3 311 048
Interest expenses	(238 798)	(698 377)	(233 361)	(754 511)
Net interest income	960 935	2 799 854	894 914	2 556 537
Fee and commission income	547 246	1 515 632	495 715	1 409 049
Fee and commission expenses	(100 558)	(237 596)	(73 238)	(214 897)
Net fee and commission income	446 688	1 278 036	422 477	1 194 152
Dividend income	636	272 242	677	439 241
Net trading income and revaluation	51 083	139 565	53 620	215 254
Gains (losses) from other financial securities	5 886	29 801	7 655	391 625
Other operating income	12 027	60 911	28 342	86 550
Impairment losses on loans and advances	(173 038)	(383 081)	(177 292)	(441 251)
Operating expenses incl.:	(646 065)	(1 997 074)	(673 506)	(2 057 553)
<i>Bank's staff, operating expenses and management costs</i>	<i>(541 091)</i>	<i>(1 732 435)</i>	<i>(603 926)</i>	<i>(1 794 778)</i>
<i>Depreciation/amortisation</i>	<i>(71 014)</i>	<i>(203 698)</i>	<i>(58 770)</i>	<i>(171 877)</i>
<i>Other operating expenses</i>	<i>(33 960)</i>	<i>(60 941)</i>	<i>(10 810)</i>	<i>(90 898)</i>
Operating profit	658 152	2 200 254	556 887	2 384 555
Tax on financial institutions	(96 955)	(290 341)	(96 902)	(256 491)
Profit before tax	561 197	1 909 913	459 985	2 128 064
Corporate income tax	(133 933)	(442 920)	(117 808)	(408 860)
Profit for the period	427 264	1 466 993	342 177	1 719 204
Net earnings per share (PLN/share)				
Basic earnings per share	4,16	14,64	3,45	17,32
Diluted earnings per share	4,19	14,66	3,44	17,30

Condensed statement of comprehensive income of Bank Zachodni WBK

	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017	01.07.2016- 30.09.2016	01.01.2016- 30.09.2016
	for reporting period:			
Profit for the period	427 264	1 466 993	342 177	1 719 204
Other comprehensive income which can be transferred to the profit and loss account:	106 181	357 950	10 968	(150 781)
Available-for sale financial assets valuation, gross	61 267	395 561	(19 534)	(313 790)
Deferred tax	(11 641)	(75 157)	3 711	59 620
Cash flow hedges valuation, gross	69 821	46 353	33 075	127 641
Deferred tax	(13 266)	(8 807)	(6 284)	(24 252)
Other comprehensive income for the period, net of income tax	106 181	357 950	10 968	(150 781)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	533 445	1 824 943	353 145	1 568 423

Notes presented on pages 14 – 47 constitute an integral part of these financial statements.

In thousands of PLN

Condensed statement of financial position of Bank Zachodni WBK

as at:	30.09.2017	31.12.2016
ASSETS		
Cash and balances with central banks	5 015 498	4 696 634
Loans and advances to banks	2 049 775	3 308 802
Financial assets held for trading	2 364 650	3 198 187
Hedging derivatives	80 883	66 787
Loans and advances to customers	90 254 976	87 102 390
Financial assets available for sale	24 714 502	26 322 361
Investments in subsidiaries and associates	2 377 325	2 377 325
Intangible assets	409 942	464 308
Goodwill	1 688 516	1 688 516
Property, plant and equipment	750 576	779 866
Net deferred tax assets	752 974	950 307
Assets classified as held for sale	608	608
Other assets	1 020 647	461 897
Total assets	131 480 872	131 417 988
LIABILITIES AND EQUITY		
Deposits from banks	1 322 870	1 212 765
Hedging derivatives	992 284	1 961 828
Financial liabilities held for trading	1 498 012	1 809 969
Deposits from customers	101 737 670	103 381 249
Sell-buy-back transactions	531 773	-
Subordinated liabilities	951 054	440 457
Debt securities in issue	2 078 370	1 783 303
Current income tax liabilities	39 466	12 999
Provisions	83 602	66 345
Other liabilities	1 922 502	1 719 553
Total liabilities	111 157 603	112 388 468
Equity		
Share capital	993 335	992 345
Other reserve capital	16 182 377	15 132 993
Revaluation reserve	639 704	281 754
Retained earnings	1 040 860	540 708
Profit for the current period	1 466 993	2 081 720
Total equity	20 323 269	19 029 520
Total liabilities and equity	131 480 872	131 417 988

Notes presented on pages 14 – 47 constitute an integral part of these financial statements.

In thousands of PLN

Condensed statement of changes in equity of Bank Zachodni WBK

Statement of changes in equity	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total
Opening balance as at 31.12.2016	992 345	15 132 993	281 754	2 622 428	19 029 520
Total comprehensive income	-	-	357 950	1 466 993	1 824 943
Profit for the period	-	-	-	1 466 993	1 466 993
Other comprehensive income	-	-	357 950	-	357 950
Issue of shares	990	-	-	-	990
Distribution of profits and losses	-	1 045 702	-	(1 045 702)	-
Share scheme charge	-	3 682	-	-	3 682
Dividends	-	-	-	(535 866)	(535 866)
As at 30.09.2017	993 335	16 182 377	639 704	2 507 853	20 323 269

As at the end of the period revaluation reserve in the amount of PLN 639,704 k comprises of debt securities and equity shares classified as available for sale of PLN 145,853 k and PLN 560,061 k respectively and additionally cash flow hedge activities of PLN (74,036) k and accumulated actuarial gains - provision for retirement allowances of PLN 7,826 k.

Statement of changes in equity	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total
Opening balance as at 31.12.2015	992 345	14 238 675	769 247	2 708 862	18 709 129
Total comprehensive income	-	-	(150 781)	1 719 204	1 568 423
Profit for the period	-	-	-	1 719 204	1 719 204
Other comprehensive income	-	-	(150 781)	-	(150 781)
Distribution of profits and losses	-	878 105	-	(878 105)	-
Dividends	-	-	-	(1 290 049)	(1 290 049)
Share scheme charge	-	12 115	-	-	12 115
As at 30.09.2016	992 345	15 128 895	618 466	2 259 912	18 999 618

As at the end of the period revaluation reserve in the amount of PLN 618,466 k comprises of debt securities and equity shares classified as available for sale of PLN 135,131 k and PLN 573,770 k respectively and additionally cash flow hedge activities of PLN (93,053) k and accumulated actuarial losses - provision for retirement allowances of PLN 2,618 k.

Notes presented on pages 14 – 47 constitute an integral part of these financial statements.

In thousands of PLN

Condensed statement of cash flows of Bank Zachodni WBK

	for reporting period:	01.01.2017- 30.09.2017	01.01.2016- 30.09.2016
Profit before tax		1 909 913	2 128 064
Total adjustments:			
Depreciation/amortisation		203 698	171 877
Profit (loss) from investing activities		(32 867)	(393 436)
Impairment losses		-	447
		2 080 744	1 906 952
Changes in:			
Provisions		17 257	(23 076)
Trading portfolio financial instruments		(178 303)	522 911
Hedging derivatives		(983 640)	(114 432)
Loans and advances to banks		129 531	1 005 209
Loans and advances to customers		(3 152 586)	(5 994 002)
Deposits from banks		111 011	(55 670)
Deposits from customers		(1 016 533)	3 571 536
Buy-sell/ Sell-buy-back transactions		531 773	(3 532 646)
Other assets and liabilities		(238 853)	88 330
		(4 780 343)	(4 531 840)
Interest accrued excluded from operating activities		(405 365)	(356 973)
Dividend		(271 697)	(438 757)
Paid income tax		(303 084)	(580 464)
Net cash flows from operating activities		(3 679 745)	(4 001 082)
Inflows		3 239 485	4 986 699
Sale/maturity of financial assets available for sale		2 559 489	4 181 397
Sale of intangible assets and property, plant and equipment		5 167	11 757
Dividend received		271 647	438 571
Interest received		403 182	354 974
Outflows		(2 270 167)	(5 886 948)
Purchase of financial assets available for sale		(2 149 993)	(5 770 865)
Purchase of intangible assets and property, plant and equipment		(120 174)	(116 083)
Net cash flows from investing activities		969 318	(900 249)
Inflows		1 989 778	1 923 620
Debt securities in issue		1 988 788	535 000
Proceeds from issuing/shares		990	-
Drawing of loans		-	1 388 620
Outflows		(2 400 442)	(2 280 080)
Debt securities buy out		(1 180 000)	(480 000)
Repayment of loans		(627 844)	(455 945)
Dividends and other payments to shareholders		(535 866)	(1 290 049)
Interest paid		(56 732)	(54 086)
Net cash flows from financing activities		(410 664)	(356 460)
Total net cash flows		(3 121 091)	(5 257 791)
Cash and cash equivalents at the beginning of the accounting period		11 554 555	11 729 903
Cash and cash equivalents at the end of the accounting period		8 433 464	6 472 112

Notes presented on pages 14 – 47 constitute an integral part of these financial statements.

In thousands of PLN

Additional notes to condensed interim consolidated financial statement

1. General information about issuer

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

Condensed interim consolidated financial statement of BZ WBK Group for the 6-month period ended 30.06.2017 includes Bank's financial information as well as information from its subsidiaries (all together called Group) and shares in associated entities.

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

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

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

In thousands of PLN

BZ WBK Group consists of the following entities:

Subsidiaries:

Subsidiaries	Registered office	[%] of votes on AGM	
		30.09.2017	31.12.2016
1. BZ WBK Finanse sp. z o.o.	Poznań	100.00	100.00
2. BZ WBK Faktor sp. z o.o.	Warszawa	100% of AGM votes are held by BZ WBK Finanse sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.
3. BZ WBK Leasing S.A. ¹⁾	Poznań	100% of AGM votes are held by BZ WBK Finanse sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.
4. BZ WBK Lease S.A. ¹⁾	Warszawa	-	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.
5. BZ WBK Inwestycje sp. z o.o.	Poznań	100.00	100.00
6. Gieldokracja sp. z o.o. w likwidacji	Poznań	100.00	100.00
7. BZ WBK Nieruchomości S.A. ²⁾	Zakrzewo	99.99	99.99
8. BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. ³⁾	Poznań	50.00	50.00
9. Santander Consumer Bank S.A.	Wrocław	60.00	60.00
10. Santander Consumer Finanse sp. z o.o.	Wrocław	100% of AGM votes are held by Santander Consumer Bank S.A.	100% of AGM votes are held by Santander Consumer Bank S.A.
11. PSA Finance Polska sp. z o.o. ⁴⁾	Warszawa	50% of AGM votes are held by Santander Consumer Bank S.A. and 50% of AGM votes are held by Banque PSA Finance S.A.	50% of AGM votes are held by Santander Consumer Bank S.A. and 50% of AGM votes are held by Banque PSA Finance S.A.
12. PSA Consumer Finance Polska sp. z o.o. ⁴⁾	Warszawa	100% of AGM votes are held by PSA Finance Polska sp. z o.o.	100% of AGM votes are held by PSA Finance Polska Sp. z o.o.
13. Santander Consumer Multirent sp. z o.o.	Wrocław	100% of AGM votes are held by Santander Consumer Bank S.A.	100% of AGM votes are held by Santander Consumer Bank S.A.
14. AKB Marketing Services sp. z o.o. w likwidacji ⁵⁾	Poznań	100% of AGM votes are held by Santander Consumer Bank S.A.	100% of AGM votes are held by Santander Consumer Bank S.A.
15. SC Poland Consumer 15-1 sp. z o.o.	Warszawa	subsidiary of Santander Consumer Bank S.A.	subsidiary of Santander Consumer Bank S.A.
16. SC Poland Consumer 16-1 sp. z o.o. ⁶⁾	Warszawa	subsidiary of Santander Consumer Bank S.A.	subsidiary of Santander Consumer Bank S.A.

¹⁾ Details about the merger of BZ WBK Leasing S.A. and BZ WBK Lease S.A. are provided in Note 29.

²⁾ On 18.10.2017, the company's name was changed to BZ WBK F24 SPÓŁKA AKCYJNA with its registered office in Poznań.

³⁾ As at 30.09.2017, Bank Zachodni WBK was a co-owner of BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A., together with Banco Santander S.A. Both owners are members of Santander Group and each holds an equal stake of 50% in the company's share capital. In practice Bank Zachodni WBK exercises control over its subsidiary, BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A., because through it Banco Santander pursues its policy in Poland. Consequently, the company is treated as a subsidiary.

⁴⁾ Details about the controlling stake at the companies PSA Finance Polska sp. z o.o. and indirectly, PSA Consumer Finance Polska sp. z o.o. are provided in Note 30.

⁵⁾ Details about the liquidation of AKB Marketing Services sp. z o.o. in liquidation are provided in Note 29.

⁶⁾ SC Poland Consumer 16-1 sp. z o.o. set up for the purpose of securitisation of a part of the loan portfolio; its shareholder is polish legal entity who has no ties with the Group; the company is controlled by Santander Consumer Bank, in accordance with the control criteria set out in IFRS 10.7.

In thousands of PLN

Associates:

Associates	Registered office	[%] of votes on AGM	
		30.09.2017	31.12.2016
1. POLFUND - Fundusz Poręczeń Kredytowych S.A.	Szczecin	50.00	50.00
2. BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Poznań	49.00	49.00
3. BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poznań	49.00	49.00

2. Basis of preparation of condensed interim consolidated financial statement

In comparison with annual financial statements content of an interim financial report is condensed, therefore it should be read in conjunction with the financial statement of BZ WBK Group for the year 2016.

The consolidated financial statement of BZ WBK Group for the year 2016 is available at the Bank's Zachodni WBK S.A. official website: www.bzwbk.pl.

Statement of compliance

Condensed interim consolidated financial statement of BZ WBK Group for the 9-month period ended 30.09.2017 was prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union and other applicable regulations.

In accordance with Decree of the Ministry of Finance dated 19.02.2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2014 of 28.01.2014, No 133 as amended), the Group is required to publish the financial results for the 9 months ended 30.09.2017 which is deemed to be the current interim financial reporting period.

Accounting policies

Condensed interim consolidated financial statement of BZ WBK Group for the 9-month period ended 30.09.2017 is presented in PLN, rounded to the nearest thousand.

Condensed interim consolidated financial statement of BZ WBK Group for the 9-month period ended 30.09.2017 has been prepared in accordance with the International Financial Reporting Standards adopted for application in the European Union (IFRS). The consolidated financial statement has been prepared using the historical cost convention, except for the financial assets and financial liabilities measured at fair value through profit and loss, including derivatives and available-for-sale financial assets, except for those whose fair value cannot be determined reliably. Other financial assets and financial liabilities (including loans and advances) are recognised at amortised cost using the effective interest rate less impairment or purchase price less impairment.

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

BZ WBK Group has used the same accounting principles as those used in preparation of the Group's consolidated financial statement for 2016, except for the income tax charge, which was calculated in accordance with IAS 34.30c and the new standards described later in the section. In accordance with paragraph 30c of IAS 34 income tax expense is recognised in each interim period based on the best estimate of the annual income tax rate expected by the BZ WBK Group for the full financial year. If the estimate of the annual income tax rate changes, amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period of that financial year.

As at 30.09.2017, FX denominated balance sheet positions were converted into PLN in line with the NBP FX table no. 189/A/NBP/2017 dd. 29.09.2017.

In thousands of PLN

Comparability with results of previous periods

No major changes were introduced in respect of presentation of financial data for comparable periods of time.

Changes in judgments and estimates

Compared with the consolidated financial statement for 2016, in Q3 2017 there were no material changes in BZ WBK Group's accounting estimates or judgments.

New standards and interpretations or changes to existing standards or interpretations which can be applicable to BZ WBK Group and are not yet effective or have neither been implemented earlier

IFRS	Nature of changes	Effective from	Influence on BZ WBK Group
IFRIC 22 Foreign Currency Transactions and Advance Consideration *	IFRIC Interpretation 22 clarify the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency. The Interpretation relates to the situation when the transaction is in foreign currency and the entity pays or receives consideration in advance in a foreign currency before the recognition of the related asset, expense or income.	1 January 2018	The amendment will not have a significant impact on financial statements.
IFRS 9 Financial Instruments	<p>The changes refer to the following areas:</p> <ul style="list-style-type: none"> • Classification and measurement – introduction of three classification categories for debt instruments, i.e. measured at: amortised cost, fair value through other comprehensive income and fair value through profit or loss. Changes were made in the measurement of equity instruments by limiting the possibility of measurement at historical cost; • Expected credit losses – introduction of a new model for recognition of impairment (ECL): impairment charge is required to be measured as lifetime expected credit losses rather than 12-month expected credit losses; • Hedge effectiveness testing and eligibility for hedge accounting – replacement of the precise effectiveness range (80-125%) with a requirement that there is an economic relationship between the hedged item and the hedging instrument and that the hedge ratio is the same as the one used for risk management purposes. Ineffective hedges continue to be taken to a profit and loss account; • Hedged items – new requirements allow appointment of new hedged items in relation to certain economically viable hedging strategies, which, to date, were not eligible under IAS 39; • Hedging instruments – relaxation of requirements pertaining to certain hedging instruments listed in IAS 39. The standard allow recognition of the time value of options purchased and implementing non-derivative financial instruments as hedging instruments; • Recognition of change in the fair value of financial liability arising from changes in the liability's credit risk in other comprehensive income (in principle). 	1 January 2018	IFRS 9 implementation progress is described below.

In thousands of PLN

IFRS 15 - Revenue from Contracts with Customers	<p>Changes relate to the following areas:</p> <ul style="list-style-type: none"> • Transfer of control – recognition of revenue only when the customer gains control over a good or service. The amendment makes the definition of the transfer of control more precise. Introducing regulations allowing to define the legitimacy of recognising the revenue over time or at a point in time; • Variable consideration - the amendment takes into account variable consideration in prices of goods or services arising, for example, as a result of penalties or performance bonus; • Allocation of the transaction price on the basis of an adequate sales price per unit - introduction of the requirement to allocate the payment for goods or services in the case of sale under a single contract; • Licences - introduction of the requirement for entities to define the time for which a licence is transferred and specifying more precisely the revenue calculation in the case of transferring a licence at a point in time or over time; • Time value of money – the transaction price is adjusted for the time value of money. The entity may choose not to account for the time value of money when the interval between transfer of the promised goods or services and payment by the customer is expected to be less than 12 months; • Costs of obtaining a contract - introducing the conditions which determine if the given costs of obtaining a contract are subject to capitalization and can be amortised parallel to revenue recognition; • Disclosures - introduction of a requirement to disclose qualitative and quantitative information relating to judgements and changes in the judgements related with revenue recognition. 	1 January 2018	IFRS 15 implementation progress is described below.
Commentary on IFRS 15 Revenue from Contracts with Customers	<p>The commentary is a source of additional information and guidance re: the key assumptions of IFRS 15, including the identification of unit-specific commitments, the establishment of the unit's role (agent vs. principal) and the mode of recording revenue generated under the licence.</p> <p>Apart from additional guidance, there are exemptions and simplified rules for first time adopters.</p>	1 January 2018	IFRS 15 implementation progress is described below.
IFRS 16 Leases *	<p>The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases. All lease transactions results in the lessee's right to use the assets and the obligation to make a payment. Accordingly, the classification of leases into operating lease and finance lease as per IAS 17 no longer applies under IFRS 16, as the new standard introduces a single model for accounting for leases by the lessee. The lessee will be required to present the following: (a) assets and liabilities in respect of all leases executed for more than 12 months, except where an asset is of low quality; and (b) depreciation charge for the leased asset separately from the interest expense on the lease liability in the statement of profit or loss and other comprehensive income.</p> <p>The principles of accounting for leases by the lessee established in IFRS 16 are largely the same as in IAS 17. As a consequence, the lessee continues to use the classification into operating lease and finance lease and accounts for them accordingly.</p>	1 January 2019	BZ WBK Group has not completed the analysis of changes.
Annual Improvements to IFRS 2014-2016 *	<p>In December 2016, the International Accounting Standards Board published 'Annual Improvements to IFRS Standards 2014-2016 Cycle' which amended 3 standards, i.e. IFRS 12 'Disclosure of Interests in Other Entities', IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 28 'Investments in Associates'.</p> <p>The improvements feature guidelines and amendments re: the scope of applicability, recognition and valuation as well as terminology and editing changes.</p>	1 January 2018 for improvements to IFRS 1 and IAS 28	The amendment will not have a significant impact on financial statements.
Improvements to IAS 40 'Investment Property' *	<p>Improvements to IAS 40 specify the requirements for transfers to or from investment property classification. According to the amended standard, a change in management intention to use the property is not evidence of change in the use of the property. The amendment applies to all changes in use that are introduced after the effective date of the amendment and to all investment properties held at that date.</p>	1 January 2018	The amendment will not have a significant impact on financial statements.

In thousands of PLN

Amendments to IFRS 2: Classification and measurement share-based payment transactions *	Changes relate to the following areas: • Guideliness on fair value measurement of liability due to cash-settled share-based payment transaction; • Guideliness on classification modification from cash-based to equity-settled payment transactions and also • Guideliness on employees tax liabilities recognition relating to share-based payment transactions.	1 January 2018	The amendment will not have a significant impact on financial statements.
Improvements to IFRS 4: Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' *	Improvements to IFRS 4 'Insurance Contracts' address the issue of adopting a new standard, i.e. IFRS 9 'Financial Instruments'. Improvements to IFRS 4 supplement the existing options and are aimed to prevent temporary fluctuations in the insurance industry results arising from the implementation of IFRS 9.	1 January 2018	The amendment will not have a significant impact on financial statements.
Improvements to IFRS 10 and IAS 28 *	Improvements to IFRS 10 and IAS 28 cover sales or contributions of assets between an investor and its associate/joint venture. The improvements eliminate the inconsistencies between IFRS 10 and IAS 28. The accounting treatment hinges on whether the non-monetary assets sold or contributed to an associate/joint venture constitute a business. Should the assets constitute a business, the investor shall recognize the profit or loss in full. Should the assets not constitute a business, the profit or loss shall be recognised only to the extent of unrelated investors' interests in the associate or joint venture. The improvements were published on 11 September 2014.	The International Accounting Standards Board has not established the validity date of the amended regulations.	The amendment will not have a significant impact on financial statements.
IFRS 17 Insurance Contracts*	IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using fair value – instead of historical cost.	1 January 2021	The standard will not have a significant impact on financial statements.
IFRIC 23 Uncertainty over Income Tax Treatments*	Interpretation clarifies how the recognition and measurement requirements of IAS 12 "Income taxes" are applied where there is uncertainty over income tax treatments. An uncertain tax treatment is any tax treatment applied where there is uncertainty over whether that treatment will be accepted by the tax authority. The impact of the uncertainty should be measured using the method that best predicts the resolution of the uncertainty - either the most likely amount method or the expected value method when measuring an uncertainty.	1 January 2019	The amendment will not have a significant impact on the financial statements.

*New standards and amendments to the existing standards issued by the IASB, but not yet authorized for use in the EU.

IFRS 9 “Financial instruments”

Status

IFRS 9 Financial Instruments applies to financial statements for annual reporting periods beginning on or after 1 January 2018. It supersedes IAS 39 Financial Instruments: Recognition and Measurement. The new standard will affect three areas: classification and measurement of financial instruments, recognition and calculation of impairment and hedge accounting.

In mid 2016, BZ WBK Group launched a project aimed at the implementation of IFRS 9. The project is delivered in liaison with an external consultant and involves BZ WBK Group departments responsible for accounting policy, reporting, management information, taxes, impairment charges for financial instruments, IT systems and operations related to loan sanction and monitoring. The first stage of the project was completed in early 2017. The differences between IAS 39 and IFRS 9 were identified and an action plan was defined to ensure the compliance with the new standard. The second stage was launched at the start of February 2017 and is aimed at implementing changes arising from IFRS 9. In particular, BZ WBK Group's objective is to:

- develop and implement IT solutions
- design new processes related to the test of contractual cash flows, assessment of business model and modification of contractual cash flows
- modify the existing internal regulations (policies, terms of references, processes etc.)
- develop and implement models for calculation of impairment.

BZ WBK Group plans to finalize IFRS 9 implementation in Q4 2017.

In thousands of PLN

Classification and measurement

The categories of financial instruments introduced by IAS 39, specifically held-to-maturity and available-for-sale financial instruments, no longer apply under IFRS 9. Pursuant to the new standard, the classification of financial assets depends on the business model of financial assets management and the nature of contractual cash flows. The financial instruments are classified only into two groups:

- financial assets measured at fair value or
- financial assets measured at amortised cost.

Based on the analysis of contractual cash flows and initially identified business models, BZ WBK Group does not expect significant changes in the classification and measurement of financial assets:

- financial assets classified as 'Loans and Receivables' under IAS 39 will continue to be measured at amortised cost, provided that the requirement for the test of contractual cash flows is met
- debt instruments classified as 'available for sale' will continue to be measured at fair value through other comprehensive income
- available-for-sale non-traded equity instruments measured at purchase price less impairment will be measured at fair value through profit or loss or through other comprehensive income, depending on the nature of the investment
- financial instruments which are currently measured at fair value through profit or loss will continue to be measured this way.

Based on the results of the analyses performed by BZ WBK Group, supported by the outcome of tests of contractual cash flows and assessment of the business model, potential changes in the classification and measurement of financial assets concern the following:

- portfolios of loans with interest rate based on leverage
- financial instruments entitling BZ WBK Group to participate in profits of the issuer and
- equity investments in entities other than subsidiaries, jointly controlled entities or associates, classified as available for sale, which in the majority of cases will be measured at fair value through other comprehensive income from 1 January 2018 onwards.

BZ WBK Group expects that financial liabilities will continue to be measured in accordance with the principles laid down in IAS 39, except for financial liabilities in the case of which an option of measurement at fair value will be selected. In case of election of this option changes in the fair value arising from changes in an entity's credit risk will be taken to other comprehensive income, and once a financial liability is derecognised, the value previously recognised in other comprehensive income will not be taken to the financial result.

Comparative data

As at the release date of this report, BZ WBK Group did not decide whether to apply the limited exemption provided for in IFRS 9 as regards the restatement of comparative data aimed to ensure their full comparability in connection with changes arising from reclassification and remeasurement of financial instruments and impairment.

Hedge accounting

IFRS 9 provides new guidance as to hedge accounting. The purpose is to simplify the existing solutions and better reflect the risk management principles, which in turn will extend the scope of items that can be subject to hedge accounting. An additional analysis required under the standard will provide information about the impact of hedge accounting on financial statements and risk management strategy.

As a result of the analysis of risks and benefits arising from the introduction of hedge accounting solutions contemplated by IFRS 9, BZ WBK Group decided to continue to apply IAS 39 in relation to hedge accounting and hedging relationships.

Impairment of credit exposures

IFRS 9 introduces a new approach to estimating losses related to credit exposures measured at amortised cost. The new approach will be based on expected credit loss instead of the incurred loss model that is currently used under IAS 39.

In accordance with IFRS 9, the recognition of expected credit losses will depend on changes in risk after recognition of the exposure. The standard introduces three main stages for recognising expected credit losses:

- Stage 1 – exposures with no significant increase in risk since initial recognition, i.e. the likelihood of the exposure being downgraded to the impaired portfolio (Stage 3 exposures) has not increased. For such exposures, 12-month expected credit losses will be recognised.

In thousands of PLN

- Stage 2 – exposures with a significant increase in risk since initial recognition, but with no objective evidence of default. For such exposures, lifetime expected credit losses will be recognised.
- Stage 3 – exposures for which the risk of default has materialised. For such exposures, lifetime expected credit losses will be recognised.

One of the key aspects of implementation of IFRS 9 is to work out a definition of a significant increase in credit risk that determines the classification of an exposure into Stage 2. BZ WBK Group is finished the definition of detailed criteria for a significant increase in risk. The definition will use the key conditions laid down in IFRS 9.

Another key feature introduced by IFRS 9 is the approach to the estimation of risk parameters. For the purpose of estimating impairment losses, BZ WBK Group plans to continue using own estimates of risk parameters that are based on internal models, however with the necessary modifications in the context of IFRS 9 requirements (such as estimating the parameters over the life of the exposure or taking into account future macroeconomic conditions). BZ WBK Group has finished working on defining a methodology for model parameters and finalizes developing models compliant with IFRS 9.

BZ WBK Group is currently developing and testing IT solutions for the purpose of implementation of a new method for calculation of impairment in the systems.

Impact of IFRS 9 on financial standing and own funds

As the work related to the implementation of IFRS 9 is still underway and the impact of the implementation of the standard cannot be accurately estimated, BZ WBK Group did not disclose the quantitative impact on the financial performance, however it expects that the introduction of a new impairment model based on the expected credit loss will affect the level of impairment allowances for credit exposures classified into Stage 2 and as effect deterioration of equity ratios.

On 16 June 2017, the meeting of the Economic and Financial Affairs Council (ECOFIN) was held and the Council confirmed its stance on the fast track for approving selected proposals of the CRD V/ CRR 2 package, including proposals regarding IFRS 9, large exposures and creditor hierarchy.

The draft regulation in respect of IFRS 9 impact amortization provides for the following:

- inclusion in the CET1 capital of a portion of the increased expected credit loss provisions for a transitional period of five years, with the added amount progressively decreasing to zero during that period
- calculation of an increase in expected credit loss provisions as a difference between the provisions calculated in accordance with IFRS 9 as at 1 January 2018 and the provisions calculated under IAS 39 as at 31 December 2017
- application of the following factors in consecutive years of the transitional period: 95%, 85%, 70%, 50%, 25%.
- Furthermore, if the level of provisions as at the reporting day is more than 20% higher than the level of provisions as at 1 January 2018, BZ WBK Group will have the right to additionally increase its CET1 capital by an amount equal to a difference in impairment charges calculated in accordance with both IFRS.

BZ WBK Group anticipates that introduction of this regulation will reduce negative impact of IFRS 9 introduction for capital adequacy assessment.

IFRS 15 Revenue from Contracts with Customers

Description of changes

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

The standard will apply to all contracts that generate revenue with the exception of contracts that are within the scope of separate standard. The core principle is that an entity will recognise revenue as goods or services are transferred to customers, in an amount that reflects the transaction price. Any separately identifiable goods or services sold as a bundle should be recognised on a standalone basis, and any discounts or rebates applicable to the transaction price should be, in principle, allocated to individual elements of the bundle. Where a contract provides for variable consideration, any such amounts will be included in the revenue only if it is highly probable that their inclusion will not result in a revenue reversal in the future following the remeasurement. Furthermore, costs incurred to obtain and secure a contract with a customer should be capitalised and amortised over time for as long as the benefits from the contract are consumed.

BZ WBK Group will apply IFRS 15 starting from 1 January 2018.

In thousands of PLN

Status

In Q2 2017, BZ WBK Group launched a project aimed at analysing the impact of implementing a five-step model of revenue recognition. As a result of the analysis, a report was prepared by BZ WBK Group experts, indicating the types of revenue which, in principle, should be accounted for in accordance with IFRS 15:

- revenue from advisory services
- revenue from the sale of fixed assets used for operational activities or repossessed
- credit card fees
- loyalty programmes
- success fee - i.e. contracts which do not guarantee the remuneration for BZ WBK Group or provide for the minimum level of remuneration during the term of the contract until a certain condition is met (e.g. a transaction is finalised), entitling BZ WBK Group to receive significant remuneration to compensate for the effort made by BZ WBK Group in a long term.
- revenue from asset management and
- costs of contracts with customers.

BZ WBK Group is currently finalizing an to check if the existing revenue recognition method will be modified following the implementation of IFRS 15, taking into account the applicable contractual provisions.

Impact of IFRS 15 on the financial standing and own funds

In view of the impact analysis that is currently underway and no final conclusions made as to the correctness of BZ WBK Group's findings, the quantitative impact on the financial performance has not been disclosed yet. However, BZ WBK Group does not expect that the standard will have significant impact on a true and fair view of the financial position and the financial result of BZ WBK Group because it offers financial instruments like credits, loans and leasing, from which revenue is recognised using an effective interest rate.

Standards and interpretations or changes to existing standards or interpretations which are in force since 1st January 2017, but not yet authorized for use in the EU

IFRS	Nature of changes	Effective from	Influence on BZ WBK Group
Amendments to IAS 7 Statement of Cash Flows *	Amendments to IAS 7 introduce the requirements to disclose changes in liabilities arising from financing activities in statement of cash flows, including both changes arising from cash flows and non-cash changes. To fulfill the requirement the standard requires a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities in cash flow statement.	1 January 2017	The amendments does not have any material impact on the financial statements.
Amendment to IAS 12 Income Taxes *	Amendments to IAS 12 clarify the requirements on recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value. The amendments introduce the guidance on the identification of deductible temporary differences. Especially the standard confirms that decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference. This applies irrespective of whether the debt instrument's holder expects to use it or sale it.	1 January 2017	The amendments does not have any material impact on the financial statements.
Annual Improvements to IFRS 2014-2016*	In December 2016, the International Accounting Standards Board published 'Annual Improvements to IFRS Standards 2014-2016 Cycle' which amended 3 standards, i.e. IFRS 12 'Disclosure of Interests in Other Entities', IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 28 'Investments in Associates'. The improvements feature guidelines and amendments re: the scope of applicability, recognition and valuation as well as terminology and editing changes.	1 January 2017 for improvements to IFRS 12	The amendment did not have a significant impact on financial statements.

*New standards and amendments to the existing standards issued by the IASB, but not yet authorized for use in the EU.

In thousands of PLN

3. Operating segments reporting

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

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

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

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

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

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

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

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

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

In 2017 introduced the following changes:

- customer resegmentation between business segments; Once a year, BZWBK Group carry out the resegmentation / migration of customers between operating segments which results from the fact that customer meet the criteria of assignment for different operating segment than before. This change is intended to provide services at the highest level of quality and tailored to individual needs or the scale of customer operations;
- Transfer of the largest corporate clients from the Business and Corporate Banking segment to the Global Corporate Banking Segment;
- Transfer of results and volumes of subsidiary BZ WBK Inwestycje Sp. z.o.o from the Global Corporate Banking segment to ALM and Central Operations segment;
- Change the methodology of Bank Guarantee Fund costs split by operating segments.

Comparable data are adjusted accordingly.

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

The total result achieved by Bank Zachodni WBK SA from the transaction of acquisition of Visa Europe Limited by Visa Inc. in 2016 (described in note 7) is presented in ALM and Center Segment, whereas the result from described above transaction in Santander Consumer Bank is presented in Santander Consumer Segment.

In thousands of PLN

Retail Banking

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

Business & Corporate Banking

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

Global Corporate Banking

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

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

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

ALM and Centre

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

Santander Consumer

Santander Consumer business segment includes activities of the Santander Consumer Group, which was consolidated to the BZ WBK Group from 01.07.2014.

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

In thousands of PLN

Consolidated income statement (by operating segments)

01.01.2017-30.09.2017	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Global Corporate Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	1 838 990	392 621	148 640	520 298	996 900	3 897 449
incl. internal transactions	(80 103)	(39 926)	747	118 804	478	-
Net fee and commission income	1 033 866	193 141	173 127	(4 994)	102 600	1 497 740
incl. internal transactions	71 784	34 383	(113 977)	9 137	(1 327)	-
Other income	58 290	41 084	58 018	87 852	36 290	281 534
incl. internal transactions	6 330	26 976	(30 082)	(28 884)	25 660	-
Dividend income	-	-	545	76 075	16	76 636
Operating costs	(1 433 152)	(214 359)	(146 170)	(75 090)	(399 201)	(2 267 972)
incl. internal transactions	(6 053)	(1 069)	(5)	9 718	(2 591)	-
Depreciation/amortisation	(159 432)	(17 098)	(13 987)	(19 622)	(24 137)	(234 276)
Impairment losses on loans and advances	(339 028)	(62 695)	(2 744)	(4 198)	(68 866)	(477 531)
Share in net profits (loss) of entities accounted for by the equity method	-	-	-	38 546	-	38 546
Tax on financial institutions	-	-	-	(290 341)	(26 483)	(316 824)
Profit before tax	999 534	332 694	217 429	328 526	617 119	2 495 302
Corporate income tax						(601 159)
Consolidated profit for the period						1 894 143
of which:						
attributable to owners of BZ WBK S.A.						1 664 063
attributable to non-controlling interests						230 080

* Includes individual customers and small and medium companies

In thousands of PLN

01.07.2017-30.09.2017	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Global Corporate Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	632 996	128 814	55 310	179 931	343 915	1 340 966
incl. internal transactions	(29 356)	(15 126)	184	44 205	93	-
Net fee and commission income	350 206	75 725	61 086	(83)	39 971	526 905
incl. internal transactions	26 819	13 783	(43 893)	3 738	(447)	-
Other income	22 554	10 172	27 618	11 993	10 863	83 200
incl. internal transactions	3 459	9 338	(11 135)	(10 603)	8 941	-
Dividend income	-	-	384	321	7	712
Operating costs	(492 074)	(69 224)	(47 570)	8 647	(125 306)	(725 527)
incl. internal transactions	(2 034)	(336)	(2)	3 265	(893)	-
Depreciation/amortisation	(56 557)	(6 181)	(3 851)	(6 632)	(8 946)	(82 167)
Impairment losses on loans and advances	(146 593)	(26 953)	(2 278)	(2 837)	(52 992)	(231 653)
Share in net profits (loss) of entities accounted for by the equity method	-	-	-	14 734	-	14 734
Tax on financial institutions	-	-	-	(96 955)	(8 937)	(105 892)
Profit before tax	310 532	112 353	90 699	109 119	198 575	821 278
Corporate income tax						(188 610)
Consolidated profit for the period						632 668
of which:						
attributable to owners of BZ WBK S.A.						559 908
attributable to non-controlling interests						72 760

Consolidated statement of financial position (by operating segments)

30.09.2017	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Global Corporate Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Loans and advances to customers	57 597 391	23 169 421	11 583 158	93 562	14 031 897	106 475 429
Investments in associates	-	-	-	868 482	-	868 482
Other assets	6 304 496	1 204 158	2 815 545	28 673 276	4 082 982	43 080 457
Total assets	63 901 887	24 373 579	14 398 703	29 635 320	18 114 879	150 424 368
Deposits from customers	71 394 752	17 223 800	9 762 909	4 641 425	7 999 893	111 022 779
Other liabilities and equity	4 697 125	2 913 985	4 428 109	17 247 385	10 114 985	39 401 589
Total equity and liabilities	76 091 877	20 137 785	14 191 018	21 888 810	18 114 878	150 424 368

* Includes individual customers and small and medium companies

In thousands of PLN

Consolidated income statement (by operating segments)

01.01.2016-30.09.2016	Segment Business					Total
	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Global Corporate Banking	Segment ALM and Centre	Segment Santander Consumer	
Net interest income	1 634 326	413 973	135 007	472 702	839 564	3 495 572
incl. internal transactions	(69 449)	(29 438)	122	95 469	3 296	-
Net fee and commission income	989 718	150 955	156 689	(4 484)	137 905	1 430 783
incl. internal transactions	66 447	23 666	(96 352)	7 565	(1 326)	-
Other income	56 211	66 130	108 237	465 844	26 581	723 003
incl. internal transactions	14 577	36 735	(45 051)	(20 072)	13 811	-
Dividend income	-	-	484	96 040	-	96 524
Operating costs	(1 464 378)	(229 117)	(146 543)	(114 994)	(369 868)	(2 324 900)
incl. internal transactions	(13 993)	(1 287)	(4)	17 023	(1 739)	-
Depreciation/amortisation	(126 294)	(14 258)	(15 188)	(22 487)	(24 283)	(202 510)
Impairment losses on loans and advances	(388 521)	(68 263)	563	56	(109 087)	(565 252)
Share in net profits (loss) of entities accounted for by the equity method	-	-	-	36 139	-	36 139
Tax on financial institutions	-	-	-	(256 492)	(21 849)	(278 341)
Profit before tax	701 062	319 420	239 249	672 324	478 963	2 411 018
Corporate income tax						(536 186)
Consolidated profit for the period						1 874 832
of which:						
attributable to owners of BZ WBK S.A.						1 705 898
attributable to non-controlling interests						168 934

* Includes individual customers and small and medium companies

In thousands of PLN

01.07.2016-30.09.2016	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Global Corporate Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	579 962	141 467	54 307	152 907	289 737	1 218 380
incl. internal transactions	(24 519)	(11 837)	83	36 052	221	-
Net fee and commission income	334 177	51 959	70 932	(843)	30 998	487 223
incl. internal transactions	23 049	7 444	(32 872)	2 823	(444)	-
Other income	18 338	18 747	26 353	29 541	2 674	95 653
incl. internal transactions	4 334	8 048	(7 606)	(13 039)	8 263	-
Dividend income	-	-	426	1 304	-	1 730
Operating costs	(487 989)	(78 348)	(49 153)	(21 526)	(116 758)	(753 774)
incl. internal transactions	(4 944)	(524)	(1)	6 009	(540)	-
Depreciation/amortisation	(43 607)	(5 059)	(5 141)	(7 600)	(6 943)	(68 350)
Impairment losses on loans and advances	(151 923)	(37 995)	5 839	782	(70 822)	(254 119)
Share in net profits (loss) of entities accounted for by the equity method	-	-	-	15 443	-	15 443
Tax on financial institutions	-	-	-	(96 902)	(8 195)	(105 097)
Profit before tax	248 958	90 771	103 563	73 106	120 691	637 089
Corporate income tax						(156 985)
Consolidated profit for the period						480 104
of which:						
attributable to owners of BZ WBK S.A.						425 933
attributable to non-controlling interests						54 171

Consolidated statement of financial position (by operating segments)

31.12.2016	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Global Corporate Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Loans and advances to customers	54 619 128	23 814 352	10 472 147	130 645	14 032 266	103 068 538
Investments in associates	-	-	-	866 691	4 800	871 491
Other assets	5 978 453	1 225 562	3 678 704	31 209 593	4 067 375	46 159 687
Total assets	60 597 581	25 039 914	14 150 851	32 206 929	18 104 441	150 099 716
Deposits from customers	70 895 234	19 119 628	9 405 610	4 874 584	8 227 401	112 522 457
Other liabilities and equity	4 724 836	3 013 479	3 484 623	16 477 281	9 877 040	37 577 259
Total equity and liabilities	75 620 070	22 133 107	12 890 233	21 351 865	18 104 441	150 099 716

* Includes individual customers and small and medium companies

In thousands of PLN

4. Net interest income

	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017	01.07.2016- 30.09.2016	01.01.2016- 30.09.2016
Interest income				
Loans and advances to enterprises	426 511	1 248 741	410 252	1 221 092
Loans and advances to individuals, of which:	920 251	2 661 512	814 496	2 359 421
<i>Home mortgage loans</i>	273 039	786 116	238 755	682 164
Debt securities incl.:	169 278	493 016	158 035	454 995
<i>Investment portfolio available for sale</i>	155 538	466 984	143 098	429 551
<i>Trading portfolio</i>	13 740	26 032	14 937	25 444
Leasing agreements	65 850	190 891	47 103	134 361
Loans and advances to banks	16 367	47 741	15 202	46 810
Public sector	1 445	4 673	1 591	5 298
Reverse repo transactions	9 178	18 353	2 287	4 522
Interest recorded on hedging IRS	54 928	179 651	78 664	242 134
Total	1 663 808	4 844 578	1 527 630	4 468 633
	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017	01.07.2016- 30.09.2016	01.01.2016- 30.09.2016
Interest expenses				
Deposits from individuals	(142 184)	(428 593)	(142 232)	(487 167)
Deposits from enterprises	(85 502)	(258 154)	(96 592)	(284 458)
Repo transactions	(19 250)	(40 757)	(8 848)	(28 203)
Deposits from public sector	(14 428)	(39 967)	(12 811)	(36 483)
Deposits from banks	(10 384)	(34 896)	(9 245)	(28 132)
Subordinated liabilities and issue of securities	(51 094)	(144 762)	(39 522)	(108 618)
Total	(322 842)	(947 129)	(309 250)	(973 061)
Net interest income	1 340 966	3 897 449	1 218 380	3 495 572

In thousands of PLN

5. Net fee and commission income

	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017	01.07.2016- 30.09.2016	01.01.2016- 30.09.2016
Fee and commission income				
eBusiness & payments	175 388	459 391	147 384	426 037
Current accounts and money transfer	83 848	252 727	86 699	250 371
Asset management fees	79 928	223 893	65 052	189 751
Foreign exchange commissions	91 823	254 861	82 944	235 044
Credit commissions	82 910	232 948	67 073	201 940
Insurance commissions	54 544	162 681	60 118	207 415
Brokerage activities	26 344	71 083	20 529	51 984
Credit cards	42 806	124 995	42 464	119 600
Off-balance sheet guarantee commissions	16 345	40 964	23 822	49 473
Finance lease commissions	3 720	11 811	3 549	11 025
Issue arrangement fees	3 951	12 755	9 941	14 181
Distribution fees	1 626	8 524	1 642	4 680
Other commissions	4 224	14 224	2 693	5 608
Total	667 457	1 870 857	613 910	1 767 109
Fee and commission expenses				
eBusiness & payments	(74 777)	(164 133)	(47 678)	(145 578)
Distribution fees	(5 811)	(17 448)	(5 878)	(17 896)
Brokerage activities	(2 616)	(8 527)	(3 098)	(7 579)
Credit cards	(5 523)	(24 069)	(11 187)	(28 111)
Credit commissions paid	(20 120)	(70 524)	(19 691)	(36 957)
Insurance commissions	(7 111)	(12 949)	(9 544)	(28 931)
Finance lease commissions	(6 769)	(19 744)	(6 513)	(18 795)
Asset management fees and other costs	(1 618)	(4 868)	(1 385)	(4 597)
Other	(16 207)	(50 855)	(21 713)	(47 882)
Total	(140 552)	(373 117)	(126 687)	(336 326)
Net fee and commission income	526 905	1 497 740	487 223	1 430 783

6. Net trading income and revaluation

	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017	01.07.2016- 30.09.2016	01.01.2016- 30.09.2016
Net trading income and revaluation				
Derivative instruments and interbank fx transactions	44 648	113 459	50 600	204 628
Other FX related income	9 243	32 238	11 682	20 907
Profit on equity instruments	2 583	6 636	(606)	(4 139)
Profit on debt instruments	(907)	(4 680)	(5 653)	7 486
Total	55 567	147 653	56 023	228 882

Net trading income and revaluation includes the change of the value of derivative instruments in the amount of PLN (8,168) k for 1-3Q 2017, PLN 2,764 k for 3Q 2017 and PLN (5,743) k for 1-3Q 2016, PLN (4,772) k for 3Q 2016.

The amounts included CVA and DVA adjustments in the amount of PLN (10,144) k for 1-3Q 2017, PLN 600 k for 3Q 2017 and PLN (2,630) k for 1-3Q 2016, PLN (2,582) k for 3Q 2016.

In thousands of PLN

7. Gains (losses) from other financial securities

	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017	01.07.2016- 30.09.2016	01.01.2016- 30.09.2016
Gains (losses) from other financial securities				
Profit on sale of equity shares available for sale	1 866	12 641	(207)	317 827
Profit on sale of debt securities available for sale	3 503	18 708	4 159	84 033
Charge due to impairment losses	(461)	(461)	-	(7 533)
Total profit (losses) on financial instruments	4 908	30 888	3 952	394 327
Change in fair value of hedging instruments	10 806	16 493	21 883	4 631
Change in fair value of underlying hedged positions	(11 752)	(15 472)	(18 386)	(3 845)
Total profit (losses) on hedging and hedged instruments	(946)	1 021	3 497	786
Total	3 962	31 909	7 449	395 113

8. Other operating income

	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017	01.07.2016- 30.09.2016	01.01.2016- 30.09.2016
Other operating income				
Income on sale of services	5 170	15 484	4 377	11 696
Reimbursements of BGF charges *	-	433	13 517	38 614
Release of provision for legal cases and other assets	5 764	19 548	2 032	11 994
Settlements of leasing agreements	447	1 990	1 171	3 641
Recovery of other receivables	1 915	4 530	1 474	5 837
Profit on sales or liquidation of fixed assets, intangible assets and assets for disposal	1 299	1 062	1 376	1 725
Received compensations, penalties and fines	204	741	265	660
Other income from legal cases	73	24 235	-	-
Other	8 799	30 192	7 969	24 741
Total	23 671	98 215	32 181	98 908

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

9. Impairment losses on loans and advances

	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017	01.07.2016- 30.09.2016	01.01.2016- 30.09.2016
Impairment losses on loans and advances				
Collective and individual impairment charge	(227 207)	(475 794)	(229 929)	(608 337)
Incurred but not reported losses charge	1 697	(43 690)	(27 321)	(28 233)
Recoveries of loans previously written off	(5 906)	41 050	524	51 913
Off-balance sheet credit related facilities	(237)	903	2 607	19 405
Total	(231 653)	(477 531)	(254 119)	(565 252)

In thousands of PLN

10. Employee costs

Employee costs	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017	01.07.2016- 30.09.2016	01.01.2016- 30.09.2016
Salaries and bonuses	(325 457)	(956 499)	(316 089)	(926 392)
Salary related costs	(53 343)	(167 166)	(51 022)	(161 003)
Staff benefits costs	(8 782)	(27 077)	(8 701)	(25 312)
Professional trainings	(2 827)	(10 329)	(4 289)	(11 784)
Retirement fund, holiday provisions and other employee costs	(625)	(1 869)	(596)	(1 786)
Total	(391 034)	(1 162 940)	(380 697)	(1 126 277)

11. General and administrative expenses

General and administrative expenses	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017	01.07.2016- 30.09.2016	01.01.2016- 30.09.2016
Maintenance and rentals of premises	(81 112)	(255 075)	(92 997)	(277 184)
Marketing and representation	(25 584)	(88 238)	(36 534)	(108 488)
IT systems costs	(54 775)	(163 158)	(51 611)	(148 339)
Bank Guarantee Fund, Polish Financial Supervision Authority and National Depository for Securities	(24 541)	(199 846)	(64 346)	(215 084)
Postal and telecommunication costs	(14 672)	(39 296)	(11 793)	(39 863)
Consulting fees	(13 908)	(38 600)	(20 898)	(43 626)
Cars, transport expenses, carriage of cash	(16 052)	(49 184)	(17 875)	(51 343)
Other external services	(23 224)	(64 276)	(22 330)	(75 907)
Stationery, cards, cheques etc.	(6 904)	(18 841)	(7 452)	(22 146)
Sundry taxes	(7 509)	(23 766)	(8 014)	(25 743)
Data transmission	(3 764)	(11 094)	(4 221)	(12 527)
KIR, SWIFT settlements	(6 667)	(20 454)	(6 789)	(20 444)
Security costs	(7 602)	(21 465)	(7 172)	(19 838)
Costs of repairs	(3 900)	(10 574)	(3 577)	(10 552)
Other	(5 118)	(17 356)	(6 010)	(17 667)
Total	(295 332)	(1 021 223)	(361 619)	(1 088 751)

12. Corporate income tax

Corporate income tax	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017	01.07.2016- 30.09.2016	01.01.2016- 30.09.2016
Current tax charge	(221 854)	(586 600)	(141 818)	(658 493)
Current tax charge in the income statement	(221 854)	(586 769)	(141 818)	(666 878)
Adjustments related to the current tax from previous years	-	169	-	8 385
Deferred tax	33 244	(14 559)	(15 167)	122 307
Deferred tax charge in the income statement	33 244	(14 960)	(15 167)	122 307
Adjustments related to the deferred tax from previous years	-	401	-	-
Total	(188 610)	(601 159)	(156 985)	(536 186)

In thousands of PLN

	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017	01.07.2016- 30.09.2016	01.01.2016- 30.09.2016
Corporate total tax charge information				
Profit before tax	821 278	2 495 303	637 089	2 411 018
Tax rate	19%	19%	19%	19%
Tax calculated at the tax rate	(156 043)	(474 108)	(121 046)	(458 093)
Non-tax-deductible expenses, incl. the fee to the Bank Guarantee Fund	(7 716)	(44 887)	(6 354)	(43 978)
Tax on financial institutions	(20 120)	(60 197)	(19 969)	(52 885)
Sale of receivables	(2 001)	(37 238)	(2 600)	(14 592)
Non-taxable income (dividends)	93	14 423	103	18 114
Non-tax deductible bad debt provisions	(2 776)	(5 912)	(4 131)	(2 981)
Adjustment of prior year tax	-	570	-	8 385
Tax effect of consolidation adjustments	(1 722)	6 737	(1 297)	12 898
Other	1 675	(547)	(1 691)	(3 054)
Total income tax expense	(188 610)	(601 159)	(156 985)	(536 186)

	30.09.2017	31.12.2016
Deferred tax recognised directly in equity		
Relating to equity securities available-for-sale	(129 964)	(122 523)
Relating to debt securities available-for-sale	(36 369)	35 033
Relating to cash flow hedging activity	15 802	25 251
Relating to valuation of defined benefit plans	(1 912)	(1 913)
Total	(152 443)	(64 152)

13. Cash and balances with central banks

	30.09.2017	31.12.2016
Cash and balances with central banks		
Cash	2 130 444	2 134 971
Current accounts in central banks	2 967 111	2 538 686
Term deposits	19 631	102 003
Total	5 117 186	4 775 660

Bank Zachodni WBK and Santander Consumer Bank hold an obligatory reserve in a current account in the National Bank of Poland. The figure is calculated at a fixed percentage of the monthly average balance of the customers' deposits, which in all the covered periods was 3.5%.

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

14. Loans and advances to banks

	30.09.2017	31.12.2016
Loans and advances to banks		
Loans and advances	504 264	795 140
Current accounts	1 674 779	2 718 138
Total	2 179 043	3 513 278

In thousands of PLN

15. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading	30.09.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
Trading derivatives	1 644 383	1 487 405	1 859 361	1 728 931
Interest rate operations	801 463	745 857	970 357	898 100
Transactions on equity instruments	8 268	8 268	12 032	12 032
FX operations	834 652	733 280	876 972	818 799
Debt and equity securities	715 419	-	1 321 624	-
Debt securities	654 351	-	1 312 589	-
Government securities:	652 584	-	612 233	-
- bonds	652 584	-	612 233	-
Central Bank securities:	-	-	699 883	-
- bills	-	-	699 883	-
Commercial securities:	1 767	-	473	-
- bonds	1 767	-	473	-
Equity securities	61 068	-	9 035	-
Short sale	-	-	-	80 129
Total financial assets/liabilities	2 359 802	1 487 405	3 180 985	1 809 060

Financial assets and liabilities held for trading - trading derivatives include the change in the value of counterparty risk in the amount of PLN 1 666 k as at 30.09.2017 and PLN 9,525 k as at 31.12.2016.

16. Loans and advances to customers

Loans and advances to customers	30.09.2017	31.12.2016
Loans and advances to enterprises	46 798 848	45 179 803
Loans and advances to individuals, of which:	57 516 933	56 291 404
<i>Home mortgage loans</i>	<i>37 462 870</i>	<i>37 008 380</i>
Finance lease receivables	6 626 082	6 098 499
Loans and advances to public sector	169 182	195 900
Other	265 450	181 813
Gross receivables	111 376 495	107 947 419
Allowance for impairment	(4 901 066)	(4 878 881)
Total	106 475 429	103 068 538

Movements on impairment losses on loans and advances to customers	30.09.2017	31.12.2016
Individual and collective impairment		
As at the beginning of the period	(4 187 798)	(4 471 467)
Individual and collective impairment acquired in a business combination	-	(11 548)
Charge/write back of current period	(475 795)	(828 170)
Write off/Sale of receivables	482 248	1 110 443
Transfer	(12 978)	26 631
F/X differences	15 626	(13 687)
Balance at the end of the period	(4 178 697)	(4 187 798)
IBNR		
As at the beginning of the period	(691 083)	(659 596)
IBNR acquired in a business combination	-	(1 947)
Charge/write back of current period	(43 691)	(27 015)
Sale of receivables	3 246	3 182
Transfer	920	558
F/X differences	8 239	(6 265)
Balance at the end of the period	(722 369)	(691 083)
Allowance for impairment	(4 901 066)	(4 878 881)

In thousands of PLN

17. Financial assets available for sale

Financial assets available for sale	30.09.2017	31.12.2016
Available for sale investments - measured at fair value		
Debt securities	26 672 146	28 423 828
Government securities:	23 270 608	23 429 089
- bonds	23 270 608	23 429 089
Central Bank securities:	1 239 118	2 849 694
- bills	1 239 118	2 849 694
Other securities:	2 162 420	2 145 045
-bonds	2 162 420	2 145 045
Equity securities	914 701	884 050
- listed	22 093	34 473
- unlisted	892 608	849 577
Total	27 586 847	29 307 878

18. Investments in associates

Balance sheet value of associates	30.09.2017	31.12.2016
Polfund - Fundusz Poręczeń Kredytowych S.A.	43 518	43 216
BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A.	824 964	828 275
Total	868 482	871 491

Movements on investments in associates	01.01.2017- 30.09.2017	01.01.2016- 31.12.2016
Balance as at 1 January	871 491	831 142
Share of profits/(losses)	38 546	55 439
Dividends	(44 861)	(10 827)
Other	3 306	(4 263)
Balance at the end of the period	868 482	871 491

19. Deposits from banks

Deposits from banks	30.09.2017	31.12.2016
Term deposits	83 774	98 531
Loans from other banks	2 003 051	1 945 101
Current accounts	643 656	517 649
Total	2 730 481	2 561 281

In thousands of PLN

20. Deposits from customers

Deposits from customers	30.09.2017	31.12.2016
Deposits from individuals	64 467 644	63 547 942
Term deposits	22 826 976	23 711 846
Current accounts	41 468 506	39 650 731
Other	172 162	185 365
Deposits from enterprises	41 377 787	45 709 065
Term deposits	19 519 392	22 608 733
Current accounts	17 380 088	18 464 132
Loans	3 723 683	4 075 897
Other	754 624	560 303
Deposits from public sector	5 177 348	3 265 450
Term deposits	3 006 372	1 504 136
Current accounts	2 166 942	1 747 709
Other	4 034	13 605
Total	111 022 779	112 522 457

21. Subordinated liabilities

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

Movements in subordinated liabilities	30.09.2017	30.09.2016
As at the beginning of the period	440 457	526 634
Increase (due to):	538 077	16 341
- interest on subordinated loan	20 853	13 480
- FX differences	-	2 861
- reclassification *	517 224	-
Decrease (due to):	(27 480)	(12 999)
- interest repayment	(17 166)	(12 999)
- FX differences	(10 314)	-
Subordinated liabilities - as at the end of the period	951 054	529 976
Short-term	6 403	102 497
Long-term (over 1 year)	944 651	427 479

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

22. Debt securities in issue

Issuance of debt securities in 2017	Nominal value	Currency	Redemption date
Series E bank securities	250 000	PLN	17.10.2017
Series F bank securities	750 000	PLN	19.02.2018
SCB00038	300 000	PLN	09.08.2021
Issuance of subordinated debt (Green bonds IFC)	137 100	EUR	22.05.2027

In thousands of PLN

Debt securities in issue	Nominal value	Currency	Redemption date	31.12.2016
Series C bank securities	100 000	PLN	17.02.2017	
Series D	185 000	PLN	26.02.2017	
Series B	475 000	PLN	17.07.2017	
SCB00006	100 000	PLN	07.08.2017	
SCB00008	110 000	PLN	30.08.2017	
SCB00010	20 000	PLN	30.08.2017	
SCB00012	215 000	PLN	04.10.2017	
SCB00019	220 000	PLN	30.10.2017	
SCB00022	100 000	PLN	16.02.2018	
SCB00031	40 000	PLN	23.02.2018	
SCB00017	50 000	PLN	18.06.2018	
Series C	485 000	PLN	25.06.2018	
SCB00018	170 000	PLN	12.08.2019	
SCB00032	20 000	PLN	26.08.2019	
SCB00037	40 000	PLN	02.12.2019	
SCB00033	50 000	PLN	26.02.2020	
SCB00034	140 000	PLN	05.05.2020	
SCB00035	82 000	PLN	29.05.2020	
SCB00036	100 000	PLN	10.08.2020	
Securitized bonds Float sale	1 051 125	PLN	19.08.2025	
Securitized bonds Float sale	1 225 000	PLN	16.09.2026	
Series E	120 000	EUR	03.12.2026	
Debt securities in issue				
- as at the end of the period				5 529 187

Movements in debt securities in issue	30.09.2017	30.09.2016
As at the beginning of the period	5 529 187	4 320 891
Increase (due to):	2 427 117	2 062 494
- debt securities in issue	2 288 788	1 967 000
- interest on debt securities in issue	122 099	95 494
- FX differences	16 230	-
Decrease (due to):	(2 060 829)	(1 148 816)
- debt securities redemption	(1 410 000)	(1 059 010)
- reclassification*	(517 224)	-
- FX differences	(13 656)	-
- interest repayment	(119 949)	(89 806)
As at the end of the period	5 895 475	5 234 569

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

23. Provisions

Provisions	30.09.2017	31.12.2016
Provisions for off-balance sheet credit facilities	49 595	50 746
Provisions for legal claims	103 772	74 396
Provisions for restructuring	7 388	4 986
Total	160 755	130 128

In thousands of PLN

Change in provisions 30.09.2017	Provisions for off balance sheet credit facilities			Total
	Provisions for legal claims	Provisions for restructuring	Provisions for off balance sheet credit facilities	
As at the beginning of the period	74 396	50 746	4 986	130 128
Provision charge	44 817	56 439	5 199	106 455
Utilization	(11 773)	(247)	-	(12 020)
Write back	(3 668)	(57 343)	(2 797)	(63 808)
Other changes	-	-	-	-
Balance at the end of the period	103 772	49 595	7 388	160 755
Short-term	103 772	41 818	7 388	152 978
Long-term	-	7 777	-	7 777

Change in provisions 30.09.2016	Provisions for off balance sheet credit facilities			Total
	Provisions for legal claims	Provisions for restructuring	Provisions for off balance sheet credit facilities	
As at the beginning of the period	48 582	75 340	8 648	132 570
Provision charge	76 673	75 336	34	152 043
Utilization	(66 118)	550	-	(65 568)
Write back	(849)	(94 740)	(3 294)	(98 883)
Other changes	-	-	(38)	(38)
Balance at the end of the period	58 288	56 486	5 350	120 124
Short-term	58 288	46 252	5 350	109 890
Long-term	-	10 234	-	10 234

24. Other liabilities

Other liabilities	30.09.2017	31.12.2016
Settlements of stock exchange transactions	37 373	25 314
Interbank and interbranch settlements	466 568	585 606
Employee provisions	337 170	375 959
Other provisions	3 300	3 300
Sundry creditors	741 491	512 010
Other deferred and suspended income	246 512	250 059
Public and law settlements	89 497	86 298
Accrued liabilities	531 036	436 249
Finance lease related settlements	68 140	72 901
Other	1 801	866
Total	2 522 888	2 348 562
of which financial liabilities *	2 185 078	2 011 339

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

Change in provisions 30.09.2017	Employee provisions		Other provisions	Total
	Provisions for retirement allowances	of which: Provisions for retirement allowances		
As at the beginning of the period	375 959	60 397	3 300	379 259
Provision charge	210 550	3 814	-	210 550
Utilization	(210 344)	-	-	(210 344)
Write back	(38 918)	-	-	(38 918)
Other changes	(77)	-	-	(77)
Balance at the end of the period	337 170	64 211	3 300	340 470
Short-term	272 959	-	3 300	276 259
Long-term	64 211	64 211	-	64 211

In thousands of PLN

Employee provisions				
Change in provisions 30.09.2016	<i>of which:</i> <i>Provisions for retirement allowances</i>		Other provisions	Total
	380 724	63 209		
As at the beginning of the period	380 724	63 209	3 306	384 030
Provision charge	249 182	3 534	-	249 182
Utilization	(244 847)	-	(6)	(244 853)
Write back	(44 267)	-	-	(44 267)
Other changes	260	-	-	260
Balance at the end of the period	341 052	66 743	3 300	344 352
Short-term	274 309	-	3 300	277 609
Long-term	66 743	66 743	-	66 743

25. Fair value

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

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

Assets	30.09.2017		31.12.2016	
	Book Value	Fair Value	Book Value	Fair Value
Cash and balances with central banks	5 117 186	5 117 186	4 775 660	4 775 660
Loans and advances to banks	2 179 043	2 179 043	3 513 278	3 513 278
Financial assets held for trading	2 359 802	2 359 802	3 180 985	3 180 985
Hedging derivatives	115 143	115 143	67 645	67 645
Loans and advances to customers	106 475 429	107 027 863	103 068 538	102 882 533
Financial assets available for sale	27 586 847	27 586 847	29 307 878	29 307 878
Investments in associates	868 482	868 482	871 491	871 491
Liabilities				
Deposits from banks	2 730 481	2 730 481	2 561 281	2 561 281
Hedging derivatives	992 306	992 306	2 023 344	2 023 344
Financial liabilities held for trading	1 487 405	1 487 405	1 809 060	1 809 060
Subordinated liabilities	951 054	954 754	440 457	564 402
Deposits from customers	111 022 779	111 036 465	112 522 457	112 548 047

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

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

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

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

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

In thousands of PLN

Financial assets not carried at fair value: The Group does not use fair valuation for equity securities of unlisted companies for which the fair value cannot be reliably established. In the statement of financial position, equity instruments are presented at cost less impairment. Debt instruments are measured at amortised cost.

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

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

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

As at 30.09.2017 and in the comparable periods the Group made the following classification of its financial instruments measured at fair value in the statement of financial position:

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

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

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

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

Valuation of major capital investments classified to Level III:

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

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

In June 2017, BZ WBK Group transferred variable rate State Treasury bonds from level II to level I as there are currently measured using the prices quoted in the active market.

As at 30.09.2017 and in the comparable periods the Group classified its financial instruments to the following fair value levels:

30.09.2017	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	715 051	1 644 383	368	2 359 802
Hedging derivatives	-	115 143	-	115 143
Financial assets available for sale - debt securities	26 637 679	-	34 466	26 672 145
Financial assets available for sale- equity securities	22 094	-	892 608	914 702
Total	27 374 824	1 759 526	927 442	30 061 792
Financial liabilities				
Financial liabilities held for trading	-	1 487 405	-	1 487 405
Hedging derivatives	-	992 306	-	992 306
Total	-	2 479 711	-	2 479 711

In thousands of PLN

31.12.2016	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	282 769	2 897 965	251	3 180 985
Hedging derivatives	-	67 645	-	67 645
Financial assets available for sale - debt securities	16 025 497	12 360 090	38 240	28 423 827
Financial assets available for sale- equity securities	34 473	-	849 578	884 051
Total	16 342 739	15 325 700	888 069	32 556 508
Financial liabilities				
Financial liabilities held for trading	80 129	1 728 931	-	1 809 060
Hedging derivatives	-	2 023 344	-	2 023 344
Total	80 129	3 752 275	-	3 832 404

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

Level III	Financial assets			Financial liabilities
30.09.2017	Financial assets held for trading	Financial assets available for sale - debt securities	Financial assets available for sale - equity securities	Financial liabilities held for trading
Beginning of the period	251	38 240	849 578	-
Profits or losses	(18)	-	42 094	-
<i>recognised in income statement</i>	(18)	-	-	-
<i>recognised in equity</i>	-	-	42 094	-
Purchase	882	-	936	-
Sale	(747)	(3 774)	-	-
Other	-	-	-	-
At the period end	368	34 466	892 608	-

Level III	Financial assets			Financial liabilities
31.12.2016	Financial assets held for trading	Financial assets available for sale - debt securities	Financial assets available for sale - equity securities	Financial liabilities held for trading
Beginning of the period	1 839	-	1 115 212	-
Profits or losses	81	-	3 920	-
<i>recognised in income statement</i>	81	-	63 651	-
<i>recognised in equity</i>	-	-	(59 731)	-
Purchase	340	-	9 900	-
Sale	(2 009)	-	(279 454)	-
Other	-	38 240	-	-
At the period end	251	38 240	849 578	-

26. Contingent liabilities

Significant court proceedings

As at 30.09.2017 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 1,028,418 k, which is ca 4.54% of the Group's equity. This amount includes PLN 737,719 k claimed by the Group, PLN 287,758 k in claims against the Group and PLN 2,941 k of the Group's receivables due to bankruptcy

In thousands of PLN

or arrangement cases. In Q3 2017, the amounts claimed by the Group increased significantly from PLN 574,580 k to PLN 737,719 k mainly on account of two actions brought by the bank for the total amount of PLN 101,036 k.

As at 30.09.2017 the amount of significant court proceedings which had been completed amounted to PLN 397,569 k.

As at 30.09.2017, the value of provisions for legal claims was PLN 103,772 k, including for significant cases against the Bank was PLN 44,070 k. In 8 cases against the Bank, where the claim value was high, a provision of PLN 37,582 k was raised.

The Bank raises provisions for legal risk where an internal risk assessment for a particular case indicates a possible outflow of cash. Provisions for cases disputed in court are presented in Note 23.

As at 31.12.2016 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 780,750 k, which is ca 3.71% of the Group's equity. This amount includes PLN 518,256 k claimed by the Group, PLN 221,634 k in claims against the Group and PLN 40,860 k of the Group's receivables due to bankruptcy or arrangement cases. In 2016, there was a significant year-on-year increase in the amount claimed by the Group (from PLN 256,443 k to PLN 518,256 k) which results from the abrogation of the laws pertaining to the banking writs of execution and the need to refer to the court any unpaid receivables of the bank under ordinary proceedings or proceedings by writ of payment.

As at 31.12.2016 the amount of significant court proceedings which had been completed amounted to PLN 451,697 k.

As at 31.12.2016, the value of provisions for legal claims was PLN 74,396 k, including for significant cases against the Bank was PLN 37,639 k. In 8 cases against the Bank, where the claim value was high, a provision of PLN 34,778 k was raised.

Off-balance sheet liabilities

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

Contingent liabilities - sanctioned	30.09.2017	31.12.2016
Liabilities sanctioned		
- financial	24 158 205	23 243 064
- credit lines	19 740 054	19 134 360
- credit cards debits	3 689 689	3 419 031
- import letters of credit	620 391	655 624
- term deposits with future commencement term	108 071	34 049
- guarantees	4 508 690	4 182 758
Allowance for impairment	(49 595)	(50 746)
Total	28 617 300	27 375 076

27. Shareholders with min. 5% voting power

According to the information held by the Bank's Management Board, the shareholder with a min. 5% of the total number of votes at the Bank Zachodni WBK General Meeting as at the publication date of the condensed interim consolidated report for Q3 2017 /26.10.2017/ is Banco Santander S.A.

Shareholder	Number of shares held		% in the share capital		Number of votes at AGM		Voting power at AGM	
	26.10.2017	28.07.2017	26.10.2017	28.07.2017	26.10.2017	28.07.2017	26.10.2017	28.07.2017
Banco Santander S.A.	68 880 774	68 880 774	69,34%	69,41%	68 880 774	68 880 774	69,34%	69,41%
Nationale Nederlanden OFE*	-	5 110 586	-	5,15%	-	5 110 586	-	5,15%
Other	30 452 707	25 243 174	30,66%	25,44%	30 452 707	25 243 174	30,66%	25,44%
Total	99 333 481	99 234 534	100,00%	100,00%	99 333 481	99 234 534	100,00%	100,00%

*Nationale Nederlanden OFE as at 26.10.2017 have below 5% voting power and are included in position "Other".

In thousands of PLN

28. Related parties

Transactions with associates	30.09.2017	31.12.2016
Assets	84	70
Other assets	84	70
Liabilities	146 450	78 706
Deposits from customers	113 139	78 414
Sell-buy-back transactions	33 072	-
Other liabilities	239	292

Transactions with associates	01.01.2017- 30.09.2017	01.01.2016- 30.09.2016
Income	9 481	15 009
Fee and commission income	9 481	15 009
Expenses	4 006	9 117
Interest expense	1 236	1 019
Fee and commission expense	2 049	2 324
Operating expenses incl.:	721	5 774
<i>General and administrative expenses</i>	721	5 774

Transactions with Santander Group	with the parent company		with other entities	
	30.09.2017	31.12.2016	30.09.2017	31.12.2016
Assets	507 493	981 961	935	3 674
Loans and advances to banks, incl.:	223 326	594 042	935	274
<i>loans and advances</i>	-	353 911	-	-
<i>current accounts</i>	223 326	240 131	935	274
Financial assets held for trading	283 472	387 727	-	3 371
Hedging derivatives	546	-	-	-
Other assets	149	192	-	29
LIABILITIES	403 666	633 941	70 484	262 160
Deposits from banks incl.:	82 482	271 312	9 066	174 617
<i>current accounts</i>	82 482	271 312	9 066	3 683
<i>loans from other banks</i>	-	-	-	170 934
Hedging derivatives	9 673	54 503	-	-
Financial liabilities held for trading	311 511	308 126	160	7 365
Deposits from customers	-	-	46 919	71 079
Other liabilities	-	-	14 339	9 099
Contingent liabilities	-	10 706	-	-
Sanctioned:	-	10 706	-	-
- <i>financial</i>	-	10 706	-	-

Transactions with Santander Group	with the parent company		with other entities	
	01.01.2017- 30.09.2017	01.01.2016- 30.09.2016	01.01.2017- 30.09.2017	01.01.2016- 30.09.2016
Income	11 515	11 905	303	167
Interest income	8 790	10 549	87	27
Fee and commission income	2 725	1 356	199	140
Other operating income	-	-	17	-
Expenses	94 441	99 501	61 816	19 540
Interest expense	671	180	2 222	976
Fee and commission expense	795	843	171	166
Net trading income and revaluation	92 975	98 478	41 815	3 118
Operating expenses incl.:	-	-	17 608	15 280
<i>Bank's staff, operating expenses and management costs</i>	-	-	17 600	15 280
<i>Other operating expenses</i>	-	-	8	-

In thousands of PLN

29. Acquisitions and disposals of investments in subsidiaries and associates

Acquisitions and disposals of investments in subsidiaries and associates in 1-3Q 2017

Liquidation of AKB Marketing Services sp. z o.o. in liquidation

On 28.03.2017, AKB Marketing Services sp. z o.o. in liquidation, a subsidiary of Santander Consumer Bank S.A., was liquidated. The subsidiary's assets and liabilities were finally accounted for. Profit on liquidation of PLN 3,757 k was presented in the consolidated income statement under 'Net gains/(losses) on subordinated entities'.

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

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

On 28.02.2017, BZ WBK Leasing S.A. and BZ WBK Lease S.A. merged.

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

30. Controlling stake at the companies PSA Finance Polska sp. z o.o. and indirectly, PSA Consumer Finance Polska sp. z o.o.

Description of the transaction

On 30.09.2016, Santander Consumer Bank (SCB), a subsidiary of Bank Zachodni WBK, and Banque PSA Finance entered into an agreement establishing strategic cooperation with regard to financing in Poland the vehicles manufactured by PSA Peugeot Citroen (PSA), financing the working capital requirements of the Polish PSA network and joint distribution of financial and banking products to the Polish customers of PSA.

Under the above agreement, as of 1 October 2016, Santander Consumer Bank took over control over PSA Finance Polska sp. z o.o. (PSA Finance Polska) and indirectly over PSA Consumer Finance Polska sp. z o.o. (PSA Consumer Finance Polska).

The change of control took place as a result of purchase (for a final price of PLN 58,849,775) of 50% shares in PSA Finance Polska and indirectly in PSA Consumer Finance Polska, representing 50% of total votes at the companies' General Meeting. The fair value of the price paid is 50% of the companies' fair value determined on the basis of the reference carrying amount.

Santander Consumer Bank recognises PSA Finance Polska and PSA Consumer Finance Polska as subsidiaries due to the fact that it has control over their key areas which influence the companies' financial results (notably the risk and funding areas). As a result, Santander Consumer Bank is a shareholder which is exposed to a higher risk and can derive greater benefits due to the consequences of the decisions relating to the financial activities of the two companies.

Cancellation of shares in PSA Finance Polska

On 5 April 2017, an agreement was signed whereby Santander Consumer Bank sold 10% of its shares in PSA Finance Polska to the latter company for the purpose of their cancellation, which took place on the basis of a resolution of the General Meeting of Shareholders of PSA Finance Polska. The resolution provided for reduction of the company's share capital by PLN 30,000k and a voluntary cancellation of the company's shares PLN 12,266k. The initial purchase price and the price paid for the shares were adjusted by the value of the above cancellation.

The Management Board of PSA Finance Polska acquired own shares, with the intention of their cancellation, from both shareholders in equal proportions, as a result of which the company's ownership structure remained the same.

Assets and liabilities recognised at the merger date

As at the date of publication of the interim condensed consolidated financial statements of Bank Zachodni WBK Group for the period ended 30 September 2017, a final settlement was made of the acquisition of control over PSA Finance Polska and PSA Consumer Finance Polska.

The table below presents the fair value of assets and liabilities acquired by Santander Consumer Bank.

In thousands of PLN

	PSA Finance Polska	PSA Consumer Finance Polska
as at 30.09.2017		
ASSETS		
Cash and balances with central bank	1	5
Loans and advances to banks	317	33
Loans and advances to customers	735 482	141
Intangible assets	66	3
Property, plant and equipment	2 027	-
Net deferred tax assets	35 386	1
Other assets	11 828	13
Total assets	785 107	196
LIABILITIES		
Deposits from banks	(476 864)	-
Deposits from customers	(96 731)	-
Current income tax liabilities	(6 060)	-
Other liabilities	(87 948)	-
Total liabilities	(667 603)	-
Fair value of identifiable net assets	117 504	196

No intangible fixed assets or contingent liabilities that would meet the criteria of being recognised as balance sheet assets were identified in the assets and liabilities acquired.

Non-controlling interests

As a result of the take-over of control by Bank Zachodni WBK, non-controlling interests were recognised, representing 70% of the share capital and the number of votes at the General Meeting of PSA Finance Polska and indirectly PSA Consumer Finance Polska. They result from the recognition of non-controlling shares both at the level of the acquired companies, and at the level of the shareholders of Santander Consumer Bank. The carrying amount of the shares was PLN 82,390k using the fair value method.

The goodwill arising on acquisition represents the excess of the value of non-controlling shares (70%) and the payment made over the book value of the identified net assets, determined as at the date of final settlement of the purchase price.

Goodwill calculation

	as at	30.09.2017
Goodwill		
Total consideration		58 850
Non-controlling interests		82 390
Less: fair value of identifiable net assets		(117 700)
Total		23 540

The goodwill arising as at the merger date results from the possibility of achieving additional benefits from the expected synergies and an increase in revenues and market share. These benefits were not recognised separately from the goodwill as they did not meet the criteria for recognition as intangible assets.

The goodwill arising on acquisition is not expected to be treated as tax deductible.

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

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

In thousands of PLN

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

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

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

Details about the fair value hierarchy are presented in Note 25.

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

In the reporting period no such changes were made.

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

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

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

- Liquidation of AKB Marketing Services sp. z o.o. in liquidation (details in Note 29),
- Controlling stake at the companies PSA Finance Polska sp. z o.o. and indirectly, PSA Consumer Finance Polska sp. z o.o. (details in Note 30).

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

As at 30.09.2017 and 31.12.2016 Bank Zachodni WBK and its subsidiaries had not issued any guarantees to one business unit or a subsidiary totalling a minimum of 10% of the issuer's equity.

In thousands of PLN

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

As at 30.09.2017 and 31.12.2016 either Bank Zachodni WBK or its subsidiaries did not create or reverse any material impairment charges for financial assets, tangible fixed assets, intangible fixed assets or other assets.

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

As at 30.09.2017 and 31.12.2016 or Bank Zachodni WBK or its subsidiaries have not made significant sales and purchases of property, plant and equipment. There were no significant liabilities arising from purchase of fixed assets either.

40. Dividend per share

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

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

There were no major events subsequent to the end of the interim period.

42. Macroeconomic Situation in Q3 2017

Economic Growth

Available data suggest that Poland's economic growth accelerated in 3Q 2017 and was even close to 4.3% YoY versus 4.0% and 3.9% recorded in Q1 and Q2, respectively. In our view, this acceleration was mostly driven by higher value added in construction and industry. Private consumption remained the main growth driver, fuelled by growing disposable incomes and positive consumer confidence. There are some signs of revival in investment, like improvement in construction output and higher imports of machines. However, data on new contracts related to EU-financing proved rather disappointing. Growth of exports remained moderate, despite strong growth tendencies in Poland's main trading partners. It seems that Polish companies tend to focus more on the booming internal market, but they are also constrained by labour shortages. Imports grow at a faster rate than exports, fuelled by strong consumption. As a result, the trade balance turned slightly negative in Q3. Still, the external imbalance of Polish economy remains low as the current account deficit remained at 0.2% of GDP.

Labour Market

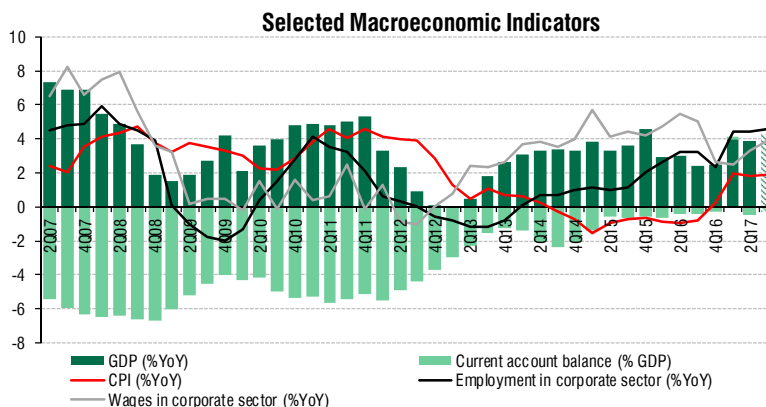
Labour market remained strong in Q3 2017. Average employment in the corporate sector increased by approx. 4.5% YoY in this period. The unemployment rate continued to fall reaching its lowest levels since the 1990s, both as regards registered unemployment (7.0% in August) and Labour Force Survey (LFS) unemployment (4.7% in August). Nominal wage growth in the corporate sector reached in Q3 an average of 5.9% YoY. This, together with an increase in employment, caused a significant rise in the real wage bill (by approx. 8.6% y/y). Polish companies are increasingly complaining about labour shortages, which – in their opinion – causes higher wage pressure, discourages from investment and from taking up new contracts.

Inflation

CPI climbed to 2.2% in September, reaching this year's record from February (the highest level since 2012). Upward price tendencies are slowly gaining steam, especially as regards food prices as well as fuel and energy goods. Core inflation is also picking up, with CPI ex food and energy at 1.0% YoY in September, the highest level in three years.

Monetary Policy

In Q3 2017, the Monetary Policy Council (MPC) kept interest rates unchanged with the base rate still at 1.50%. According to the MPC, inflation will stay below the target at 2.5% in the quarters to come, which will support Poland's economic growth. According to the MPC Chairman, there should be no reason for monetary policy tightening in 2017 and 2018. At the same time, however, it seems the discussion on monetary policy tightening may take place during next year, as some MPC members already showed more willingness in this direction. Still, we assume that the main interest rates in Poland will remain unchanged until Q4 2018.



Credit and Deposit Markets

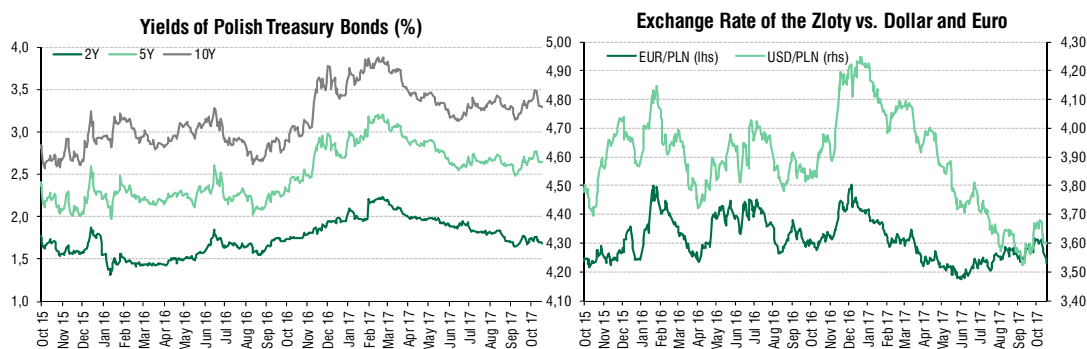
Rather slow growth of deposits observed in Q2 continued into Q3, but downward tendencies did not strengthen with household and business deposits rising by 5.0% YoY. Demand deposits grew by 12.9% YoY, while term deposits shrank by 5.0% YoY. Record-low interest rates continue to discourage deposit holders from choosing term deposits. Share of FX deposits remained above 11%, the highest level since 2008. Credit market situation remained roughly unchanged, with total market growing by c. 5% YoY. Consumer loans were still growing at a solid rate of 7.2% YoY reported, while PLN-denominated mortgage loan growth rate remained stable at 10.5% YoY. In the case of corporate loans, investment loans expanded markedly by 11.9% YoY, while current loans advanced by 4.6% YoY. Corporate real estate loans remained in stagnation, yet they noted a slightly positive growth rate, for the first time this year.

Financial Market Situation

In Q3 2017, the global financial markets were relatively stable. Fed interest rates remained unchanged, while the US equity indices were rising without major disturbances. ECB rates stayed stable, while DAX index dropped temporarily in August and rebounded in September. Investors focused on the main central banks' (Fed, ECB) communications about plans to cut extended balance sheets. Expectations for monetary policy normalisation were rising in July-August. They eased at the beginning of September to return to a more radical attitudes at the end of the quarter. The Korean peninsula crisis as well as political changes in Europe generated small and transitional disturbances on the markets. As regards local factors, the zloty and debt prices were affected by the improved economic and fiscal perspectives, as well as strained relations between the Polish government and the European Commission.

As a result, the yields of Polish 5Y-10Y t-bonds fluctuated without a clear trend in July-August. At the beginning of September 10Y bonds' yield decreased close to the local low from 2Q17 (3.15%), while 5Y bonds' yield to the lowest level since November 2016 (2.49%). This was a reaction for Moody's decision to lift the GDP growth forecasts and fiscal outlook. The end of September was marked by the sale of the zloty and bonds. It was a consequence of rising expectations for a faster monetary policy strengthening by Fed and ECB, after a series of solid macro data releases and central bankers' remarks and comments. The 10Y bond yield was lifted to 3.37%, while 5Y bond yield to 2.69% at the end of the quarter (to levels not too distant from those recorded at the beginning of Q3 2017). The 2Y bond yields continued the downward trend throughout Q3 2017, temporarily negatively affected by growing concerns about main central banks' monetary policy tightening. At the end of September the 2Y bond yield landed at 1.75%, 10bp lower compared to the beginning of July. It was a consequence of an expected reduction of net bonds supply in the face of budget deficit surplus. The 5Y-10Y IRS rates followed a similar path, while 2Y swap rates increased compared to the beginning of July. It led to a narrowing of asset swap spread by 20bp on the front end of the ASW curve and by 3-6bp on the belly and the long end of the curve.

The EUR/PLN was rising throughout Q3 2017. The depreciation of PLN against EUR was driven by geopolitical factors indicated above as well as concerns about a faster monetary policy tightening by Fed or ECB. Some corrections and transitory appreciation of Polish zloty against the EUR were connected with the release of solid Polish macro data, a series of information about budget surplus as well as improved forecast of fiscal stance by rating agencies. However, the overall effect was negative and EUR/PLN rose to 4.32 at the end of Q3 2017, from 4.23 at the beginning of the quarter. A part of this move was a consequence of EUR/USD upswing. Over the quarter the PLN depreciated by 1.9% against EUR and by 1.3% against GBP, and appreciated by 1.4% against USD and by 2.5% against CHF.



43. Activities of Bank Zachodni WBK Group in Q3 2017

Retail Banking Division

Personal accounts and bundled products

New Account As I Want It

On 21 August 2017, Bank Zachodni WBK launched a new personal account called Account As I Want It (Konto Jakie Chce). The account comes with Customised Visa or Customised Mastercard debit card and is offered in the following two options: 1) to customers under 26 and 2) to other customers. The account is operated free of charge, provides free online transfers and allows customers to choose the payment mode and the fee amount charged for the accompanying card. The Account As I Want It is bundled, among others, with the new Regular Savings Account (Konto Systematyczne) which enables saving money via standing orders from the Account.

The Account As I Want It is offered both to new and existing customers and may be configured by customers to suit their needs. A new account may be opened or their existing account may be converted (keeping the account number unchanged) via branch, Internet or phone.

The new account has been recognised in industry rankings, taking the first position in the best personal accounts ranking by gazeta.pl (11 September 2017) and the most customer-friendly accounts ranking by Comperia.pl (26 September 2017).

Payrolls offer bundled with the Account As I Want It

On 1 September 2017, a new Payrolls offer was launched for employees of companies serviced by the bank. It covered the Account As I Want It, the Customised Card and BZWBK24 electronic banking services.

Sales of the Account As I Want It

From 21 August 2017 till the end of September 2017, 115 thousand Accounts As I Want It were opened. By 23 October 2017 (i.e. prior to the release date of this report) their number had exceeded 180 thousand due to attractive and flexible parameters of the account and an effective promotional campaign.

Personal account portfolio of Bank Zachodni WBK

As at the end of September 2017, the PLN personal account portfolio of Bank Zachodni WBK comprised 3.2 million items, an increase of 1.8% YoY. Including FX accounts, the personal accounts base totalled 3.9m. The second best selling account after the Account As I Want It was the Account Worth Recommending (Konto Godne Polecenia).

Payment cards

Initiatives to promote and grow credit card sales and transaction volumes

In Q3 2017, the bank continued to stimulate sales of credit cards and accounts by way of promotional offers such as: "Holidays with a Credit Card" (a special offer for customers actively using credit cards), "PLN 50 for the average of min. 4.0 on your school certificate" (an offer for customers between 13 and 20 signing up for the Account As I Want It), "Card for the Start" (cancellation of selected fees in the first and second year for customers applying for their first credit card), "Recharge Your Batteries with a Visa Credit Card" (a special deal on a Visa credit card with a reward – a power bank).

In order to grow card sales and transaction volumes the bank introduced changes to fees applying to 1|2|3 credit cards issued after 1 July 2017, waiving fees for customers with a minimum number of monthly card transactions.

Improvement of credit card services

In mid-August 2017, the range of instructions that can be placed by credit card holders via BZWBK24 Internet was expanded to include an opportunity to change automatic repayment options or date of generation of the transaction and reduce the credit limit. In September, the RATIO services were optimised and aligned with the regulatory requirements.

Credit and debit card portfolio

As at 30 September 2017, the credit card portfolio of Bank Zachodni WBK comprised 803.2k items, an increase of 3.6% YoY.

The personal debit card portfolio of Bank Zachodni WBK (excluding 500k prepaid cards which are being gradually withdrawn from the offer) comprised 3.3m cards and went up by 4.4% YoY. Taking business cards into account, the total number of debit cards reached 3.5m, up 4.5% YoY.

Mortgage loans

Pursuant to Act of 23 March 2017 on Mortgage Loans and Supervision over Mortgage Loan Brokers and Agents, on 22 July 2017, Bank Zachodni WBK introduced changes to the range of mortgage loans and terms of their sanction. In particular, the bank:

- suspended EUR mortgage lending;
- cancelled an early repayment fee for fixed interest mortgage loans and equity releases;
- cancelled a charge for reminders related to untimely service of loans;
- aligned the application process, information form and credit decision process;
- modified the terms of cooperation with credit intermediaries.

During the first nine months of 2017, the value of new mortgage loans totalled PLN 4.0bn, down 8.4% YoY. In this period, sales of home loans offered under the “Home for the Young” (“Mieszkanie dla Młodych”) programme decreased as the pool of funds for subsidies in 2017 had been used in full. Most mortgages were sold via own branch network and via local intermediaries.

The gross mortgage portfolio grew by 5.9% YoY, reaching PLN 34.8bn at the end of September 2017. The value of PLN mortgage loans amounted to PLN 23.5bn, up 17.0% YoY.

Retail loans

In Q3 2017, a range of special deals was launched across all the contact channels to support sales of retail loans, often bundled with other products (such as the Account As I Want It):

- Cash loan with the Worry-Free Loan (Spokojny Kredyt) CPI insurance and a lower fee
- Cash loan up to PLN 4k
- Cash loan bundled with the Account As I Want It
- Credit limit with the Account As I Want It
- Cash loan with a credit card
- Zero Gravity (Brak Ciężenia) II – a special deal on loans taken out to repay debt with other banks.

The nine-month cash loan sales were more than PLN 3.1bn, up 1.3% YoY. The fastest growing distribution channels in terms of sales were the BZWBK24 electronic banking platform (+60.7% YoY) and the Multichannel Communication Centre (+42.6% YoY). Remote channels accounted for 20.9% of cash loan sales in Q3 2017.

The cash loan portfolio was up 4.9% YoY and totalled PLN 7.6bn.

Savings and investment products

Deposits

In Q3 2017, the management of deposit products focused on increasing the strength of relationship with deposit customers and optimising the structure of personal deposit base.

In July 2017, the bank launched the fourth edition of a promotional campaign of savings accounts called “Active Deposit” (“Aktywny Depozyt”), which linked interest on savings accounts to the volume of transactions in a personal account.

In August 2017, the holders of the Account As I Want It could sign up for the Regular Savings Account via branches, partner outlets and BZWBK24 Internet. Furthermore, the bank launched another special deal on the Max Savings Account (Konto Max Oszczędnościowe) with attractive interest rate on new funds until the end of January 2018.

At the end of September 2017, the total balance of savings accounts was PLN 24.1bn, an increase of 5.8% YoY. The total deposit base amounted to PLN 64.5bn, i.e. up 5.1% YoY.

Structured deposits

In Q3 2017, the bank continued to sell structured deposits with a wide variety of tenors and underlying instruments to suit customers' needs. The bank offered 12- and 24-month deposits with yields linked to exchange rates (EUR/PLN, USD/PLN, EUR/USD) or stock indices (SX5E, DAX) and 100% capital protection at maturity. The bank offered 27 products in the total of 12 subscriptions. More than PLN 134.8m worth of funds were collected as a result of the aforementioned subscriptions and PLN 437.5m since the beginning of the year.

Mutual Funds

As at 30 September 2017, the total net assets in mutual funds managed by BZ WBK TFI were PLN 15.6bn and up 16.9% YoY and 4.7% QoQ.

As in the previous two quarters, corporate bond subfunds and equity subfunds (particularly Polish equity ones) were most popular among customers. The demand for mixed stable growth funds increased as well.

During the first nine months of 2017, the monthly balance of sales and redemptions was positive. The highest YoY increase in net assets was reported by the following subfunds: Arka Prestiż Obligacji Korporacyjnych, Arka BZ WBK Obligacji Korporacyjnych, Arka Prestiż Akcji Polskich, Arka BZ WBK Akcji Polskich and Arka BZ WBK Stabilnego Wzrostu. The best performance on a quarterly basis was reported by corporate bond and stable growth subfunds indicated earlier. The share of Bank Zachodni WBK in the nine-month gross sales of Arka mutual funds was 93%.

In Q3 2017, the bank launched the "Welcome Programme for Arka Mutual Fund Customers" to enhance the quality of services rendered. The bank also continued to implement procedural, product and operational changes to ensure the competitiveness of Arka funds following the implementation of MiFID II.

Insurance

In July 2017, the bank modified the range of insurance products as follows:

- Introduced a new Locum Comfort insurance, with the insurance cover for movables and immovables flexibly adapted to customers' needs.
- Modified the Safe Money (Pewne Pieniądze) debit card insurance in terms of insurance cover and sum insured.
- Implemented the Insurance Loyalty Programme, under which the bank may offer lower premiums for Locum Comfort insurance, cancer insurance (Onkopolis) and Family Care (Opiekun Rodziny) to customers who renew their insurance and have more than one insurance product.

Small and Medium Enterprise Banking Division

Customer Segmentation

In Q3 2017, the Small and Medium Enterprise Banking Division took further steps to set up a SME Digital segment in addition to the two existing SME segments, i.e. mass customers (SME I) and customers with a higher turnover and more complex requirements (SME II). The SME Digital segment is made up of customers who prefer remote banking through an online platform, a mobile application or a remote advisor.

Initiatives to improve service quality

In the analysed period, the SME Banking Division focused on increasing the quality of services provided to customers, in particular to the SME II segment.

- As part of the strategy aimed at providing SMEs with greater access to products and services across multiple channels, the bank continued with the migration of SME II customers to the SME Service Centre, where customers are provided with complete remote support by dedicated advisors. Since 17 July 2017, SME II customers can be identified using voice biometrics, which, coupled with the phone number recognition mechanism, eliminates the need to use NIK (customer identification number), PIN code or a password.
- The bank completed the transformation of the SME Sales Area responsible for the relationships with SME II customers. In particular, customer advisors assigned to the above segment were transferred from the Branch Banking to the SME Division, a new operational agenda was introduced to focus on customer relationships and an objective incentive scheme was implemented to support the delivery of targets on the basis of business criteria.
- On 4 August 2017, a capped rate functionality was implemented as a pilot for SME I and SME II customers to protect them against an increase in interbank rates (available on signing a relevant annex to the agreement).
- The bank extended the operating hours of e-FX platform available via iBiznes24 electronic banking services and Kantor BZWBK24 currency exchange platform accessible via Moja Firma Plus or BZWBK Mini Firma.

Multidimensional customer relationship

Bank Zachodni WBK continued to pursue initiatives aimed at growing sales of business accounts, POS terminals, currency exchange and factoring products. To that end, a special offer called "Business Account Worth Recommending with a Payment Terminal" was launched which rewards customers who sign up for the Business Account Worth Recommending (Konto Firmowe Godne Polecenia) and settle their transactions with the POS terminal.

In Q3 2017, Bank Zachodni WBK took further steps to become a partner for SME customers by offering advice and training as part of the Business Evolutions programme (Firmowe Ewolucje) with regard to such subjects as: "How to successfully acquire funds from the UE?", "How to overcome the foreign trade barriers?", "The company's succession plan".

Poland's best SME bank

In July 2017, Bank Zachodni WBK won the title of Poland's best SME bank in the Euromoney Awards for Excellence – one of the most renowned competitions in the financial sector which sets benchmarks and trends for the whole banking industry.

Business development

Compared with 30 September 2016, BZ WBK customer base increased by 14.5k. SME loans grew at a stable rate of 2% YoY while deposits expanded by 6.2% YoY.

Fixed asset financing

Since July 2017, BZ WBK Leasing has been the sole financial partner of Subaru, providing complete financial solutions, tools and services to dealers. The programme has been a success, given that every third Subaru purchased in August was financed by BZ WBK Leasing.

During the first three quarters of 2017, BZ WBK Leasing financed net assets worth PLN 3bn (+8.0% YoY), including assets of nearly PLN 1.1bn in Q3 alone. In the segment of machines and equipment, where BZ WBK Leasing has been the leader for years, the lease volumes came in at PLN 1.5bn, up 23.3% YoY.

Business and Corporate Banking Division

Business and Corporate Banking Transformation Programme

In Q3 2017, the Business and Corporate Banking Division continued its business transformation programme. With over 50% of planned initiatives implemented in areas such as process efficiency, product solutions, risk management approach and digitisation, the bank is well underway to deliver on all the key aspects of transformation by the end of the year. The changes introduced influenced “credit time to yes”, enhanced service quality, increased self-services and paperless solutions, thus supporting the attainment of business objectives.

Development of products and services

In the analysed period, Bank Zachodni WBK was one of the first banks in Poland to offer its corporate customers telephone identification and voice biometrics, which shortened and simplified the telephone contacts with the Business Service Centre. Furthermore, corporate customers were offered e-Guarantee, i.e. an electronic form of bank guarantee with a qualified electronic signature, available via iBiznes24 platform.

The functionality of iBiznes24 was further upgraded to include solutions that facilitate the cooperation between customers and the bank, including:

- mailbox within an electronic banking platform which improves complaints and queries handling;
- business card of an operational advisor assigned to a company or installation unit (in the form of a tile in the menu);
- improvements in electronic requests (more transparent and user-friendly request forms – eWnioski, one signature for multi applications, option to save draft request without the need to fill in all the fields).

Business development

Loan volumes generated by Corporate Banking increased quarter by quarter in line with the market. The business and corporate customer base expanded as new contracts had been signed with companies from the financial (PLN 478m in total), Food & Agriculture (PLN 99m) and manufacturing (PLN 110m) sectors. High-value deposits of corporate customers were PLN 695m.

Global Corporate Banking Division

Growth of customer base

As at 30 September 2017, the active GCB customer base included nearly 250 of the largest companies and groups (allocated to that segment based on the turnover) representing all economic sectors in Poland.

In addition to servicing the largest capital groups, the Division provides specialist financial products (including treasury and capital market offers) to retail and corporate customers. It also conducts the bank's activity on financial markets.

Main directions

In accordance with the strategic vision of Bank Zachodni WBK as the bank of first choice for customers, in Q3 2017, the Global Corporate Banking Division endeavoured to ensure that its products and services (including the investment ones) are best positioned in the market. The following areas were the main focus:

- Participation in high profile transactions by providing lending and investment banking services.
- Growth of business with corporate customers in relation to brokerage and treasury products.
- Introduction of a new expanded and improved sales and service model for large corporates.

As part of the bank's services enhancement process, the functionality of the Kantor BZWBK24 FX platform was improved in order to ensure higher level of digitisation and penetration of customer base, and consequently competitive advantage.

Performance of selected areas

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

- In Q3 2017, Credit Markets provided funding towards medium and long-term investment projects delivered by GCB customers through loans and corporate bonds issue, including 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).
- Capital Markets provided analytical and advisory services to customers and were engaged as a financial/transactional advisor for companies from the property, production, infrastructure, telecommunications, pharmaceutical and services sectors.
- As part of cash management, in Q3 2017, the Global Transactional Banking Department further improved host-to-host service, ensuring effective exchange of information between the bank and the ERP systems. The service was introduced in two large groups of companies and further implementations are in the pipeline.
- In Q3 2017, the Treasury Services Department continued an income diversification strategy based on the development of electronic distribution channels. Strong focus was placed on upgrading the functionality of the Kantor BZWBK24 currency exchange platform from the viewpoint of customer service quality.
- The Institutional Sales Department focused on developing the infrastructure for brokerage services, which is fundamental to the automation of processes connected with products offered to business customers.
- The Financial Market Transactions Department developed products and services and range of market making instruments using the global know-how of Santander Group. The Department also acts as an intermediary in the sales of Group products locally.
- The Stock Market Analysis Department organised the Investor Days and planned other events such as the conference for the banking sector to be held in Q4 2017.

Business development

In Q3 2017, the GCB Division maintained a stable level of deposit and credit base. The activity of existing customers was analysed on an ongoing basis to identify their borrowing and deposit needs. Efforts were also taken to find new prospects and attract new credit and deposit volumes.

The largest deals made in Q3 2017 include:

- Participation in Play's IPO of PLN 4.4bn. – the largest transaction of this kind in the history of the Warsaw Stock Exchange.
- Major supply chain finance deals of PLN 665m with the customer from the transport sector.
- Participation in a syndicated loan for PLN 1.9bn in total.
- Long-term forward contract made with the customer from the automotive sector to hedge currency risk.

Factoring business

BZ WBK Faktor provides services to customers from the SME, Business and Corporate Banking and Global Corporate Banking segments through a full range of factoring products.

During the first three quarters of 2017, the turnover of BZ WBK Faktor came in at PLN 16.8bn, up 24.5% YoY. This gave the company a market share of 13% and the second position in the ranking of members of the Polish Association of Factoring Companies. As at the end of September 2017, the company's credit portfolio was PLN 3.7bn, higher by 21.3% YoY.

Delivery of strategic transformation programmes of Bank Zachodni WBK S.A.

Transformation of distribution model

- In Q3 2017, work was underway to develop the bank's new distribution strategy. It was combined into key streams such as: role and function of distribution channels, branch formats and branch network.
- As part of the new distribution model, on 14 September 2017, the bank opened a branch in a Warsaw-based shopping centre and launched a pilot of a new service model that is equipped with self-service devices and is accessible 7 days a week. The business effectiveness of the above solution is verified to help define the next steps in the development of the branch model.

Other strategic projects

- On 21 August 2017, the bank launched a new personal account which may be configured by customers according to their preferences (for more details see section on Retail Banking).
- The new personal account is an element of the marketing activities of Bank Zachodni WBK that reflect the new brand promise: You Bank As You Want It / Bank As You Want It. The marketing campaigns are now based on values and emotions and are consistent across all channels.
- The bank launched a remote credit process for sole traders from the SME segment based on the new IT architecture: customers may apply for the Business Express (Biznes Ekspres) overdraft of up to PLN 50k online and get a credit decision, execute an agreement and receive funds within a few minutes. Starting from November, the process will be available to all customers with a prelimit assigned.
- Customers were provided with an opportunity to set up a trusted profile to confirm their identity and gain access to e-Administration system via electronic banking platform. With a trusted profile via BZWBK24, customers may log into official websites (ePUAP, obywatel.gov.pl, biznes.gov.pl, PUE ZUS, CEIDG, Emp@tia) and submit requests (e.g. for a child benefit, ID card, company registration) using their login and password to online banking.

Selected digitalisation projects

- The bank implemented the Robotic Process Automation (RPA) platform which facilitates the automation of manual processes without the need for complex modification of IT systems. The newly automated processes included, among other things, after-sales services and back-office activities related to credit processes and complaints management. A competence centre was also set up to analyse and optimise operational processes and design robots.
- Another competence centre was established to manage systems and processes connected with the circulation of digital documents in the banking processes. The Customer Communication Management (CCM) platform was launched, making it possible to generate agreements and certificates and handle mass communication in one place.
- The bank completed the second stage of the Central Collateral Database project whose purpose is to aggregate all collateral information, while ensuring consistency and security of data. Next stages will enable full integration of collateral services within credit processes.

Santander Consumer Bank Group

Development directions

- Pursuant to the strategy adopted by Santander Consumer Bank (SCB), measures were taken in Q3 2017 to consolidate the bank's leadership position in the instalment loans market by maintaining the share in traditional sales and growing the share in online sales, identifying new sales growth opportunities, and maintaining the profitability of collaboration with trade partners.
- In terms of cash loans, the bank pursued the policy aimed at maximisation of value of customer relationships and optimisation of product range. In Q3 2017, the bank reported higher-than-projected sales of New Profile facility (Nowy Profil). The NPS (Net Promoter Score) survey conducted by the bank among active customers gave satisfactory results (57%, i.e. above the market average), affirming effectiveness of its product and sales strategy.

- In the car finance area, SCB focused on the delivery of budget objectives in terms of the acquisition of new business, profitability and other key performance indicators (KPIs).
- The insurance offer was being modified in accordance with legal and regulatory changes to be implemented in January 2018.

Core business portfolios

Loans to customers

As at 30 September 2017, gross loans of SCB Group (after intercompany transactions) were PLN 15.5bn, up 8.6% YoY, as a result of an increase in lease, working capital loans, cash loans and credit cards portfolios. The growth in working capital loans and lease facilities resulted from the acquisition of control over PSA Finance Polska, which offers factoring solutions for car dealers, among other things. The growth in the balance of cash loans was achieved due to higher sales supported by an extensive marketing campaign.

Deposits from customers

As at 30 September 2017, deposits from customers of SCB Group (after intercompany transactions) totalled PLN 8.0bn and increased by 1.9% YoY driven by higher volume of deposits from business customers.

Distribution network of Bank Zachodni WBK Group

BZ WBK mobile and internet banking

BZWBK24 mobile and internet applications were further developed to improve self-service and ease of use. Customers were provided with an option to set up the parameters of the Account As I Want It according to their preferences. They can also benefit from longer operating hours of the Kantor BZWBK24 currency exchange platform. In order to standardise the functionality of internet and mobile banking, customers were provided with access to email in BZWBK24 mobile application. The bank further contributed to the digitalisation of the Polish administration system by offering customers an opportunity to set up a trusted profile in the internet banking platform and log into official websites to deal with administrative issues remotely.

As at 30 September 2017, the number of digital customers, i.e. BZWBK24 users who at least once logged into the bank's electronic banking system, exceeded 2 million (vs. 3.3 million customers with access to BZWBK24) and increased by 4% YoY. The number of mobile application users went up by 25% YoY and exceeded 1 million (including 174 thousand customers who use BZWBK24 mobile only).

BZ WBK Multichannel Communication Centre

The strategy of BZ WBK Multichannel Communication Centre focuses on facilitating interaction between the customer and the bank and improving end-to-end processes (E2E). To that end, in Q3 2017, customers were provided with an option to cancel the agreement remotely, notify cash withdrawal or terminate the debit card with a 14-day notice.

The range of services provided by the Online Advisor was extended to include instructions regarding mortgage and cash loans, generation of account statements, issuance of certificates and establishment/modification of bereavement payment terms.

Increased activity in remote channels

In the first three quarters of 2017, the number of interactions with customers over phone or through the Online Advisor increased by 15% YoY.

Credit sales generated in remote channels (mobile, internet, Multichannel Communication Centre) went up by 42% YoY and 45% YoY in terms of number and value, respectively.

Integration of BZ WBK distribution channels

Apart from the optimisation of branch network and development of the New Distribution Model, work was underway in Q3 2017 to integrate CRM systems and the sales network. In the reporting period, CRM systems were integrated with the ATM network, which made it possible to launch first multichannel campaigns in real time in accordance with the target architecture of customer relationship management solutions.

Development of SCB distribution channels

In Q3 2017, Santander Consumer Bank took further measures to increase the effectiveness of the distribution network, including the review of the structure of branches and partner outlets, taking into account customers' needs and development of remote channels. Electronic and mobile banking solutions implemented in 2016 were further enhanced.

In addition, the bank sold its products through the following distribution channels: mobile sales channels for car loans and corporate deposits, call centre and the internet (sale of cash loans, credit cards and instalment loans), a remote channel for car loans and a network of external partners offering the bank's car loans (694) as well as instalment loans and credit cards (11,996).

Basic Distribution Channels of BZ WBK		
Bank Zachodni WBK	30.09.2017	30.09.2016
Branches (location)	592	658
Partner Outlets	109	110
Business and Corporate Banking Centres	12	12
ATMs	948	1 100
CDMs	13	87
Dual Function Machines	765	548
BZWBK24 - registered users (in thousand) ¹⁾	3 314	3 180
iBiznes24 - companies (in thousand) ²⁾	15	15

Basic Distribution Channels of SCB S.A.		
Santander Consumer Bank	30.09.2017	30.09.2016
Branches	160	163
Partner Outlets	153	144
Registered Electronic Banking Users (in thousand) ³⁾	61	-

1) The number of registered users of BZWBK24 includes the users of internet, mobile and telephone banking solutions.

2) In 2017, the approach to the calculation of iBiznes24 customer base changed.

3) Users who signed an agreement with SCB and at least once logged into the bank's electronic banking system

Other information

Share capital increase

As the criteria for granting awards under the 5th Incentive Programme had been satisfied, the Annual General Meeting of Shareholders of Bank Zachodni WBK held on 17 May 2017 resolved to increase the bank's share capital by way of issuing M series shares without pre-emptive rights. As a result of private subscription made between 19 May 2017 and 20 June 2017, 98,947 M series shares of Bank Zachodni WBK with the nominal value of PLN 10 were allocated to the eligible programme participants. The share capital increase of PLN 989,470 to PLN 993,334,810 was recorded in the National Court Register on 3 August 2017. The above-mentioned shares were registered in the National Depository of Securities (KDPW) under no. PLBZ00000267 on 14 September 2017.

Decrease of Nationale-Nederlanden OFE ownership in the share capital of BZ WBK

On 7 August 2017, the sale of 29,496 shares in Bank Zachodni WBK by Nationale-Nederlanden OFE pension fund was settled. As a result of the transaction, the fund's stake in the share capital and voting power of the bank decreased from 5.03% to 4.99%. Accordingly, Banco Santander is now the only shareholder having more than 5% of the total number of votes at the BZ WBK General Meeting of Shareholders.

Funding provided by international financial institutions

On 15 September 2017, the loan of EUR 50m granted by the European Investment Bank (EIB) to former Kredyt Bank based on a credit agreement of 4 January 2010 was repaid in full.

On 27 September 2017, the second tranche of EUR 50m was disbursed under the loan agreement signed on 1 June 2017 between the Council of Europe Development Bank (CEB) and BZ WBK Leasing.

Own issues of securities

On 18 August 2017, the bank issued F series certificates of deposit of PLN 750m with fixed interest rate of 1.81% and maturity date falling on 19 February 2018 under the Issuance Programme adopted by virtue of a resolution of the bank's Management Board of 18 March 2015.

On 4 August 2017, Santander Consumer Bank issued a series of bonds of PLN 300m as part of the debt securities issuance programme guaranteed by Santander Consumer Finance. The funds raised were allocated to finance the bank's operations in line with the pursued strategy.

Redemption of securities

On 17 July 2017, B series bonds of PLN 475m issued on 17 July 2014 were redeemed.

On 17 August 2017, the bank redeemed D series certificates of deposit of PLN 420m issued on 17 February 2017.

Euromoney Awards for Excellence

In July 2017, Bank Zachodni WBK won the title of the Best Bank in Poland in one of the most prestigious competitions in the financial sector – Euromoney Awards for Excellence. The title was awarded to the bank for the third consecutive year. The jurors pointed out to the bank's excellent financial results combined with the effective implementation of its digital transformation strategic programme. In addition, Bank Zachodni WBK received the "Best Bank in Poland for SME" award.

Fitch ratings for Bank Zachodni WBK affirmed

On 20th October 2017 Fitch Ratings Agency affirmed the ratings for Bank Zachodni WBK:

- Long-term IDR: BBB+, Outlook Stable
- Short-term IDR: F2
- Viability Rating: bbb+
- Support Rating: 2
- National Long-term rating: AA (pol), Outlook Stable
- Senior unsecured debt: AA(pol).

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

As at the release dates of the Report of Bank Zachodni WBK for Q3 2017 and the interim report for H1 2017, none of the members of the Supervisory Board held any Bank Zachodni WBK shares or conditional rights.

The table below represents Bank Zachodni WBK shares and conditional rights held by the Management Board members as at the dates of publication of reports for the periods ended 30 September 2017 and 30 July 2017.

Management Board Members	26.10.2017		28.07.2017	
	No. of BZ WBK shares	Rights (Incentive Programme VI)	No. of BZ WBK shares	Rights (Incentive Programme V)
Michał Gajewski	-	5 420	-	-
Andrzej Burliga	4 389	2 820	3 000	1 389
Artur Chodacki	790	2 030	-	790
Michael McCarthy	1 528	3 250	-	1 528
Carlos Polaino Izquierdo	631	2 820	-	631
Juan de Porras Aguirre	1 397	2 240	-	1 397
Marcin Prell	1 250	2 540	-	1 250
Arkadiusz Przybył	-	3 390	-	-
Maciej Reluga	505	2 030	-	505
Mirosław Skiba	2 474	2 880	1 057	1 417
Dorota Strojowska	635	2 370	418	217
Feliks Szyszczowski	1 621	2 880	204	1 417
Total	15 220	34 670	4 679	10 541

On the basis of the Resolution of the AGM of Bank Zachodni WBK of 17 May 2017 increasing the bank's share capital as part of execution of the 5th Incentive Programme, the bank allocated M series shares to eligible participants of the programme in a private subscription. 10,541 shares were placed with Management Board members and recorded in their brokerage accounts on 14 September 2017.

In relation to the launch of the 6th Incentive Programme for the years 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.

44. Overview of BZ WBK Group Performance in Q1-3 2017

Performance of Bank Zachodni WBK Group in Q1-3 2017

Key financial and business highlights of Bank Zachodni WBK Group for the three quarters of 2017	
Total income	<ul style="list-style-type: none"> The total income generated by Bank Zachodni WBK Group for the three quarters of 2017 was PLN 5,753.3m and remained stable YoY. Excluding the remuneration arising last year from the settlement of the acquisition of Visa Europe Int. by Visa Inc., the underlying total income increased by 6.0% YoY.
Total costs	<ul style="list-style-type: none"> Total costs declined by 1% YoY to PLN 2,502.2m, including a YoY decrease of 6.2% in general and administrative expenses.
Profit	<ul style="list-style-type: none"> Profit before tax amounted to PLN 2,495.3m, up 3.5% YoY. Adjusting income as above, the underlying profit before tax increased by 19.1% YoY. Profit attributable to the shareholders of Bank Zachodni WBK was PLN 1,664.1m and 2.5% lower YoY (14.8% YoY higher on a comparable basis).
Capital ratio	<ul style="list-style-type: none"> Capital ratio stood at 16.90% (15.05% as at 31 December 2016 and 15.30% as at 30 September 2016), ensuring security of operations and a stable growth.
ROE	<ul style="list-style-type: none"> Return on Equity (ROE) was 11.7% (12.8% as at 31 December 2016 and 11.6% as at 30 September 2016).
Costs/Income	<ul style="list-style-type: none"> Cost to income ratio (C/I) was 43.5% (46.5% for the three quarters of 2016).
Net impairment losses	<ul style="list-style-type: none"> Net impairment losses on loans and advances amounted to PLN 477.5m compared with PLN 565.3m for the three quarters of 2016.
Credit quality	<ul style="list-style-type: none"> NPL ratio was 6.0% (6.6% as at 31 December 2016 and 6.8% as at 30 September 2016), while the ratio of impairment losses to the average gross credit volumes was 0.64% (0.75% as at 31 December 2016 and 0.80% as at 30 September 2016).
Loans to customers	<ul style="list-style-type: none"> Gross loans to customers increased by 4.5% YoY to PLN 111,376.5m due to the growth of 4.5% YoY in personal loans and 1.9% YoY in loans to enterprises and the public sector to PLN 57,516.9m and PLN 46,968.0m, respectively.
Deposits from customers	<ul style="list-style-type: none"> Deposits from customers increased by 4.1% YoY to PLN 111,022.8m due to the expansion of 5.1% YoY in personal deposits to PLN 64,467.6m and the growth of 2.8% YoY in deposits from enterprises and the public sector to PLN 46,555.1m.
Loans/Deposits	<ul style="list-style-type: none"> Net customer loans to deposits ratio was 95.9% as at 30 September 2017 compared with 91.6% as at 31 December 2016 and 94.8% as at 30 September 2016.
Net assets under management	<ul style="list-style-type: none"> Net value of assets in mutual funds and portfolios managed by BZ WBK TFI totalled PLN 16.0bn, up 16% YoY and 16.2% Ytd.
Electronic banking	<ul style="list-style-type: none"> The number of customers using BZWKB24 electronic banking services totalled 3.3m (+4.2% YoY), including over 1m customers with access to mobile services (+25.4% YoY). The BZ WBK Group payment card base (excluding pre-paid cards) included 3.5m debit cards (+4.5% YoY) and nearly 1.3m credit cards of BZ WBK and SCB (+4.7% YoY).
Customer base	<ul style="list-style-type: none"> The total customer base was more than 6.4m customers, including 4.4m BZ WBK customers.

Impact of macroeconomic developments

Key macroeconomic factors impacting financial and business performance of the Group in the third quarter of 2017	
Economic growth	<ul style="list-style-type: none"> Acceleration of economic growth in Poland and abroad.
Labour market	<ul style="list-style-type: none"> Good situation in the labour market – increase in employment, declining unemployment and moderately fast wage growth, supporting private consumption.
Monetary policy	<ul style="list-style-type: none"> NBP official rates at the lowest level ever.
Credit & deposit market	<ul style="list-style-type: none"> Stabilization of credit growth in the banking sector. Decline of term deposits, fast growth of current deposits.
Financial markets	<ul style="list-style-type: none"> Changes of moods 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 the Brexit negotiations and election results in Europe (e.g in Germany). Strengthening of the Polish zloty versus foreign currencies, changes of domestic bond yields.

Income Statement of Bank Zachodni WBK Group

Structure of Bank Zachodni WBK Group profit before tax

Condensed Consolidated Income Statement of BZ WBK Group (for analytical purposes)	PLN m					
	Q1-3 2017	Q1-3 2016	YoY Change	3Q 2017	2Q 2017	QoQ Change
Total income	5 753,3	5 745,9	0,1%	1 951,7	1 952,9	-0,1%
- Net interest income	3 897,4	3 495,6	11,5%	1 340,9	1 302,5	2,9%
- Net fee & commission income	1 497,7	1 430,8	4,7%	526,9	495,6	6,3%
- Other income ¹⁾	358,2	819,5	-56,3%	83,9	154,8	-45,8%
Total costs	(2 502,2)	(2 527,4)	-1,0%	(807,7)	(828,6)	-2,5%
- Staff, general and administrative expenses	(2 184,1)	(2 215,0)	-1,4%	(686,4)	(734,1)	-6,5%
- Depreciation/amortisation	(234,3)	(202,5)	15,7%	(82,2)	(77,8)	5,7%
- Other operating expenses	(83,8)	(109,9)	-23,7%	(39,1)	(16,7)	134,1%
Impairment losses on loans and advances	(477,5)	(565,3)	-15,5%	(231,6)	(100,4)	130,7%
Profit/loss attributable to the entities accounted for using the equity method	38,5	36,1	6,6%	14,8	15,2	-2,6%
Tax on financial institutions ²⁾	(316,8)	(278,3)	13,8%	(105,9)	(105,1)	0,8%
Consolidated profit before tax	2 495,3	2 411,0	3,5%	821,3	934,0	-12,1%
Tax charges	(601,2)	(536,2)	12,1%	(188,6)	(199,7)	-5,6%
Net profit for the period	1 894,1	1 874,8	1,0%	632,7	734,3	-13,8%
- Net profit attributable to BZ WBK shareholders	1 664,1	1 705,9	-2,5%	559,9	651,1	-14,0%
- Net profit attributable to non-controlling shareholders	230,0	168,9	36,2%	72,8	83,2	-12,5%

1) Other income includes the following items of the full income statement: dividend income, net profit on shares in subordinate entities, net trading income and revaluation, gains on other financial instruments, other operating income.

The figure for Q1-Q3 2016 includes one-off gains of PLN 316.1m reported by BZ WBK and SCB on account of the settlement of the acquisition of Visa Europe Ltd. by Visa Inc. (in the full version of the income statement this amount is reported as part of gains on other financial instruments).

2) The banking tax is calculated in accordance with the Act on tax imposed on certain financial institutions that became effective on 1 February 2016.

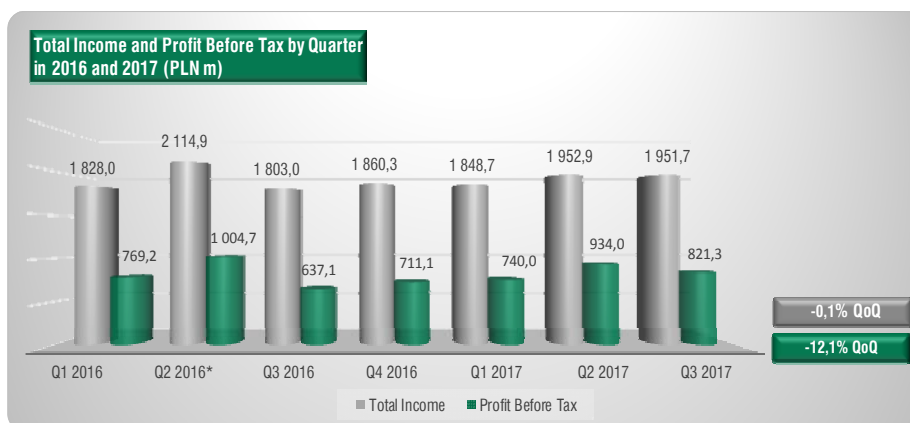
Over the first nine months of 2017, Bank Zachodni WBK Group posted a profit before tax of PLN 2,495.3m, an increase of 3.5% YoY. Excluding one-off gains on equity instruments from the corresponding period (PLN 316.1m arising from the settlement of the acquisition of Visa Europe Ltd. by Visa Inc. in Q2 2016), the underlying profit before tax increased by 19.1% YoY on account of an improvement in net interest income (+11.5% YoY) and net fee and commission income (+4.7% YoY) as well as a decrease in impairment charges (-15.5% YoY) and operating costs (-1.0% YoY).

On a comparable basis, the improved financial performance generated by the Group’s core business easily offset a decline in other income (gains on available-for-sale debt instruments, gains on derivative and interbank transactions, dividend income) and higher tax charge on financial institutions (as the taxable period in the current reporting period was one month longer).

Profit attributable to the shareholders of Bank Zachodni WBK was PLN 1,664.1m and decreased by 2.5% YoY due to a higher effective tax rate arising from larger loss on the sale of a portion of debt and longer taxable period in 2017 in relation to tax on financial institutions. Adjusted for one-off gains indicated above, the underlying attributable profit went up by 14.8% YoY.

Comparability of periods

Comparability of periods in the income statement of BZ WBK Group for the three quarters of 2017		
Key income statement items	9 months of 2017	9 months of 2016
Gains on available-for-sale equity instruments	<ul style="list-style-type: none"> PLN 12.6m, including PLN 10.8m on account of the sale of all shares of Polimex-Mostostal from the bank’s portfolio of equity investments 	<ul style="list-style-type: none"> PLN 317.8m, including remuneration of PLN 316.1m for BZ WBK and SCB in respect of the settlement of the acquisition of Visa Europe Ltd. by Visa Inc. on 21 June 2016
Tax on financial institutions introduced on 1 February 2016	<ul style="list-style-type: none"> PLN 316.8m for nine months of 2017 	<ul style="list-style-type: none"> PLN 278.3m for eight months of 2016
Dividend income	<ul style="list-style-type: none"> PLN 76.6m, including a dividend of PLN 68.6m paid by Aviva Group companies from BZ WBK portfolio of equity investments 	<ul style="list-style-type: none"> PLN 96.5m, including a dividend of PLN 88.6m paid by Aviva Group companies from BZ WBK portfolio of equity investments



* As a result of the settlement of the acquisition of Visa Europe Ltd. by Visa Inc. on 21 June 2016, BZ WBK and SCB recognised a total gain of PLN 316.1m on their shareholdings in the acquired entity.

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

PLN m

Components of Bank Zachodni WBK Group Profit Before Tax by contributing entities	Q1-3 2017	Q1-3 2016	YoY Change
Bank Zachodni WBK S.A.	1 909,9	2 128,1	-10,3%
Existing subsidiary undertakings:	742,6	590,6	25,7%
Santander Consumer Bank and its subsidiaries ¹⁾	620,4	478,7	29,6%
BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. ²⁾	59,4	48,8	21,7%
BZ WBK Finanse Sp. z o.o., BZ WBK Leasing S.A. and BZ WBK Faktor Sp. z o.o. ³⁾	63,3	69,3	-8,7%
Other subsidiary undertakings ⁴⁾	(0,5)	(6,2)	-91,9%
Equity method valuation	38,5	36,1	6,6%
Elimination of dividends received by BZ WBK	(195,7)	(343,8)	-43,1%
Profit before tax	2 495,3	2 411,0	3,5%

1) As at 30 September 2017, SCB Group comprised Santander Consumer Bank and the following entities: Santander Consumer Multirent, Santander Consumer Finance, 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 is about to be removed from the court register. As at 30 September 2016, SCB Group did not include PSA companies, which have been controlled by SCB since Q4 2016. The amounts provided above represent profit before tax (after intercompany and consolidation adjustments) of SCB Group for the periods indicated.

2) On 31 March 2016, BZ WBK TFI merged with BZ WBK AM by taking over its assets in return for merger shares issued to the co-owners, i.e. to Bank Zachodni WBK and Banco Santander.

3) On 28 February 2017, BZ WBK leasing companies merged. BZ WBK Leasing, an acquiring company, assumed all rights and obligations of BZ WBK Lease, an acquired company, which was removed from the court register.

4) Other subsidiaries, i.e. BZ WBK Inwestycje, BZ WBK Nieruchomości and Geldokracja in liquidation disclosed a total loss of PLN 0.5m for the nine months of 2017 and PLN 6.2m for the nine months of 2016.

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

The unconsolidated profit before tax of Bank Zachodni WBK for the nine months of 2017 was PLN 1,909.9m and 10.3% lower YoY as a high base effect arising from the recognition of the remuneration of PLN 305.9m in respect of the settlement of the merger between Visa Inc. and Visa Europe Ltd. and substantial dividend income, including:

- dividends from subsidiaries: SCB (PLN 260.8m in 2016 vs. PLN 108.3m in 2017), BZ WBK TFI as a legal successor of BZ WBK Asset Management (PLN 52.2m in 2016 vs. PLN 37.5m in 2017) and BZ WBK Finanse (PLN 20m in 2016 vs. PLN 5m in 2017);
- dividend paid by Aviva Group companies from the bank's portfolio of equity investments (PLN 88.6m in 2016 vs. PLN 68.6m in 2017).

Excluding dividend income and one-off gains on equity instruments from the current and corresponding periods, the underlying profit before tax of Bank Zachodni WBK increased by 18.4% YoY as a combined effect of the following:

- A major improvement in net interest income (+9.5% YoY to PLN 2,799.9m) driven by robust credit delivery to retail customers and optimisation of the deposit range targeted at development of current account balances and long-term relationships with deposit customers.
- An increase in fee and commission income (+7.0% YoY to PLN 1,278.0m) attributed to higher volumes in the majority of product lines (in particular investment funds, brokerage services, loans and credit and debit cards) which were slightly offset by a decrease in insurance fee income arising from changes in the regulations.
- Lower impairment losses on loans and advances (PLN 383.1m, down 13.2% YoY) as a result of the sale of debt owed by retail and business customers.
- Lower total operating costs (down 2.9% YoY) due to lower general and administrative expenses and other operating costs (in relation to legal disputes) with a concurrent increase in amortisation/depreciation (on account of development of IT infrastructure).
- A decrease in net trading income (down 35.2% YoY to PLN 139.6m) mainly in relation to derivatives and FX transactions.
- Lower gains on other financial instruments (down 92.4% YoY to PLN 29.8m) amid lower trading in treasury bonds.

Subsidiaries

The subsidiaries consolidated by Bank Zachodni WBK reported an increase of 25.7% YoY in their total profit before tax as a result of higher profitability of SCB Group and BZ WBK TFI.

SCB Group

The contribution of SCB Group to the consolidated profit before tax of Bank Zachodni WBK Group for the three quarters of 2017 was PLN 620.4m (after intercompany transactions and consolidation adjustments) and increased by 29.6% YoY due to the following factors:

- An increase of PLN 156.7m in net interest income to PLN 989.3m, driven by higher net interest margin and lower funding cost, 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).
- A decrease of PLN 33.2m in net fee and commission income to PLN 104.4m on account of lower insurance income and one-off partner commissions incurred by the bank in connection with the development of the sales network and extension of contracts with the key hire purchase partners.
- Lower net impairment charges of PLN -68.9m (down PLN 40.7m) resulting from the extension of the recovery horizon from 24 to 36 months for cash loans and from 36 to 48 months for mortgage loans, and normalisation of the portfolio.
- An increase in other income to PLN 42.3m for the three quarters of 2017, mainly due to the release of a dated operational provision (PLN 10.8m).
- A rise of PLN 28.8m in operating costs to PLN 420.2m following the extension of the scope of consolidation of SCB Group to include PSA Finance Polska and PSA Consumer Finance Polska on 1 October 2016.

Other subsidiaries

The 21.7% YoY rise in profit before tax reported by BZ WBK TFI (a legal successor of BZ WBK Asset Management following the merger) reflects higher fee and commission income from asset management as a result of an increase in the average margin and net assets. Strong fund management performance of BZ WBK TFI and favourable stock market conditions observed throughout most of the year affected the sales structure (higher share of equities) and ensured a persistent flow of assets, mainly to equity and corporate bond funds.

Total profit before tax posted by companies controlled by BZ WBK Finanse decreased by 8.7% YoY.

- With a 21.3% YoY increase in credit exposures, the profit before tax earned by BZ WBK Faktor dropped by 6.1% YoY to PLN 15.6m due to a decrease in net interest income (attributed to increasing costs of funding) and net income from other operating activity, which was largely offset by lower impairment losses on factoring receivables.
- The profit before tax of BZ WBK Leasing and BZ WBK Finanse declined by 9.4% YoY to PLN 47.7m due to higher net impairment losses and funding costs. Fast business growth translated into the expansion of the working lease portfolio growth by 18% YoY and an increase in net interest income and net fee and commission income. Despite higher impairment charge the quality of the lease portfolio was sustained at a high-level.

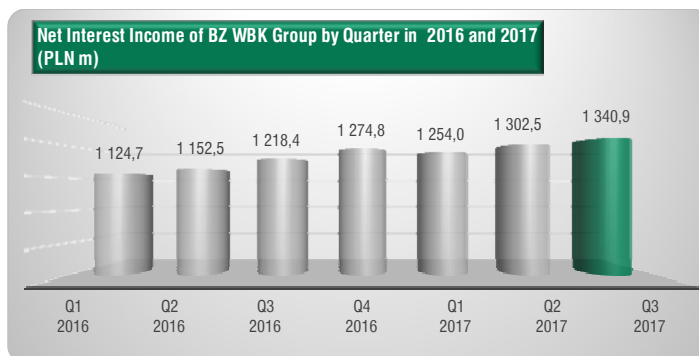
Structure of Bank Zachodni WBK Group profit before tax

Total income

The total income generated by Bank Zachodni WBK Group for the three quarters of 2017 was PLN 5,753.3m and remained stable YoY. Excluding the gain -of PLN 316.1m arising on the acquisition of Visa Europe Ltd. by Visa Inc., the underlying total income increased by 6.0% YoY.

Net interest income

After the three quarters of 2017, net interest income amounted to PLN 3,897.4m and increased by 11.5% YoY.

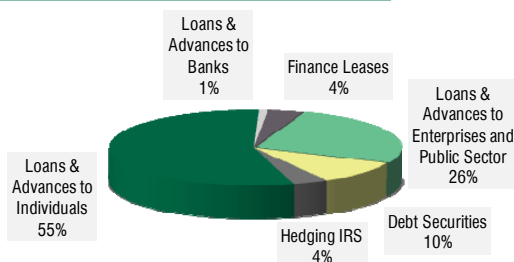


The Group reported increased interest income (up 8.4% YoY to PLN 4,844.6m) alongside a decline in interest expense (down 2.7% YoY to PLN 947.1m).

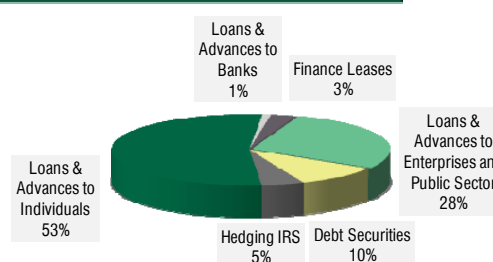
The growth rate of interest income was fueled by loans to retail customers, lease receivables and securities available for sale but slowed down by CIRS/IRS transactions hedging cash flows.

The continued decline in interest expense was driven by deposits from retail customers and the enterprise sector. The rate of decline was curtailed by increasing interest expense arising from the issue of securities, bank deposits and obligations from repo transactions.

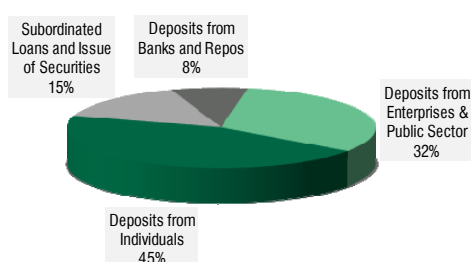
Structure of Interest Revenues of BZ WBK Group in Q1-3 2017



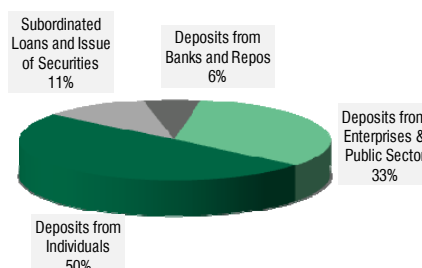
Structure of Interest Revenues of BZ WBK Group in Q1-3 2016



Structure of Interest Expense of BZ WBK Group in Q1-3 2017

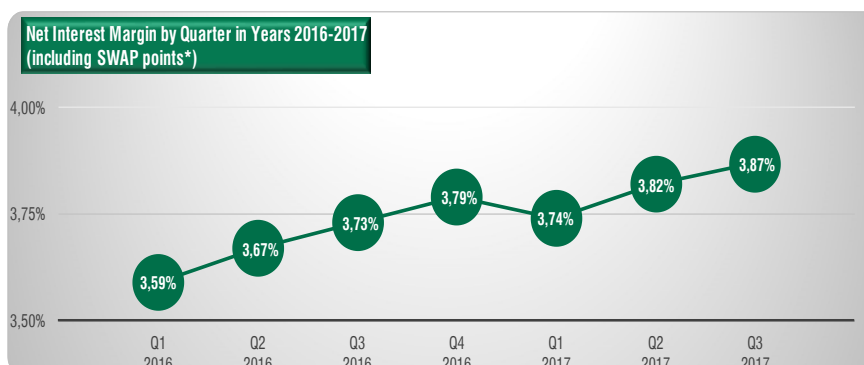


Structure of Interest Expense of BZ WBK Group in Q1-3 2016



The cumulated net interest margin of Bank Zachodni WBK Group (annualised on a year-to-date basis) went up from 3.65% for the three quarters of 2016 to 3.81% for the three quarters of 2017. The margin growth was supported by a slight increase in average market interest rates in 2017. It was also aided by a decline in funding costs resulting from the optimisation of the funding sources and adaptation processes within the Group’s product offering. Thanks to favourable trends in sales enhanced by solutions and tools designed to improve the quality, accessibility and competitiveness of products and services, the Group reported positive changes (from the perspective of margin) in core business volumes such as a YoY increase in loans and advances to retail customers (notably cash loans) and a significant rise in low-cost current account balances of individuals and companies as well as a drop in term deposits from both of the above customer segments.

In Q1 2017, the Group's quarterly net interest margin (annualised on a quarterly basis) declined amid the continuously low interest rate environment, only to reverse and trend upwards thereafter, supported by such structural factors as the growth of the retail loan portfolio and optimisation of the term deposit base from individuals. In addition last quarter's performance was affected by the dynamic growth of savings account balances driven by new special deals introduced in August, among other things.



* 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

After the three quarters of 2017, net interest income amounted to PLN 1,497.7m and increased by 4.7% YoY.

PLN m

Net Fee and Commission Income of BZ WBK Group	Q1-3 2017	Q1-3 2016	YoY Change
E-Business and payments ¹⁾	295,3	280,5	5,3%
FX fees	254,9	235,0	8,5%
Account maintenance and cash transactions ²⁾	252,2	248,0	1,7%
Asset management and distribution	210,1	172,0	22,2%
Credit fees ³⁾	154,5	157,2	-1,7%
Insurance fees ⁴⁾	149,7	178,5	-16,1%
Credit cards	100,9	91,5	10,3%
Brokerage activities	62,6	44,4	41,0%
Other ⁵⁾	17,5	23,7	-26,2%
Total	1 497,7	1 430,8	4,7%

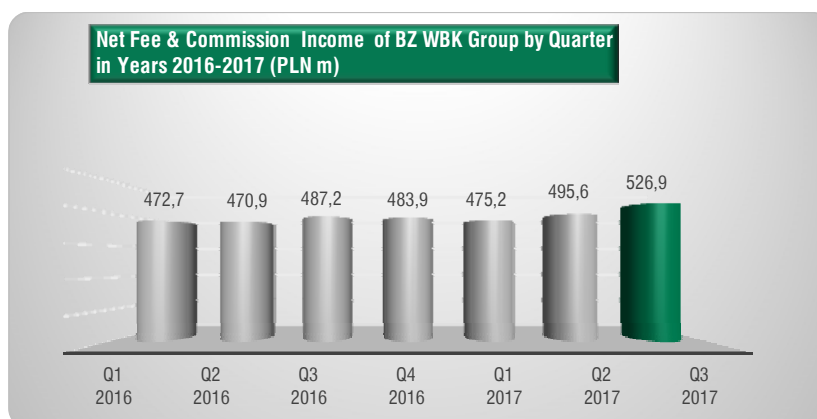
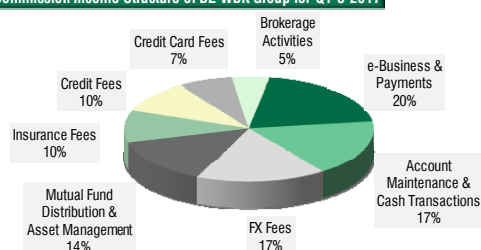
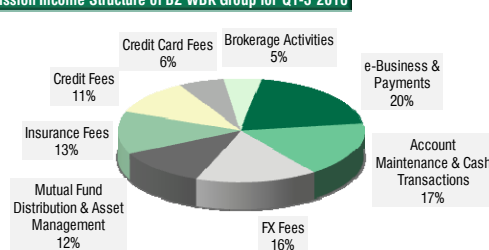
1) Fees for foreign and mass payments, Western Union transfers, trade finance, debit cards, services for third party institutions as well as other electronic and telecommunications services.

2) Fee income from account maintenance and cash transactions has been reduced by the corresponding expenses which in Note 5 of the "Condensed consolidated financial statements for the period of nine months ended 30 September 2017" are included in the line item "Other" (PLN 0.5m for the three quarters of 2017 vs. PLN 2.3m for the three quarters of 2016).

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

4) Pursuant to the Act of 11 September 2015 on insurance and reinsurance activity (effective as of 1 April 2016) banks – acting as insurance parties – must not collect insurance fees in relation to group insurance plans (e.g. linked with payment cards).

5) Fees on guarantees, issue arrangement and other.

**Net Commission Income Structure of BZ WBK Group for Q1-3 2017****Net Commission Income Structure of BZ WBK Group for Q1-3 2016**

The highest YoY growth in net fee and commission income was reported in relation to brokerage services (+41.0% YoY), which reflected higher volumes of trading in the secondary market amid favourable trends in the stock market (highest peaks in WSE indices in a long time) and the management of initial public offerings.

Higher net fee and commission income from fund distribution and asset management (+22.2% YoY) reflects an increase in the average net value of assets managed by BZ WBK TFI, mainly equity, corporate bond and stable growth funds, driven by stronger management results and improved investor sentiment compared with the corresponding period last year. Furthermore, the structure of sales of mutual funds changed in 2017, with a bigger share of high-margin solutions, such as equity funds or mixed funds with the equity component.

Fee and commission income aggregated under the "eBusiness and payments" line item rose by +5.3% YoY as a result of an increase in income from issuance and management of debit cards driven by their base growth (+4.5 YoY) and an increasing number of cash and non-cash transactions made with such cards as well as the revision of fees and charges applicable to card services for individuals and companies (August 2016).

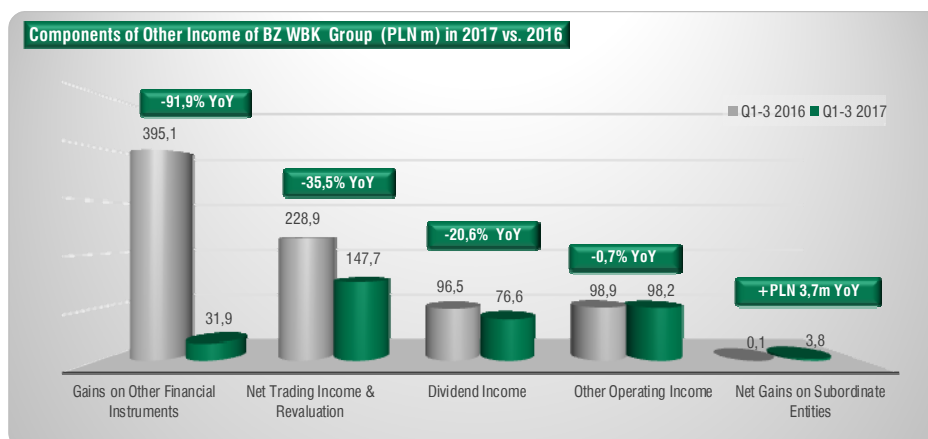
An improvement in FX fee income (+8.5% YoY) is attributed to higher turnover driven by the Group's comprehensive measures taken to support foreign trade and develop e-FX services in iBiznes24.

Net fee and commission income from issuance and management of credit cards went up by 10.3% YoY on account of a 4.7% YoY increase in the size of the combined credit card portfolio of Bank Zachodni WBK and SCB, a higher volume of credit card transactions and the last year's revision of selected credit card fees and charges of both banks.

Credit fees declined slightly by 1.7% YoY due to an increase in one-off credit intermediation costs connected with the maintenance and development of the SCB sales network. Fee and commission income that is strictly related to the management of credit exposures increased by 15.4% YoY on account of a growth in gross receivables.

The decline of 16.1% YoY in net fee and commission income from insurance business was connected with the legal and regulatory regime of the bancassurance market, in particular the statutory ban imposed by the Act of 11 September 2015 on insurance and reinsurance activity (effective as of 1 April 2016) on collection of insurance fees by banks acting as insuring parties in relation to group insurance plans (e.g. linked with payment cards).

Other income of the Group



Other income indicated above totalled PLN 358.2m and decreased by 56.3% YoY.

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

Net trading income and revaluation reported by Bank Zachodni WBK Group for the three quarters of 2017 was PLN 147.7m, down 35.5% YoY.

In the market of financial derivatives and interbank currency transactions, the Group generated profit of PLN 113.5m vs. PLN 204.6m for the three quarters of 2016. The above-mentioned item excludes net interest income from the CIRS and IRS transactions designated as hedging instruments under the cash flow hedge accounting (PLN 179.7m for the three quarters of 2017 vs. PLN 242.1m for the three quarters of 2016), which is disclosed under “Interest income”.

Other FX related income was PLN 32.2m and up PLN 11.3m on a YoY basis.

Debt and equity securities trading brought in a total profit of PLN 2m vs. PLN 3.3m in the corresponding period.

Gains on other financial instruments

The gains on other financial instruments decreased by 91.9% YoY to PLN 31.9m.

After the three quarters of 2017, gains on equity instruments available for sale were PLN 12.6m, including PLN 10.8m arising from the sale of all the shares (2.8m) in Polimex Mostostal S.A. and PLN 1.9m from the sale of a stake in Warsaw Stock Exchange (43.1k shares) from the bank’s available-for-sale portfolio. The corresponding gains for the three quarters of 2016 reached PLN 317.8m, including PLN 316.1m of a total remuneration of BZ WBK and SCB from settlement of the acquisition of Visa Europe Ltd. by Visa Inc. in the form of a cash payment, preference shares and an earn-out.

Gains on disposal of available-for-sale debt instruments (mainly treasury bonds and BGK bonds) were PLN 18.7m, down PLN 65.3m YoY. The decisions regarding the volume and structure of the portfolio of available-for-sale debt securities are determined by various internal and external factors, such as availability of securities, expectations of interest rate cycle movements and fluctuations of yield curves. The measures taken as part of duration management were in line with market conditions and took into account the Group’s objectives with regard to risk and liquidity management.

Gains on subordinate entities

The consolidated income statement for the three quarters of 2017 includes a gain of PLN 3.8m on shares in related entities, arising from the settlement of liquidation of AKB Marketing Services, a member of SCB Group until it is struck off the court register.

Dividends

After the first nine months of 2017, the Group disclosed dividend income of PLN 76.6m, i.e. down PLN 19.9m YoY on account of lower dividends from Aviva Group companies from the bank’s portfolio of equity investments.

Other operating income

Other operating income for the three quarters of 2017 was stable at PLN 98.2m.

The major homogeneous item of other operating income are disputed claims of PLN 24.2m, recognised as operating income on the basis of relevant legal decisions. Significant YoY increases were also noted in revenue from the sale of services (+32.4% YoY) and provisions for legal disputes (+63% YoY).

The above increases were offset by a decrease of PLN 38.2m YoY in reimbursements of fees from the Bank Guarantee Fund (BFG) as a result of a change in the accounting for such revenues (now recognised as fee and commission income) following ratification of the Act of 10 June 2016 on the Bank Guarantee Fund, deposit guarantee scheme and resolution that introduced a new methodology for calculating BFG contributions.

Impairment charges

PLN m			
Impairment Losses of BZ WBK Group on Loans and Advances	Q1-3 2017	Q1-3 2016	YoY Change
Collective and individual impairment charge	(475,8)	(608,4)	-21,8%
Impaired but not reported losses charge	(43,7)	(28,2)	55,0%
Recoveries of loans previously written off	41,1	51,9	-20,8%
Off-balance sheet credit related facilities	0,9	19,4	-95,4%
Total	(477,5)	(565,3)	-15,5%

After the three quarters of 2017, the loan impairment charge to the income statement of Bank Zachodni WBK Group was PLN 477.5m, down 15.5% YoY. SCB contributed PLN 68.9m vs. PLN 109.6m a year before.

The charge for incurred and reported losses (on individual and collective exposures) was PLN 475.8m for the three quarters of 2017 and decreased by 21.8% YoY amid stable growth in the Group's credit portfolio: loans to enterprises and the public sector increased by 1.9% YoY (including factoring receivables), personal loans by 4.5% YoY and lease receivables by 24.0% YoY. Compared with the corresponding period of 2016, impairment charges decreased especially on collectively assessed exposures towards retail customers.

The impairment charge for incurred but not reported losses was PLN 43.7m, up 55.0% YoY.

Over the first nine months of 2017, Bank Zachodni WBK sold non-performing receivables of PLN 780.3m vs. PLN 704.7m in the corresponding period (including the principal amount of PLN 711.5m and PLN 656.1m, respectively), which contributed PLN 153.4m and PLN 28.8m to the profit before tax in both periods, respectively. Receivables sold included claims on retail and business customers.

Santander Consumer Bank sold the written-off portfolio of cash loans, instalment loans, credit cards and car loans of PLN 371.7m, which brought in a profit before tax of PLN 48.9m. Last year, SCB sold the credit portfolio of PLN 326.6m, generating profit before tax of PLN 51.9m.

The changes in the value and structure of impairment charges reflect the prudential approach of Bank Zachodni WBK Group to credit risk management.

Bank Zachodni WBK Group's NPL ratio decreased considerably from 6.8% as at 30 September 2016 to 6.0% as at 30 September 2017. At the same time, the cost of credit declined from 0.80% for the three quarters of 2016 to 0.64% for the three quarters of 2017.

Total costs

PLN m			
Total costs of BZ WBK Group	Q1-3 2017	Q1-3 2016	YoY Change
Staff, general and administrative expenses, of which:	(2 184,1)	(2 215,0)	-1,4%
- Staff expenses	(1 162,9)	(1 126,3)	3,2%
- General and administrative expenses	(1 021,2)	(1 088,7)	-6,2%
Depreciation/amortisation	(234,3)	(202,5)	15,7%
Other operating expenses	(83,8)	(109,9)	-23,7%
Total costs	(2 502,2)	(2 527,4)	-1,0%

The total costs of BZ WBK Group for the three quarters of 2017 amounted to PLN 2,502.2m and declined by 1% YoY, confirming the Group's strong cost discipline as part of the Group's corporate culture. The downward trend was also supported by a decrease in provisions for legal disputes under other operating costs.

This performance was achieved despite significant costs associated with transformation projects (including digital and distribution model transformation), higher staff expenses and increased amortisation/depreciation charges connected with extension of IT infrastructure.

Excluding gains on the acquisition of Visa Europe Ltd. by Visa Inc. from total income for 2016, the Group's cost to income ratio decreased from 46.5% for the three quarters of 2016 to 43.5% for the three quarters of 2017.

Staff expenses

Staff expenses of Bank Zachodni WBK Group for the three quarters of 2017 totalled PLN 1,162.9m and increased by 3.2% YoY. SCB Group's contribution to consolidated staff expenses was PLN 181.3m and up 7.6% YoY following the extension of the scope of consolidation of SCB Group to include PSA Finance Polska and PSA Consumer Finance Polska, effective from 1 October 2016.

The key staff expense line items, i.e. "Salaries and bonuses" and "Statutory deductions from salaries" increased by 3.3% YoY to PLN 1,123.7m in total as a result of higher headcount and larger employee bonuses and salaries after staff remuneration revision in H2 2016.

BZ WBK Group's headcount rose by 107 FTEs YoY, mainly on account of an increase in SCB Group staff levels resulting from the acquisition of control over PSA Finance Polska and PSA Consumer Finance Polska.

General and administrative expenses

During the first nine months of 2017, general and administrative expenses of Bank Zachodni WBK Group declined by 6.2% YoY to PLN 1,021.2m. Costs incurred by SCB Group totalled PLN 196.3m and were 7% higher YoY driven by costs of IT usage and maintenance and lease of premises.

Optimisation measures taken by the Group such as the rationalisation of branch network and incorporation of the Multichannel Communication Centre into the structures of the Business Support Centre helped to reduce the cost of maintenance and lease of buildings (-8.0% YoY) and the cost of other third party services (-15.3% YoY) by the total amount of PLN 33.7m.

In the period until September 2017, the consolidated fees payable by BZ WBK Group to market regulators went down by 7.1% YoY to PLN 199.8m, as the Group was no longer required to make contributions to the Borrowers Support Fund in 2017. The YoY movement also reflects the revised method for collecting bank supervision fees by KNF. The contributions made by the Group to the bank guarantee fund and the bank resolution fund totalled PLN 190m for nine months of 2017 and were stable YoY.

A significant drop of 18.7% YoY in cost of marketing and entertainment is attributed to the frequency and scale of marketing activities delivered by the bank in accordance with business requirements. Until the end of September 2017, the bank conducted one mass campaign of a consolidation loan, whereas in 2016, the advertising campaigns of consumer loans were launched earlier and covered a wider range of products. Lower consultancy and advisory fees (-11.5% YoY) are an effect of high base related to the last year's legal and expert services provided in connection with projects launched as part of the bank's strategic transformation.

After the three quarters of 2017, a notable YoY growth was only reported in the cost of IT usage (+10.0% YoY), which results from the delivery of IT projects across Santander Group and an increase in the cost of maintenance of IT hardware and software.

Tax on financial institutions

Pursuant to the Act on tax imposed on certain financial institutions, bank assets above PLN 4bn are subject to tax of 0.0366% per month. As the above regulations became effective on 1 February 2016, the taxable period in the corresponding period of 2016 covered eight rather than nine months, as a result of which the ensuing charge to the income statement increased by PLN 38.5m YoY to PLN 316.8m.

Effective tax rate

The effective tax rate for the three quarters of 2017 was 24.1% vs. 22.2% in the corresponding period of 2016 due to higher loss on credit debt sales and higher charge on account of banking tax – items which are not tax deductible.

Statement of Financial Position of Bank Zachodni WBK Group

Consolidated assets

As at 30 September 2017, the total assets of Bank Zachodni WBK Group were PLN 150,424.4m, an increase of 5.9% YoY and of 0.2% vs. 31 December 2016. The value and structure of the Group's financial position is determined by the parent entity, which accounts for 87.4% of the consolidated total assets as at the end of September 2017 vs. 87.6% as at the end of December 2016.



Structure of consolidated assets condensed for analytical purposes

Assets of BZ WBK Group (condensed presentation for analytical purposes)	PLN m							
	30.09.2017	Structure 30.09.2017	31.12.2016	Structure 31.12.2016	30.09.2016	Structure 30.09.2016	Ytd Change	YoY Change
	1	2	3	4	5	6	1/3	1/5
Loans and advances to customers ¹⁾	106 475,4	70,8%	103 068,5	68,7%	101 154,4	71,2%	3,3%	5,3%
Financial assets available for sale	27 586,9	18,3%	29 307,9	19,5%	25 479,6	17,9%	-5,9%	8,3%
Cash and operations with Central Banks	5 117,2	3,4%	4 775,7	3,2%	3 259,3	2,3%	7,2%	57,0%
Fixed assets, intangibles and goodwill	2 999,9	2,0%	3 053,6	2,0%	2 935,6	2,1%	-1,8%	2,2%
Financial assets held for trading and hedging derivatives	2 475,0	1,6%	3 248,6	2,2%	3 375,7	2,4%	-23,8%	-26,7%
Loans and advances to banks ²⁾	2 179,0	1,5%	3 513,3	2,3%	2 836,3	2,0%	-38,0%	-23,2%
Other assets ³⁾	3 591,0	2,4%	3 132,1	2,1%	2 998,0	2,1%	14,7%	19,8%
Total	150 424,4	100,0%	150 099,7	100,0%	142 038,9	100,0%	0,2%	5,9%

1) Loans and advances to customers take into account impairment charge and exclude receivables from repo transactions which are reported under other assets, whereas in the full version of financial statements they were disclosed in a separate line item together with the corresponding loans and advances to banks.

2) Loans and advances to banks do not include receivables from repo transactions which are reported here under other assets.

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

As at 30 September 2017, consolidated net loans and advances to customers totalled PLN 106,475.4m, up 3.3% Ytd on account of credit delivery to retail and business customers. SCB Group contributed PLN 13,813.2m to this line (after intercompany and consolidation adjustments), which is similar to the contribution recorded as at 31 December 2016.

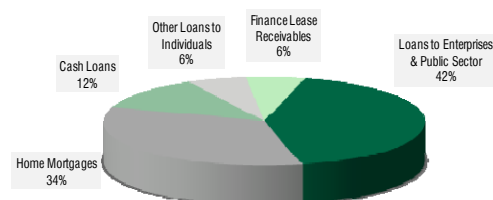
As part of the Group's ongoing liquidity management, the balance of funds deposited with NBP increased, which caused the "Cash and operations with central banks" to rise by 7.2% over nine months of 2017. The 14.7% Ytd increase in other assets reflects, *inter alia*, settlements in respect of customer stock market transactions.

The above increases were offset by the declines observed over the three quarters of 2017 in other asset items of the condensed statement of financial position. A high negative movement (-23.8% Ytd) was observed in the aggregated line item “Financial assets held for trading and hedging derivatives”, primarily an effect of reduction of the NBP bills portfolio. Loans and advances to banks decreased by 38.0% Ytd as a result of a lower balance of current and term placements in the interbank market. The portfolio of financial assets available for sale decreased by 5.9% Ytd on account of redemption of NBP bills at maturity. SCB Group contributed PLN 2,846.5m to this item, which is a decline of 3.8% from 31 December 2016.

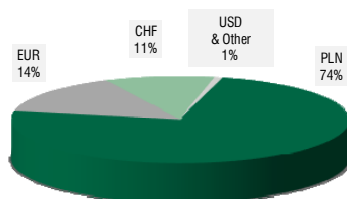
Credit portfolio of Bank Zachodni WBK Group

Gross Loans and Advances to Customers of BZ WBK Group	PLN m				
	30.09.2017 1	31.12.2016 2	30.09.2016 3	Ytd Change 1/2	YoY Change 1/3
Loans and advances to individuals	57 516,9	56 291,4	55 026,4	2,2%	4,5%
Loans and advances to enterprises and public sector customers	46 968,0	45 375,7	46 080,9	3,5%	1,9%
Finance lease receivables	6 626,1	6 098,5	5 343,8	8,7%	24,0%
Other	265,5	181,8	83,3	46,0%	218,7%
Total	111 376,5	107 947,4	106 534,4	3,2%	4,5%

Product Structure of Consolidated Loans & Advances to Customers as at 30.09.2017



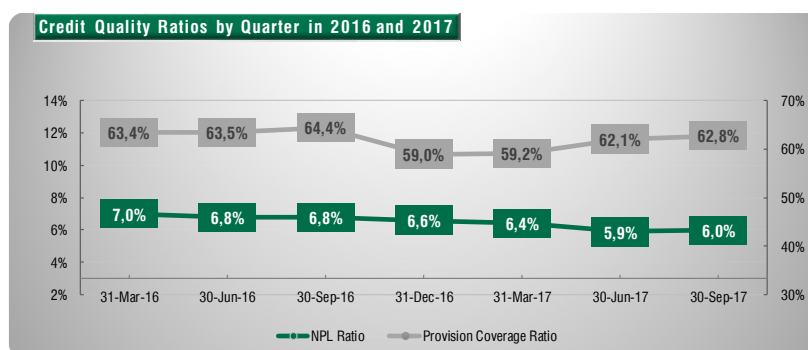
FX Structure of Consolidated Loans and Advances to Customers as at 30.09.2017



As at 30 September 2017, consolidated gross loans and advances to customers were PLN 111,376.5m, and higher by 3.2% Ytd. On a constant currency basis, the growth rate was 4.7%.

Loans and advances to individuals increased by 2.2% Ytd to PLN 57,516.9m as at 30 September 2017. Home loans, which represent the major portion of loans and advances to individuals, increased slightly (+1.2% Ytd) to PLN 37,462.9m. The second significant constituent item, i.e. cash loans, grew by 7.8% to PLN 12,851.6m.

Loans and advances to enterprises and public sector entities were PLN 46,968.0m, 3.5% higher Ytd, mainly driven by lending to SME and large corporate customers. Finance leases, which include the portfolios of BZ WBK Leasing, Santander Consumer Multirent and PSA Finance Polska, increased by 8.7% to PLN 6,626.1m on account of a dynamic growth in the sales of machines and equipment. Loans granted by BZ WBK Leasing to finance machines and vehicles for business customers, totalling PLN 1,963.9m as at 30 September 2017 (vs. PLN 1,642.4m as at 31 December 2016), are disclosed outside the leasing portfolio, as loans and advances to enterprises.



As at 30 September 2017, non-performing (impaired) loans to customers accounted for 6.0% of the gross portfolio of Bank Zachodni WBK Group vs. 6.6% nine months before and 6.8% twelve months before. The provision coverage ratio for impaired loans was 62.8% vs. 59.0% as at 31 December 2016 and 64.4% as at 30 September 2016.

Structure of consolidated equity and liabilities condensed for analytical purposes

Liabilities & Equity of BZ WBK Group S.A. (condensed presentation for analytical purposes)	PLN m								
	30.09.2017	Structure		Structure		Structure		Ytd Change	YoY Change
	1	2	3	4	5	6	1/3	1/5	
Deposits from customers ¹⁾	111 022,8	73,8%	112 522,5	75,0%	106 650,7	75,1%	-1,3%	4,1%	
Subordinated liabilities and debt securities in issue	6 846,5	4,6%	5 969,6	4,0%	5 764,5	4,1%	14,7%	18,8%	
Deposits from banks ¹⁾	2 730,5	1,8%	2 561,3	1,7%	1 574,1	1,1%	6,6%	73,5%	
Financial liabilities held for trading and hedging derivatives	2 479,7	1,6%	3 832,4	2,5%	4 041,1	2,8%	-35,3%	-38,6%	
Sell-buy-back transactions	1 861,6	1,2%	1 632,6	1,1%	1 238,3	0,9%	14,0%	50,3%	
Other liabilities ²⁾	2 827,4	1,9%	2 562,8	1,7%	1 996,2	1,4%	10,3%	41,6%	
Total equity	22 655,9	15,1%	21 018,5	14,0%	20 774,0	14,6%	7,8%	9,1%	
Total	150 424,4	100,0%	150 099,7	100,0%	142 038,9	100,0%	0,2%	5,9%	

1) Deposits from customers and banks do not include liabilities due to repo transactions which are reported under a separate line item.

2) Other liabilities include current income tax, provisions and other liabilities.

Under the liabilities of the condensed consolidated statement of Bank Zachodni WBK Group's financial situation as at 30 September 2017 significant Ytd changes occurred in subordinated liabilities and debt securities in issue which increased by 14.7% Ytd. The contribution of SCB Group to this line item was PLN 3,817.1m, up 1.9%, and related solely to debt securities in issue. In the reporting period, Bank Zachodni WBK issued three series of certificates of deposit as part of the Issuance Programme for the total nominal value of PLN 1,420.0m and subordinated debt in the form of green bonds with a nominal value of EUR 137.1m. The bank also redeemed two series of bonds of PLN 660m and two series of certificates of deposit totalling PLN 520m. At the same time, Santander Consumer Bank issued bonds with a nominal value of PLN 300m as part of the debt securities issuance programme guaranteed by Santander Consumer Finance, and repurchased debt securities of PLN 230m.

Furthermore, pursuant to KNF decision, bonds of EUR 120.0m with a 10-year maturity issued by Bank Zachodni WBK on 2 December 2016 were taken from debt securities in issue to subordinated liabilities.

During the first nine months of 2017, a notable increase was also posted in deposits from banks (+6.6% Ytd) and in liabilities due to repo transactions (+14% Ytd).

Compared with 31 December 2016, a pronounced downward trend was observed in the line item "Financial liabilities held for trading and hedging derivatives", which fell 35.3% under the impact of hedging transactions. Deposits from customers fell by 1.3% due to the cycle of activities of business customers, who gather funds in current accounts and term deposits towards the year-end to finance working capital and investment needs going forward.

The total equity of Bank Zachodni WBK Group increased by 7.8% as the bank's entire profit for 2016 was retained in accordance with the guidelines issued by the regulator.

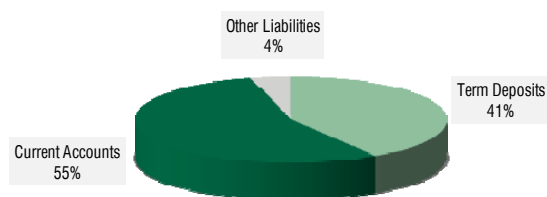
Deposit base of Bank Zachodni WBK Group

PLN m

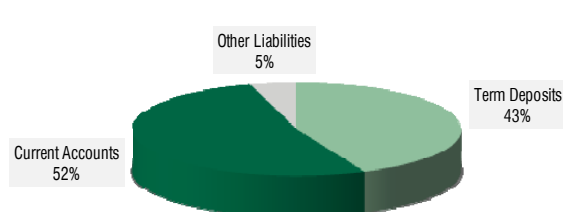
Deposits of BZ WBK Group from Customers	30.09.2017	31.12.2016	30.09.2016	Ytd Change	YoY Change
	1	2	3	1/2	1/3
Deposits from individuals	64 467,6	63 547,9	61 362,0	1,4%	5,1%
Deposits from enterprises and public sector customers	46 555,2	48 974,6	45 288,7	-4,9%	2,8%
Total	111 022,8	112 522,5	106 650,7	-1,3%	4,1%

During the first nine months of 2017, consolidated deposits from customers decreased by 1.3% and amounted to PLN 111,022.8m as at 30 September 2017, including PLN 7,993.0m of SCB Group’s potfolio after intercompany transactions (vs. PLN 8,224.7m as at the end of December 2016).

Structure of Consolidated Customer Deposits as at 30.09.2017



Structure of Consolidated Customer Deposits as at 30.09.2016



In the reporting period, the management of deposit products focused on strengthening relationship with deposit customers and shaping deposit volumes and structure by optimising the Group’s offering. Due to the record low interest rate environment and more favourable stock market conditions, customers were more attracted to investment fund solutions offered by the Group than last year.

The Group’s total term deposits from customers amounted to PLN 45,352.7m and decreased by 5.2% over the nine months. Current account balances increased by 1.9% Ytd to PLN 61,015.5m, and other liabilities were PLN 4,654.5m, down 3.7% from 31 December 2016. The largest constituent of the last item were “loans and advances” (PLN 3,723.7m vs. PLN 4,075.9m as at 31 December 2016), reported under “deposits from enterprises”, which included facilities granted by 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 leasing business of the bank’s subsidiaries. The decrease in loans and advances is a combined effect of scheduled repayments of loans from the European Investment Bank at maturity and the financing of EUR 100m obtained by BZ WBK Leasing from the Council of Europe Development Bank.

Term Deposits at the End of Consecutive Quarters of 2016 and 2017 (PLN bn)





* Including savings accounts

The retail deposit base was PLN 64,467.6m and higher by 1.4% Ytd as a result of a 4.6% increase in the balance of current accounts, including savings accounts. Throughout the year the acquisition of new money was supported by special deal offers of savings accounts, including the campaign for Max Savings Account (Konto Max Oszczędnościowe) and the campaign for the Account As I Want It (Konto Jakie Chcę) bundled with the Regular Savings Account (Konto Systematyczne), which were launched towards the end of September.

During the first nine months of 2017, deposits from enterprises and the public sector dropped by 4.9% to PLN 46,555.1m at the end of September 2017. The decreases in both current and term deposit accounts resulted from a high base effect resulting from the increased balance of business deposits towards the end of 2016.

Selected ratios for Bank Zachodni WBK Group

Selected Financial Ratios of BZ WBK Group	30.09.2017	30.09.2016 ¹⁾
Total costs/Total income	43,5%	46,5%
Net interest income/Total income	67,7%	64,4%
Net interest margin ²⁾	3,8%	3,7%
Net commission income/Total income	26,0%	26,4%
Customer net loans/Customer deposits	95,9%	94,8%
NPL ratio	6,0%	6,8%
NPL coverage ratio	62,8%	64,4%
Credit risk ratio ³⁾	0,64%	0,80%
ROE ⁴⁾	11,7%	11,6%
ROTE ⁵⁾	13,7%	14,0%
ROA ⁶⁾	1,4%	1,4%
Capital ratio ⁷⁾	16,90%	15,30%
Tier I ratio ⁸⁾	15,92%	14,88%
Book value per share (in PLN)	228,1	209,3
Earnings per share (in PLN) ⁹⁾	16,6	14,6

1) The calculations of the following ratios for 2016 use the Group's total income or profit (as the case may be) after adjustment for one-off gains on equity transactions: cost/income, net interest income/total income, net fee and commission income/total income and earnings per share.

2) Net interest income for four consecutive quarters (excluding interest income from the portfolio of trading securities) to average net interest-bearing assets as at the beginning and end of the reporting period (excluding the trading portfolio).

3) Impairment losses (for four consecutive quarters) to average gross loans and advances to customers (as at the beginning and end of the reporting period).

4) Profit attributable to the parent's shareholders (for four consecutive quarters) to average equity (as at the beginning and end of the reporting period), net of non-controlling interests, current period profit and the undistributed portion of the profit.

5) Profit attributable to the parent's shareholders (for four consecutive quarters) to average tangible equity (as at the beginning and end of the reporting period) defined as common equity attributable to the parent's shareholders less revaluation reserve, current period profit, undistributed portion of the profit, intangible assets and goodwill.

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

7) 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.

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

9) Net profit for the period attributable to shareholders of BZ WBK divided by the number of ordinary shares.

Capital ratios

The table below presents calculation of the capital ratio and Tier 1 ratio of Bank Zachodni WBK Group as at 30 September 2017 and 31 December 2016.

BZ WBK Group		30.09.2017	31.12.2016
I	Total capital requirement	9 102,0	8 816,6
II	Own funds after reductions	19 228,7	16 584,8
CAD [II/(I*12.5)]		16,90%	15,05%
Tier 1 Ratio		15,92%	14,56%

The tables below show the capital ratio and Tier 1 ratio of Bank Zachodni WBK and Santander Consumer Bank as at 30 September 2017 and 31 December 2016.

BZ WBK Capital Ratios		30.09.2017	31.12.2016
Total Capital Ratio		18,97%	16,52%
Tier I Ratio		17,93%	16,08%

SCB Capital Ratios		30.09.2017	31.12.2016
Total Capital Ratio		19,32%	16,22%
Tier I Ratio		19,32%	16,22%

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

- Uncertainty about world economic outlook, fuelled by external risk factors.
- Effect of UK-EU negotiations about the "Brexit".
- Fluctuations in commodity prices.
- Stabilization of economic growth in Poland.
- Rise of households' real disposable income due to continued employment growth and wage hikes.
- Further rise of labour market tension due to lack of qualified workforce, consequences of the lowered retirement age.
- Low financing costs for households and companies, which should be supportive for a gradual rise in demand for bank loans. At the same time, low interest on deposits should encourage banks' clients to look for alternative forms of saving / investing.
- Possible changes in the NBP, ECB and Fed monetary policy.
- New bill on FX mortgages, introducing additional costs on banks.
- The changes of assets' financing cost depending on the pace and scale of changes of main interest rates, changes of the zloty exchange rate, development of liquidity situation of the banking sector and intensity of price competition between the banks regarding collecting the deposits.
- Possible increase of volatility of financial market in case of disappointment about the pace of global economic revival, rising worries about excessive monetary tightening by the US Fed or geopolitical factors.
- Further developments on the global stock market and its impact on willingness to purchase investment funds units or keeping savings in safe bank deposits as an alternative.



Signatures of the persons representing the entity

Date	Name	Function	Signature
24.10.2017	Carlos Polaino Izquierdo	Member of the Management Board	
24.10.2017	Wojciech Skalski	Financial Accounting Area Director	