



INTERIM REPORT 2017 **OF BANK ZACHODNI WBK GROUP**

2017



Bank Zachodni WBK

 Grupa Santander

FINANCIAL HIGHLIGHTS	PLN k		EUR k	
	01.01.2017- 30.06.2017	01.01.2016- 30.06.2016	01.01.2017- 30.06.2017	01.01.2016- 30.06.2016
	Consolidated financial statements of Bank Zachodni WBK Group			
I Net interest income	2 556 483	2 277 192	601 894	519 848
II Net fee and commission income	970 835	943 560	228 572	215 400
III Operating profit	1 861 144	1 926 477	438 184	439 785
IV Profit before tax	1 674 024	1 773 929	394 129	404 960
V Net profit attributable to owners of BZ WBK S.A.	1 104 155	1 279 965	259 960	292 196
VI Total net cash flows	(5 846 912)	(4 910 084)	(1 376 586)	(1 120 896)
VII Profit of the period attributable to non-controlling interests	157 320	114 763	37 039	26 199
VIII Profit per share in PLN/EUR	11,13	12,90	2,62	2,94
IX Diluted earnings per share in PLN/EUR	11,11	12,89	2,62	2,94
Financial statements of Bank Zachodni WBK				
I Net interest income	1 838 919	1 661 623	432 952	379 323
II Net fee and commission income	831 348	771 675	195 731	176 161
III Operating profit	1 542 102	1 827 668	363 070	417 228
IV Profit before tax	1 348 716	1 668 079	317 539	380 796
V Profit for the period	1 039 729	1 377 027	244 792	314 354
VI Total net cash flows	(5 736 774)	(4 261 536)	(1 350 655)	(972 842)
VII Profit per share in PLN/EUR	10,48	13,88	2,47	3,17
VIII Diluted earnings per share in PLN/EUR	10,47	13,87	2,47	3,17

FINANCIAL HIGHLIGHTS	PLN k		EUR k	
	30.06.2017	31.12.2016	30.06.2017	31.12.2016
	Consolidated financial statements of Bank Zachodni WBK Group			
I Total assets	149 766 718	150 099 716	35 435 163	33 928 507
II Deposits from banks	2 591 607	2 561 281	613 180	578 951
III Deposits from customers	109 111 159	112 522 457	25 815 961	25 434 552
IV Total liabilities	127 866 212	129 081 240	30 253 451	29 177 495
V Total equity	21 900 506	21 018 476	5 181 712	4 751 012
VI Non-controlling interests in equity	1 285 398	1 237 649	304 128	279 758
VII Number of shares	99 234 534	99 234 534	-	-
VIII Net book value per share in PLN/EUR	220,69	211,81	52,22	47,88
IX Capital ratio	16,51%	15,05%		
X Declared or paid dividend per share in PLN/EUR	5,40*	-**	1,28*	-**
Financial statements of Bank Zachodni WBK				
I Total assets	131 274 102	131 417 988	31 059 766	29 705 693
II Deposits from banks	1 217 130	1 212 765	287 976	274 133
III Deposits from customers	100 032 147	103 381 249	23 667 845	23 368 275
IV Total liabilities	111 488 950	112 388 468	26 378 552	25 404 265
V Total equity	19 785 152	19 029 520	4 681 214	4 301 429
VI Number of shares	99 234 534	99 234 534		
VII Net book value per share in PLN/EUR	199,38	191,76	47,17	43,35
VIII Capital ratio	18,38%	16,52%		
IX Declared or paid dividend per share in PLN/EUR	5,40*	-**	1,28*	-**

* Detailed information are described in Note 43.

*As of the date of publication of annual report for 2016, the Management Board of Bank Zachodni WBK has not finalised its analysis in respect of recommendation on dividend payout for 2016.

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

- for balance sheet items – average NBP exchange rate as at 30.06.2017: EUR 1 = PLN 4.2265 and as at 30.12.2016: EUR 1 = PLN 4.4240
- for profit and loss items – as at 30.06.2017 - the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month in H1 2017: EUR 1 = PLN 4.2474; as at 30.06.2016 - the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month in H1 2016: EUR 1 = PLN 4.3805

As at 30.06.2017, FX denominated balance sheet positions were converted into PLN in line with the NBP FX table no. 125/A/NBP/2017 dd. 30.06.2017.



**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENT OF
BANK ZACHODNI WBK GROUP
FOR THE 6-MONTH PERIOD
ENDED 30 JUNE 2017**

2017



Bank Zachodni WBK

 Grupa Santander

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In thousands of PLN

Condensed consolidated income statement

	for reporting period:	01.04.2017- 30.06.2017	01.01.2017- 30.06.2017	01.04.2016- 30.06.2016	01.01.2016- 30.06.2016
Interest income		1 620 968	3 180 770	1 479 026	2 941 003
Interest expense		(318 481)	(624 287)	(326 500)	(663 811)
Net interest income	Note 6	1 302 487	2 556 483	1 152 526	2 277 192
Fee and commission income		633 536	1 222 830	575 852	1 153 199
Fee and commission expense		(137 894)	(251 995)	(105 020)	(209 639)
Net fee and commission income	Note 7	495 642	970 835	470 832	943 560
Dividend income		75 579	75 924	15 225	94 794
Net gains/(losses) on subordinated entities	Note 32	-	3 757	-	100
Net trading income and revaluation	Note 8	36 228	92 086	90 066	172 859
Gains (losses) from other financial securities	Note 9	10 770	27 947	348 678	387 664
Other operating income	Note 10	32 204	74 544	37 606	66 727
Impairment losses on loans and advances	Note 11	(100 366)	(245 878)	(176 989)	(311 133)
Operating expenses incl.:		(828 582)	(1 694 554)	(840 633)	(1 705 286)
<i>Bank's staff, operating expenses and management costs</i>	Notes 12, 13	(734 087)	(1 497 797)	(732 887)	(1 472 712)
<i>Depreciation/amortisation</i>		(77 840)	(152 109)	(68 847)	(134 160)
<i>Other operating expenses</i>		(16 655)	(44 648)	(38 899)	(98 414)
Operating profit		1 023 962	1 861 144	1 097 311	1 926 477
Share in net profits (loss) of entities accounted for by the equity method		15 157	23 812	13 058	20 696
Tax on financial institutions		(105 123)	(210 932)	(105 665)	(173 244)
Profit before tax		933 996	1 674 024	1 004 704	1 773 929
Corporate income tax	Note 14	(199 737)	(412 549)	(231 378)	(379 201)
Consolidated profit for the period		734 259	1 261 475	773 326	1 394 728
of which:		-	-	-	-
<i>attributable to owners of BZ WBK S.A.</i>		651 111	1 104 155	723 492	1 279 965
<i>attributable to non-controlling interests</i>		83 148	157 320	49 834	114 763
Net earnings per share (PLN/share)					
Basic earnings per share		6,56	11,13	7,29	12,90
Diluted earnings per share		6,55	11,11	7,28	12,89

Condensed consolidated statement of comprehensive income

	for reporting period:	01.04.2017- 30.06.2017	01.01.2017- 30.06.2017	01.04.2016- 30.06.2016	01.01.2016- 30.06.2016
Consolidated profit for the period		734 259	1 261 475	773 326	1 394 728
Other comprehensive income which can be transferred to the profit and loss account:		140 364	258 780	(298 007)	(175 873)
Available-for sale financial assets valuation, gross		181 366	344 816	(366 267)	(310 610)
Deferred tax		(34 459)	(65 515)	69 591	59 016
Cash flow hedges valuation, gross		(8 077)	(25 334)	(1 643)	93 483
Deferred tax		1 534	4 813	312	(17 762)
Other comprehensive income which can't be transferred to the profit and loss account		-	(4)	-	-
Provision for retirement allowances – actuarial gains/losses, gross		-	(5)	-	-
Deferred tax		-	1	-	-
Other comprehensive income for the period, net of income tax		140 364	258 776	(298 007)	(175 873)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		874 623	1 520 251	475 319	1 218 855
Attributable to:					
<i>owners of BZ WBK S.A.</i>		798 389	1 359 533	431 131	1 107 332
<i>non-controlling interests</i>		76 234	160 718	44 188	111 523

Notes presented on pages 10 – 49 constitute an integral part of these financial statements.

In thousands of PLN

Condensed consolidated statement of financial position

as at:		30.06.2017	31.12.2016
ASSETS			
Cash and balances with central banks	Note 15	4 112 997	4 775 660
Loans and advances to banks	Note 16	1 870 753	3 513 278
Financial assets held for trading	Note 17	5 626 804	3 180 985
Hedging derivatives	Note 18	89 111	67 645
Loans and advances to customers	Note 19	105 053 727	103 068 538
Buy-sell-back transactions		8 248	-
Financial assets available for sale	Note 20	26 735 273	29 307 878
Investments in associates	Note 21	853 327	871 491
Intangible assets		436 761	486 762
Goodwill		1 688 516	1 688 516
Property, plant and equipment		858 046	878 298
Net deferred tax assets		1 425 284	1 534 322
Assets classified as held for sale		608	629
Other assets		1 007 263	725 714
Total assets		149 766 718	150 099 716
LIABILITIES AND EQUITY			
Deposits from banks	Note 22	2 591 607	2 561 281
Hedging derivatives	Note 18	1 186 008	2 023 344
Financial liabilities held for trading	Note 17	1 510 292	1 809 060
Deposits from customers	Note 23	109 111 159	112 522 457
Sell-buy-back transactions		4 168 296	1 632 613
Subordinated liabilities	Note 24	929 221	440 457
Debt securities in issue	Note 25	5 961 983	5 529 187
Current income tax liabilities		87 089	84 151
Provisions	Note 26	138 787	130 128
Other liabilities	Note 27	2 181 770	2 348 562
Total liabilities		127 866 212	129 081 240
Equity			
Equity attributable to owners of BZ WBK		20 615 108	19 780 827
Share capital		992 345	992 345
Other reserve capital		16 916 409	15 791 555
Revaluation reserve		531 471	276 093
Retained earnings		1 070 728	553 987
Profit for the current period		1 104 155	2 166 847
Non-controlling interests in equity		1 285 398	1 237 649
Total equity		21 900 506	21 018 476
Total liabilities and equity		149 766 718	150 099 716

Notes presented on pages 10 – 49 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	
	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total	equity	Total equity
Opening balance as at 31.12.2016	992 345	15 791 555	276 093	2 720 834	19 780 827	1 237 649	21 018 476
Total comprehensive income	-	-	255 378	1 104 155	1 359 533	160 718	1 520 251
Consolidated profit for the period	-	-	-	1 104 155	1 104 155	157 320	1 261 475
Other comprehensive income	-	-	255 378	-	255 378	3 398	258 776
Distributions of profits and losses	-	1 117 265	-	(1 117 265)	-	-	-
Dividends	-	-	-	(535 866)	(535 866)	(110 962)	(646 828)
Equity adjustment due to merger and liquidation of subsidiaries and controlling stake at the subsidiaries	-	7 589	-	3 025	10 614	(2 007)	8 607
As at 30.06.2017	992 345	16 916 409	531 471	2 174 883	20 615 108	1 285 398	21 900 506

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

Consolidated statement of changes in equity	Equity attributable to equity holders of BZ WBK SA					Non-controlling interests in equity	
	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total	equity	Total equity
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	-	-	(172 633)	1 279 965	1 107 332	111 523	1 218 855
Consolidated profit for the period	-	-	-	1 279 965	1 279 965	114 763	1 394 728
Other comprehensive income	-	-	(172 633)	-	(172 633)	(3 240)	(175 873)
Distributions of profits and losses	-	1 177 730	-	(1 177 730)	-	-	-
Share scheme charge	-	8 403	-	-	8 403	-	8 403
Dividends	-	-	-	(1 290 049)	(1 290 049)	(226 025)	(1 516 074)
Other	-	(87 381)	(61)	87 442	-	-	-
As at 30.06.2016	992 345	15 784 671	604 220	1 836 479	19 217 715	1 061 599	20 279 314

As at the end of the period revaluation reserve in the amount of PLN 604,220 k comprises of debt securities and equity shares classified as available for sale of PLN 156,501 k and PLN 564,547 k respectively and additionally cash flow hedge activities of PLN (119,428) k and accumulated actuarial gains -provision for retirement allowances of PLN 2,600 k.

Notes presented on pages 10 – 49 constitute an integral part of these financial statements.

In thousands of PLN

Condensed consolidated statement of cash flows

	for the period	01.01.2017- 30.06.2017	01.01.2016- 30.06.2016
Profit before tax		1 674 024	1 773 929
Total adjustments:			
Share in net profits (losses) of entities accounted for by the equity method		(23 812)	(20 696)
Depreciation/amortisation		152 109	134 160
Impairment losses		(19)	7 068
Profit (loss) from investing activities		(29 253)	(397 798)
		1 773 049	1 496 663
Changes:			
Provisions		8 659	(9 087)
Trading portfolio financial instruments		(3 444 470)	(819 035)
Hedging derivatives		(858 802)	384 738
Loans and advances to banks		(39)	4 666
Loans and advances to customers		(1 985 189)	(5 566 495)
Deposits from banks		28 832	440 903
Deposits from customers		(3 086 852)	4 085 246
Buy-sell/ Sell-buy-back transactions		2 535 683	(3 454 572)
Other assets and liabilities		(329 785)	199 024
		(7 131 963)	(4 734 612)
Interest accrued excluded from operating activities		(232 356)	(350 076)
Dividend		(75 763)	(94 736)
Paid income tax		(361 808)	(545 967)
Net cash flows from operating activities		(6 028 841)	(4 228 728)
Inflows		2 433 800	4 025 922
Sale of subordinated entities		-	100
Sale/maturity of financial assets available for sale		2 213 770	3 773 292
Sale of intangible assets and property, plant and equipment		10 648	7 467
Dividend received		26 267	74 517
Interest received		183 115	170 546
Outflows		(2 123 895)	(4 492 728)
Purchase of financial assets available for sale		(2 033 054)	(4 424 614)
Purchase of intangible assets and property, plant and equipment		(90 841)	(68 114)
Net cash flows from investing activities		309 905	(466 806)
Inflows		1 839 349	2 626 140
Debt securities in issue		1 238 789	767 000
Drawing of loans		600 560	1 859 140
Outflows		(1 967 325)	(2 840 690)
Debt securities buy out		(285 000)	(704 700)
Repayment of loans		(923 270)	(538 512)
Dividends and other payments to shareholders		(646 828)	(1 516 074)
Interest paid		(112 227)	(81 404)
Net cash flows from financing activities		(127 976)	(214 550)
Total net cash flows		(5 846 912)	(4 910 084)
Cash at the beginning of the accounting period		11 838 799	12 677 692
Cash at the end of the accounting period		5 991 887	7 767 608

Notes presented on pages 10 – 49 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	
		30.06.2017	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. in liquidation	Poznań	100.00	100.00
7. BZ WBK Nieruchomości S.A.	Zakrzewo	99.99	99.99
8. BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. ²⁾	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. ³⁾	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. ³⁾	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. in liquidation ⁴⁾	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. ⁵⁾	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 32.

²⁾ As at 30.06.2017, 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.

³⁾ 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 33.

⁴⁾ Details about the liquidation of AKB Marketing Services Sp. z o.o. in liquidation are provided in Note 32.

⁵⁾ 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	
		30.06.2017	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 6-month period ended 30.06.2017 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 6 months ended 30.06.2017 which is deemed to be the current interim financial reporting period.

Accounting policies

Condensed interim consolidated financial statement of BZ WBK Group for the 6-month period ended 30.06.2017 is presented in PLN, rounded to the nearest thousand.

Condensed interim consolidated financial statement of BZ WBK Group for the 6-month period ended 30.06.2017 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 30.06.2017, FX denominated balance sheet positions were converted into PLN in line with the NBP FX table no. 125/A/NBP/2017 dd. 30.06.2017.

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 H1 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'. 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 *	<p>Changes relate to the following areas:</p> <ul style="list-style-type: none"> • 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 *	<p>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.</p> <p>Should the assets constitute a business, the investor shall recognize the profit or loss in full. Should the assests not constitute a business, the profit or loss shall be recognised only to the extent of unrelated investors' interests in the associate or joint venture.</p> <p>The improvements were published on 11 September 2014.</p>	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.

*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.

IFRS 9 is scheduled to be implemented 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 about to finish 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 been working on defining a methodology for model parameters and on developing models compliant with IFRS 9.

BZ WBK Group is currently developing 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 will be immediately reflected in the capital ratio decline.

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 alleviate adverse 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.

An analysis is currently in progress 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 9) is presented in ALM and Center Segment, whereas the result from described above transaction in Santander Consumer Bank is presented in Santander Consumer Segment.

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.

In thousands of PLN

Business and Corporate Banking

Business and 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)

01.01.2017-30.06.2017	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Global Corporate Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	1 205 994	263 807	93 330	340 367	652 985	2 556 483
incl. internal transactions	(50 747)	(24 800)	563	74 599	385	-
Net fee and commission income	683 660	117 416	112 041	(4 911)	62 629	970 835
incl. internal transactions	44 965	20 600	(70 085)	5 400	(880)	-
Other income	35 736	30 912	30 400	75 859	25 427	198 334
incl. internal transactions	2 871	17 638	(18 947)	(18 281)	16 719	-
Dividend income	-	-	161	75 754	9	75 924
Operating costs	(941 078)	(145 135)	(98 600)	(83 737)	(273 895)	(1 542 445)
incl. internal transactions	(4 019)	(733)	(3)	6 453	(1 698)	-
Depreciation/amortisation	(102 875)	(10 917)	(10 136)	(12 990)	(15 191)	(152 109)
Impairment losses on loans and advances	(192 435)	(35 742)	(466)	(1 361)	(15 874)	(245 878)
Share in net profits (loss) of entities accounted for by the equity method	-	-	-	23 812	-	23 812
Tax on financial institutions	-	-	-	(193 386)	(17 546)	(210 932)
Profit before tax	689 002	220 341	126 730	219 407	418 544	1 674 024
Corporate income tax						(412 549)
Consolidated profit for the period						1 261 475
of which:						
attributable to owners of BZ WBK S.A.						1 104 155
attributable to non-controlling interests						157 320

* Includes individual customers and small and medium companies

In thousands of PLN

01.04.2017-30.06.2017	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Global Corporate Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	611 701	133 891	50 904	172 170	333 821	1 302 487
incl. internal transactions	(26 478)	(13 040)	313	39 049	156	-
Net fee and commission income	347 802	62 781	61 614	(2 561)	26 006	495 642
incl. internal transactions	22 271	11 684	(36 883)	3 368	(440)	-
Other income	23 071	9 875	9 543	18 320	18 393	79 202
incl. internal transactions	1 976	8 243	(8 083)	(6 797)	4 661	-
Dividend income	-	-	160	75 416	3	75 579
Operating costs	(470 608)	(70 508)	(49 044)	(23 880)	(136 702)	(750 742)
incl. internal transactions	(2 081)	(388)	(2)	3 343	(872)	-
Depreciation/amortisation	(53 132)	(5 664)	(4 886)	(6 551)	(7 607)	(77 840)
Impairment losses on loans and advances	(99 360)	(16 858)	995	(1 174)	16 031	(100 366)
Share in net profits (loss) of entities accounted for by the equity method	-	-	-	15 157	-	15 157
Tax on financial institutions	-	-	-	(96 384)	(8 739)	(105 123)
Profit before tax	359 474	113 517	69 286	150 513	241 206	933 996
Corporate income tax						(199 737)
Consolidated profit for the period						734 259
of which:						
attributable to owners of BZ WBK S.A.						651 111
attributable to non-controlling interests						83 148

Consolidated statement of financial position (by operating segments)

30.06.2017	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	56 571 951	23 144 195	11 244 078	79 715	14 013 788	105 053 727
Investments in associates	-	-	-	853 327	-	853 327
Other assets	5 601 537	1 018 311	6 097 188	27 261 968	3 880 660	43 859 664
Total assets	62 173 488	24 162 506	17 341 266	28 195 010	17 894 448	149 766 718
Deposits from customers	71 187 651	16 701 650	8 679 002	4 571 167	7 971 689	109 111 159
Other liabilities and equity	4 515 434	2 863 922	6 433 753	16 919 691	9 922 759	40 655 559
Total equity and liabilities	75 703 085	19 565 572	15 112 755	21 490 858	17 894 448	149 766 718

* Includes individual customers and small and medium companies

In thousands of PLN

01.04.2016-30.06.2016	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Global Corporate Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	538 507	142 710	40 149	150 842	280 318	1 152 526
incl. internal transactions	(23 055)	(9 480)	31	29 503	3 001	-
Net fee and commission income	325 972	50 249	46 338	(1 126)	49 399	470 832
incl. internal transactions	22 193	7 442	(32 536)	3 357	(456)	-
Other income	20 473	26 291	51 108	362 942	15 536	476 350
incl. internal transactions	5 595	13 224	(20 348)	26 374	(24 845)	-
Dividend income	-	-	58	15 167	-	15 225
Operating costs	(466 255)	(73 095)	(46 193)	(66 802)	(119 441)	(771 786)
incl. internal transactions	(5 379)	(369)	(2)	6 637	(887)	-
Depreciation/amortisation	(40 881)	(4 317)	(4 982)	(10 339)	(8 328)	(68 847)
Impairment losses on loans and advances	(110 820)	(21 239)	(1 240)	(1 748)	(41 942)	(176 989)
Share in net profits (loss) of entities accounted for by the equity method	-	-	-	13 058	-	13 058
Tax on financial institutions	-	-	-	(97 597)	(8 068)	(105 665)
Profit before tax	266 996	120 599	85 238	364 397	167 474	1 004 704
Corporate income tax						(231 378)
Consolidated profit for the period						773 326
of which:						
attributable to owners of BZ WBK S.A.						723 492
attributable to non-controlling interests						49 834

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. Risk management

In the first half of 2017, BZ WBK Group managed its risks in accordance with the principles laid down in the consolidated financial statements for 2016. Except as indicated below, no other material changes took place in the risk management process of BZ WBK Group.

Credit risk

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

Mortgage loans – currency analysis

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

The table below presents the PLN equivalent of the mortgage loan-book value of Bank Zachodni WBK Group as at 30.06.2017 and 31.12.2016:

Gross mortgage loans by currency	30.06.2017	31.12.2016
CHF denominated mortgage loans, of which:	12 168 322	13 458 166
<i>Bank Zachodni WBK</i>	9 510 149	10 507 854
<i>Santander Consumer Bank</i>	2 658 173	2 950 312
Mortgage loans denominated in other currencies, of which:	25 045 518	23 550 214
<i>in PLN</i>	22 969 593	21 287 359
Total	37 213 840	37 008 380

Risk profile of CHF-indexed/denominated loans

CHF gross mortgage loans as at 30.06.2017	Gross amount	Impairment losses	Coverage ratio
Performing loans	11 986 557	72 400	0,60%
Non-performing loans	181 765	84 817	46,66%
Total	12 168 322	157 217	

CHF gross mortgage loans as at 31.12.2016	Gross amount	Impairment losses	Coverage ratio
Performing loans	13 273 975	84 051	0,63%
Non-performing loans	184 191	87 338	47,42%
Total	13 458 166	171 389	

Forbearance Exposures

In the first half of 2017, no material changes to management of assets subject to forbearance measures took place. The principles laid down in the consolidated financial statements for 2016 are still valid. Except the amounts presented below, no other material changes took place in this area.

	30.06.2017	31.12.2016
Loans and advances to customers- gross amount under forbearance measure:	3 123 284	4 041 684
corporate exposures	1 633 820	2 575 162
mortgage exposures	1 261 100	1 260 580
individuals exposures	228 364	205 942
Allowance for impairment - forbearance clients	(779 032)	(954 595)
of which: individually impaired	(343 557)	(503 469)
Loans and advances to forbearance clients- net amount	2 344 252	3 087 089

In thousands of PLN

Analysis of credit quality of financial assets subject to forbearance:

Loans and advances to customers under forbearance	Gross exposure		Collateral value		Allowance for impairment	
	30.06.2017	31.12.2016	30.06.2017	31.12.2016	30.06.2017	31.12.2016
Loans and advances -impaired	1 619 457	2 099 884	5 603 151	6 985 767	(719 374)	(875 886)
Loans and advances -unimpaired	1 503 826	1 941 800	2 882 764	5 378 460	(59 658)	(78 709)
non-overdue	1 158 417	1 190 359	2 194 895	2 868 868	(36 862)	(43 336)
from 1 to 30 days overdue	216 318	609 743	457 599	2 260 936	(11 708)	(22 813)
from 31 to 60 days overdue	84 982	92 091	114 625	115 416	(5 603)	(6 242)
from 61 to 90 days overdue	44 109	49 607	115 645	133 240	(5 485)	(6 318)
Total gross amount	3 123 283	4 041 684	8 485 915	12 364 227	(779 032)	(954 595)

Interest income on assets subject to forbearance was PLN 45 416 k as at 30 June 2017, PLN 108,775 k as at 31 December 2016 and PLN 58,182 k as at 30 June 2016.

Loans and advances to customers under forbearance (gross amount)	by geographical region	
	30.06.2017	31.12.2016
Dolnośląskie	336 884	344 929
Kujawsko-Pomorskie	69 631	70 613
Lubelskie	47 463	48 282
Lubuskie	62 115	62 642
Mazowieckie	1 293 697	1 937 784
Małopolskie	241 082	122 639
Opolskie	28 082	28 061
Podkarpackie	34 776	35 734
Podlaskie	34 706	34 491
Pomorskie	184 353	191 445
Warmińsko-Mazurskie	40 213	39 366
Wielkopolskie	196 111	188 845
Zachodniopomorskie	76 088	75 893
Śląskie	314 352	570 193
Świętokrzyskie	68 628	195 961
Łódzkie	95 102	94 806
Total	3 123 283	4 041 684

Loans and advances to customers under forbearance (gross amount)	by industry (gross amount)	
	30.06.2017	31.12.2016
Construction	231 101	274 516
Distribution	73 768	74 408
Energy	149 867	399 368
Financial sector	462	341
Other industries	155 501	196 909
Property	733 748	1 360 369
Manufacturing	194 964	227 267
Agriculture	60 143	8 410
Transportation	34 265	33 574
Individuals	1 489 464	1 466 522
Total	3 123 283	4 041 684

In thousands of PLN

	30.06.2017	31.12.2016
Net carrying amount at beginning of the period	3 087 089	2 984 876
Allowance for impairment	175 565	409 088
Loans and advances derecognised during the period	(60 017)	(758 110)
Loans and advances recognised during the period	349 607	1 305 291
Other changes/repayments	(1 207 992)	(854 056)
Net carrying amount at the end of the period	2 344 252	3 087 089

Liquidity risk

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

The table below presents the supervisory liquidity measures as well as contractual liquidity mismatch of Bank Zachodni WBK as at 30.06.2017 and 31.12.2016:

Supervisory liquidity measures		30.06.2017	31.12.2016
M1		14 596 371	13 174 203
M2		1.54	1.43
M3		4.11	4.07
M4		1.19	1.18
LCR		136%	145%

30.06.2017	Avista	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	above 5 years
Assets	21 450 301	1 188 179	2 094 419	3 282 853	10 920 245	11 218 037	27 337 577	53 782 490
Liabilities and equity	16 069 107	29 827 757	17 314 261	10 373 378	6 891 227	6 690 552	9 909 273	34 198 547
including:								
- Sell-buy-back transactions	-	2 803 125	-	-	-	-	-	-
- Deposits from banks	580 490	613 059	95 824	130 439	-	-	-	-
- Deposits from customers	15 488 616	25 936 573	16 695 610	9 954 616	6 126 699	5 691 960	8 323 754	8 503 364
- Debt securities in issue	-	475 000	420 000	250 000	485 000	-	-	579 453
- Subordinated liabilities	-	-	-	-	-	-	-	929 830
Contractual liquidity mismatch/ gap	5 381 195	(28 639 578)	(15 219 842)	(7 090 525)	4 029 019	4 527 485	17 428 303	19 583 943
Cumulative liquidity gap	5 381 195	(23 258 383)	(38 478 226)	(45 568 750)	(41 539 732)	(37 012 247)	(19 583 943)	-
Net derivatives	-	(30 641)	10 831	8 749	(81 860)	(56 606)	(105 413)	(537 629)

31.12.2016	Avista	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	above 5 years
Assets	21 977 376	6 015 915	1 818 154	2 780 366	5 651 079	16 734 537	26 288 169	50 152 393
Liabilities and equity	61 200 626	15 721 571	11 352 248	7 971 541	4 624 337	2 966 499	1 847 241	25 733 926
including:								
- Sell-buy-back transactions	-	-	-	-	-	-	-	-
- Deposits from banks	578 557	86 607	118 025	34 237	26 400	-	-	-
- Deposits from customers	60 622 069	15 634 964	10 945 920	7 394 630	3 979 739	1 260 040	70 033	-
- Debt securities in issue	-	-	285 000	-	475 000	485 000	-	530 880
- Subordinated liabilities	-	-	-	-	-	-	-	442 400
Contractual liquidity mismatch/ gap	(39 223 249)	(9 705 656)	(9 534 094)	(5 191 175)	1 026 742	13 768 038	24 440 928	24 418 467
Cumulative liquidity gap	(39 223 249)	(48 928 906)	(58 463 000)	(63 654 174)	(62 627 432)	(48 859 394)	(24 418 467)	-
Net derivatives	-	12 207	(145 252)	(11 535)	(51 183)	(173 801)	(187 448)	(1 018 843)

5. Capital management

Details on capital management have been presented in document „Information on Capital Adequacy of Bank Zachodni WBK Group as at 30 June 2017”.

In thousands of PLN

6. Net interest income

	01.04.2017- 30.06.2017	01.01.2017- 30.06.2017	01.04.2016- 30.06.2016	01.01.2016- 30.06.2016
Interest income				
Loans and advances to enterprises	423 211	822 230	411 273	810 840
Loans and advances to individuals, of which:	888 127	1 741 261	780 270	1 544 925
<i>Home mortgage loans</i>	262 395	513 077	225 916	443 409
Debt securities incl.:	162 598	323 738	143 319	296 960
<i>Investment portfolio available for sale</i>	153 207	311 446	140 595	286 453
<i>Trading portfolio</i>	9 391	12 292	2 724	10 507
Leasing agreements	63 975	125 041	44 544	87 258
Loans and advances to banks	16 183	31 374	16 115	31 608
Public sector	1 518	3 228	1 705	3 707
Reverse repo transactions	6 082	9 175	1 369	2 235
Interest recorded on hedging IRS	59 274	124 723	80 431	163 470
Total	1 620 968	3 180 770	1 479 026	2 941 003
Interest expenses				
Deposits from individuals	(145 984)	(286 409)	(165 005)	(344 935)
Deposits from enterprises	(82 836)	(172 652)	(93 106)	(187 866)
Repo transactions	(14 282)	(21 507)	(9 095)	(19 355)
Deposits from public sector	(14 626)	(25 539)	(12 710)	(23 672)
Deposits from banks	(11 739)	(24 512)	(11 876)	(18 887)
Subordinated liabilities and issue of securities	(49 014)	(93 668)	(34 708)	(69 096)
Total	(318 481)	(624 287)	(326 500)	(663 811)
Net interest income	1 302 487	2 556 483	1 152 526	2 277 192

In thousands of PLN

7. Net fee and commission income

	01.04.2017- 30.06.2017	01.01.2017- 30.06.2017	01.04.2016- 30.06.2016	01.01.2016- 30.06.2016
Fee and commission income				
eBusiness & payments	145 418	284 003	138 019	278 653
Current accounts and money transfer	85 518	168 879	82 920	163 672
Asset management fees	74 900	143 965	62 996	124 699
Foreign exchange commissions	84 907	163 038	78 307	152 100
Credit commissions	77 780	150 038	69 730	134 867
Insurance commissions	56 656	108 137	65 567	147 297
Brokerage activities	22 670	44 739	14 893	31 455
Credit cards	42 160	82 189	40 058	77 136
Off-balance sheet guarantee commissions	11 831	24 619	14 525	25 651
Finance lease commissions	16 829	27 521	3 880	7 476
Issue arrangement fees	7 807	8 804	2 069	4 240
Distribution fees	3 042	6 898	1 537	3 038
Other commissions	4 018	10 000	1 351	2 915
Total	633 536	1 222 830	575 852	1 153 199
Fee and commission expenses				
eBusiness & payments	(45 415)	(89 356)	(45 090)	(97 900)
Distribution fees	(5 832)	(11 637)	(6 057)	(12 018)
Brokerage activities	(2 739)	(5 911)	(2 155)	(4 481)
Credit cards	(9 623)	(18 546)	(5 881)	(16 924)
Credit commissions paid	(31 097)	(50 404)	(10 556)	(17 266)
Insurance commissions	(3 536)	(5 838)	(13 463)	(19 387)
Finance lease commissions	(19 720)	(32 405)	(6 142)	(12 282)
Asset management fees and other costs	(1 620)	(3 250)	(1 427)	(3 212)
Other	(18 312)	(34 648)	(14 249)	(26 169)
Total	(137 894)	(251 995)	(105 020)	(209 639)
Net fee and commission income	495 642	970 835	470 832	943 560

8. Net trading income and revaluation

	01.04.2017- 30.06.2017	01.01.2017- 30.06.2017	01.04.2016- 30.06.2016	01.01.2016- 30.06.2016
Net trading income and revaluation				
Derivative instruments and interbank fx transactions	27 796	68 811	90 433	154 028
Other FX related income	12 027	22 995	(1 815)	9 225
Profit on equity instruments	697	4 053	(5 411)	(3 533)
Profit on debt instruments	(4 292)	(3 773)	6 859	13 139
Total	36 228	92 086	90 066	172 859

Net trading income and revaluation includes the change of the value of derivative instruments in the amount of PLN (10,932) k for H1 2017, PLN (6,015) k for 2Q 2017 and PLN (971) k for H1 2016, and the write-back of change in the amount of PLN 6,013 k for 2Q 2016.

The amounts included CVA and DVA adjustments in the amount of PLN (10,744) k for H1 2017, PLN (5,947) k for 2Q 2017 and PLN (48) k for H1 2016, the write-back of adjustments in the amount of PLN 6,649 k for 2Q 2016.

In thousands of PLN

9. Gains (losses) from other financial securities

	01.04.2017- 30.06.2017	01.01.2017- 30.06.2017	01.04.2016- 30.06.2016	01.01.2016- 30.06.2016
Gains (losses) from other financial securities				
Profit on sale of equity shares available for sale	-	10 775	316 141	318 034
Profit on sale of debt securities available for sale	9 700	15 204	39 418	79 874
Charge due to impairment losses	-	-	(7 086)	(7 533)
Total profit (losses) on financial instruments	9 700	25 979	348 473	390 375
Change in fair value of hedging instruments	2 898	5 687	7 030	(17 252)
Change in fair value of underlying hedged positions	(1 828)	(3 719)	(6 825)	14 541
Total profit (losses) on hedging and hedged instruments	1 070	1 968	205	(2 711)
Total	10 770	27 947	348 678	387 664

On 21.06.2016, Visa Inc. announced the completion of its acquisition of Visa Europe Limited. As a result, BZ WBK Group received:

- Bank Zachodni WBK and Santander Consumer Bank (SCB) – EUR 49,974,289 and EUR 1,654,744 in cash, respectively
- Bank Zachodni WBK and SCB – 18,092 and 600 series C preference shares of Visa Inc., respectively.

Furthermore, the earn-out of EUR 1.12bn payable to all transaction participants was settled. The share of Bank Zachodni WBK in the above amount is 0.3839946336% and the share of SCB is 0.0127491571%. The earn-out payable to the bank/Group may be adjusted within three years of the transaction date in the circumstances stipulated in the agreement.

As at 30.06.2016, the total profit made by Bank Zachodni WBK and SCB on the above transaction was PLN 305,865 k and PLN 10,154 k, respectively and was recognised under “Gains from other financial securities” in the income statement.

10. Other operating income

	01.04.2017- 30.06.2017	01.01.2017- 30.06.2017	01.04.2016- 30.06.2016	01.01.2016- 30.06.2016
Other operating income				
Income on sale of services	6 938	10 314	3 272	7 319
Reimbursements of BGF charges *	-	433	18 608	25 097
Release of provision for legal cases and other assets	12 355	13 784	3 837	9 962
Settlements of leasing agreements	591	1 543	1 181	2 470
Recovery of other receivables	1 112	2 615	2 925	4 363
Profit on sales or liquidation of fixed assets, intangible assets and assets for disposal	(457)	(237)	349	349
Received compensations, penalties and fines	175	537	140	395
Other income from legal cases	31	24 162	-	-
Other	11 459	21 393	7 294	16 772
Total	32 204	74 544	37 606	66 727

*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.

11. Impairment losses on loans and advances

	01.04.2017- 30.06.2017	01.01.2017- 30.06.2017	01.04.2016- 30.06.2016	01.01.2016- 30.06.2016
Impairment losses on loans and advances				
Collective and individual impairment charge	(90 271)	(248 587)	(204 325)	(378 408)
Incurred but not reported losses charge	(28 071)	(45 387)	13 537	(912)
Recoveries of loans previously written off	15 694	46 956	(2 557)	51 389
Off-balance sheet credit related facilities	2 282	1 140	16 356	16 798
Total	(100 366)	(245 878)	(176 989)	(311 133)

In thousands of PLN

12. Employee costs

Employee costs	01.04.2017- 30.06.2017	01.01.2017- 30.06.2017	01.04.2016- 30.06.2016	01.01.2016- 30.06.2016
Salaries and bonuses	(317 819)	(631 042)	(307 345)	(610 303)
Salary related costs	(55 758)	(113 823)	(53 621)	(109 981)
Staff benefits costs	(9 900)	(18 295)	(8 556)	(16 611)
Professional trainings	(5 022)	(7 502)	(4 913)	(7 495)
Retirement fund, holiday provisions and other employee costs	(620)	(1 244)	(596)	(1 190)
Total	(389 119)	(771 906)	(375 031)	(745 580)

13. General and administrative expenses

General and administrative expenses	01.04.2017- 30.06.2017	01.01.2017- 30.06.2017	01.04.2016- 30.06.2016	01.01.2016- 30.06.2016
Maintenance and rentals of premises	(87 668)	(173 963)	(90 851)	(184 187)
Marketing and representation	(32 056)	(62 654)	(39 416)	(71 954)
IT systems costs	(54 373)	(108 383)	(46 371)	(96 728)
Bank Guarantee Fund, Polish Financial Supervision Authority and National Depository for Securities	(70 153)	(175 305)	(71 664)	(150 738)
Postal and telecommunication costs	(11 748)	(24 624)	(13 472)	(28 070)
Consulting fees	(11 378)	(24 692)	(11 341)	(22 728)
Cars, transport expenses, carriage of cash	(16 733)	(33 132)	(16 007)	(33 468)
Other external services	(20 231)	(41 052)	(27 561)	(53 577)
Stationery, cards, cheques etc.	(5 833)	(11 937)	(7 161)	(14 694)
Sundry taxes	(8 131)	(16 257)	(8 852)	(17 729)
Data transmission	(3 721)	(7 330)	(3 982)	(8 306)
KIR, SWIFT settlements	(6 286)	(13 787)	(6 657)	(13 655)
Security costs	(7 098)	(13 863)	(6 546)	(12 666)
Costs of repairs	(3 087)	(6 674)	(1 836)	(6 975)
Other	(6 472)	(12 238)	(6 139)	(11 657)
Total	(344 968)	(725 891)	(357 856)	(727 132)

14. Corporate income tax

Corporate income tax	01.04.2017- 30.06.2017	01.01.2017- 30.06.2017	01.04.2016- 30.06.2016	01.01.2016- 30.06.2016
Current tax charge	(274 755)	(364 746)	(368 436)	(516 675)
Current tax charge in the income statement	(274 755)	(364 915)	(368 436)	(525 060)
Adjustments related to the current tax from previous years	-	169	-	8 385
Deferred tax	75 018	(47 803)	137 058	137 474
Deferred tax charge in the income statement	75 018	(48 204)	137 058	137 474
Adjustments related to the deferred tax from previous years	-	401	-	-
Total	(199 737)	(412 549)	(231 378)	(379 201)

In thousands of PLN

Corporate total tax charge information	01.04.2017- 30.06.2017	01.01.2017- 30.06.2017	01.04.2016- 30.06.2016	01.01.2016- 30.06.2016
Profit before tax	933 996	1 674 024	1 004 704	1 773 929
Tax rate	19%	19%	19%	19%
Tax calculated at the tax rate	(177 459)	(318 065)	(190 894)	(337 047)
Non-tax-deductible expenses, incl. the fee to the Bank Guarantee Fund	(17 812)	(37 171)	(29 037)	(37 624)
Tax on financial institutions	(19 973)	(40 077)	(20 076)	(32 916)
Sale of receivables	(15 051)	(35 237)	(9 459)	(11 992)
Non-taxable income (dividends)	14 330	14 330	2 893	18 011
Non-tax deductible bad debt provisions	1 766	(3 136)	647	1 150
Adjustment of prior year tax	-	570	-	8 385
Tax effect of consolidation adjustments	14 220	8 459	15 397	14 195
Other	242	(2 222)	(849)	(1 363)
Total income tax expense	(199 737)	(412 549)	(231 378)	(379 201)

Deferred tax recognised directly in equity	30.06.2017	31.12.2016
Relating to equity securities available-for-sale	(124 853)	(122 523)
Relating to debt securities available-for-sale	(28 152)	35 033
Relating to cash flow hedging activity	30 065	25 251
Relating to valuation of defined benefit plans	(1 913)	(1 913)
Total	(124 853)	(64 152)

15. Cash and balances with central banks

Cash and balances with central banks	30.06.2017	31.12.2016
Cash	2 132 266	2 134 971
Current accounts in central banks	1 980 731	2 538 686
Term deposits	-	102 003
Total	4 112 997	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.

16. Loans and advances to banks

Loans and advances to banks	30.06.2017	31.12.2016
Loans and advances	7 534	795 140
Current accounts	1 863 219	2 718 138
Gross receivables	1 870 753	3 513 278
Allowance for impairment	-	-
Total	1 870 753	3 513 278

In thousands of PLN

17. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading	30.06.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
Trading derivatives	1 604 253	1 502 171	1 859 361	1 728 931
Interest rate operations	811 218	719 949	970 357	898 100
Transactions on equity instruments	12 382	12 382	12 032	12 032
FX operations	780 653	769 840	876 972	818 799
Debt and equity securities	4 022 551	-	1 321 624	-
Debt securities	3 991 273	-	1 312 589	-
Government securities:	3 989 933	-	612 233	-
- bonds	3 989 933	-	612 233	-
Central Bank securities:	-	-	699 883	-
- bills	-	-	699 883	-
Commercial securities:	1 340	-	473	-
- bonds	1 340	-	473	-
Equity securities	31 278	-	9 035	-
Short sale	-	8 121	-	80 129
Total financial assets/liabilities	5 626 804	1 510 292	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 (1,045) k as at 30.06.2017 and PLN 9,525 k as at 31.12.2016.

18. Hedging derivatives

Hedging derivatives	30.06.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
Derivatives hedging fair value	1 031	162 373	3 232	140 338
Derivatives hedging cash flow	88 080	1 023 635	64 413	1 883 006
Total hedging derivatives	89 111	1 186 008	67 645	2 023 344

As at 30.06.2017 Hedging derivatives - derivatives hedging cash flow include value adjustments day first profit or loss for start forward CIRS transactions in the amount of PLN (10,143) k and PLN (10,665) k as at 31.12.2016.

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

19. Loans and advances to customers

Loans and advances to customers	30.06.2017	31.12.2016
Loans and advances to enterprises	46 284 622	45 179 803
Loans and advances to individuals, of which:	56 782 069	56 291 404
<i>Home mortgage loans</i>	<i>37 213 840</i>	<i>37 008 380</i>
Finance lease receivables	6 393 325	6 098 499
Loans and advances to public sector	147 118	195 900
Other	202 110	181 813
Gross receivables	109 809 244	107 947 419
Allowance for impairment	(4 755 517)	(4 878 881)
Total	105 053 727	103 068 538

In thousands of PLN

Movements on impairment losses on loans and advances to customers	30.06.2017	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	(248 587)	(828 170)
Write off/Sale of receivables	401 271	1 110 443
Transfer	(15 191)	26 631
F/X differences	18 764	(13 687)
Balance at the end of the period	(4 031 541)	(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	(45 387)	(27 015)
Sale of receivables	3 246	3 182
Transfer	1 900	558
F/X differences	7 348	(6 265)
Balance at the end of the period	(723 976)	(691 083)
Allowance for impairment	(4 755 517)	(4 878 881)

Mortgage loans-currency analysis and risk profile of CHF indexed/denominated loans were presented in Note 4 "Risk management"

20. Financial assets available for sale

Financial assets available for sale	30.06.2017	31.12.2016
Available for sale investments - measured at fair value		
Debt securities	25 846 836	28 423 828
Government securities:	23 696 963	23 429 089
- bills	293 619	-
- bonds	23 403 344	23 429 089
Central Bank securities:	-	2 849 694
- bills	-	2 849 694
Other securities:	2 149 873	2 145 045
-bonds	2 149 873	2 145 045
Equity securities	888 437	884 050
- listed	22 405	34 473
- unlisted	866 032	849 577
Total	26 735 273	29 307 878

21. Investments in associates

Balance sheet value of associates	30.06.2017	31.12.2016
Polfund - Fundusz Poręczeń Kredytowych S.A.	43 474	43 216
BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A.	809 853	828 275
Total	853 327	871 491

Movements on investments in associates	01.01.2017- 30.06.2017	01.01.2016- 31.12.2016
Balance as at 1 January	871 491	831 142
Share of profits/(losses)	23 812	55 439
Dividends	(44 861)	(10 827)
Other	2 885	(4 263)
Balance at the end of the period	853 327	871 491

In thousands of PLN

22. Deposits from banks

Deposits from banks	30.06.2017	31.12.2016
Term deposits	85 606	98 531
loans from other banks	1 899 123	1 945 101
Current accounts	606 878	517 649
Total	2 591 607	2 561 281

23. Deposits from customers

Deposits from customers	30.06.2017	31.12.2016
Deposits from individuals	64 704 439	63 547 942
Term deposits	23 302 583	23 711 846
Current accounts	41 246 523	39 650 731
Other	155 333	185 365
Deposits from enterprises	39 623 549	45 709 065
Term deposits	18 941 033	22 608 733
Current accounts	16 351 904	18 464 132
Loans	3 576 636	4 075 897
Other	753 976	560 303
Deposits from public sector	4 783 171	3 265 450
Term deposits	2 888 521	1 504 136
Current accounts	1 865 859	1 747 709
Other	28 791	13 605
Total	109 111 159	112 522 457

24. 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	30.06.2017	30.06.2016
As at the beginning of the period	440 457	526 634
Increase (due to):	532 124	25 653
- interest on subordinated loan	14 900	9 328
- FX differences	-	16 325
- reclassification *	517 224	-
Decrease (due to):	(43 360)	(9 562)
- interest repayment	(13 727)	(9 562)
- FX differences	(29 633)	-
Subordinated liabilities - as at the end of the period	929 221	542 725
Short-term	2 770	101 900
Long-term (over 1 year)	926 451	440 825

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

In thousands of PLN

25. Debt securities in issue

Issuance of debt securities the first half of 2017	Nominal value	Currency	Redemption date
Series D bank securities	420 000	PLN	17.08.2017
Series E bank securities	250 000	PLN	17.10.2017
Issuance of subordinated debt (Green bonds IFC)	137 100	EUR	22.05.2027

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	30.06.2017	30.06.2016
As at the beginning of the period	5 529 187	4 320 891
Increase (due to):	1 322 568	821 788
- debt securities in issue	1 238 788	767 000
- interest on debt securities in issue	78 921	54 788
- FX differences	4 859	-
Decrease (due to):	(889 772)	(763 730)
- debt securities redemption	(285 000)	(704 700)
- reclassification*	(517 224)	-
- FX differences	(13 656)	-
- interest repayment	(73 892)	(59 030)
As at the end of the period	5 961 983	4 378 949

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

In thousands of PLN

26. Provisions

Provisions	30.06.2017	31.12.2016
Provisions for off-balance sheet credit facilities	49 198	50 746
Provisions for legal claims	81 591	74 396
Provisions for restructuring *	7 998	4 986
Total	138 787	130 128

* Provisions for restructuring acquired as a result of the acquisition of control over Santander Consumer Bank on 01.07.2014 in the amount of PLN 15,547 k (as at 30.06.2017 in the amount of PLN 7,998 k) referred to:

- restructuring of employment in the bank PLN 3,323 k (as at 30.06.2017 in the amount of PLN 2,012 k),
- liquidation of branches PLN 12,224 k (as at 30.06.2017 in the amount of PLN 5,986 k).

The restructuring is related to the business reorganisation plan for Santander Consumer Finance (SCF) in Poland which was adopted by the Group in 2010. The plan was adopted after SCF Group had taken control over AIG Bank Polska S.A. and in the wake of subsequent restructuring actions carried out in the years 2013-2014 (amongst others, restructuring of the business transferred from Santander Consumer Finance Sp z o.o.). Provision has also been associated with the implementation of the Operational Excellence Programme in 2015.

It is expected that most of cash flows related to the raised restructuring provision will materialise in the years 2017-2018.

Change in provisions 30.06.2017	Provisions for legal claims	Provisions for off balance sheet credit facilities	Provisions for restructuring	Total
As at the beginning of the period	74 396	50 746	4 986	130 128
Provision charge	18 888	36 659	4 755	60 302
Utilization	(11 751)	(408)	-	(12 159)
Write back	58	(37 799)	(1 743)	(39 484)
Balance at the end of the period	81 591	49 198	7 998	138 787
Short-term	81 591	42 082	7 998	131 671
Long-term	-	7 116	-	7 116

Change in provisions 30.06.2016	Provisions for legal claims	Provisions for off balance sheet credit facilities	Provisions for restructuring	Total
As at the beginning of the period	48 582	75 340	8 648	132 570
Provision charge	76 017	53 243	-	129 260
Utilization	(66 037)	833	-	(65 204)
Write back	(627)	(70 041)	(2 436)	(73 104)
Other changes	-	-	(39)	(39)
Balance at the end of the period	57 935	59 375	6 173	123 483
Short-term	57 935	49 825	6 173	113 933
Long-term	-	9 550	-	9 550

In thousands of PLN

27. Other liabilities

Other liabilities	30.06.2017	31.12.2016
Settlements of stock exchange transactions	27 052	25 314
Interbank and interbranch settlements	350 396	585 606
Employee provisions	304 049	375 959
Other provisions	3 300	3 300
Sundry creditors	555 256	512 010
Other deferred and suspended income	248 342	250 059
Public and law settlements	96 919	86 298
Accrued liabilities	537 759	436 249
Finance lease related settlements	57 945	72 901
Other	752	866
Total	2 181 770	2 348 562
of which financial liabilities *	1 835 757	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.

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

Employee provisions				
<i>of which:</i>				
<i>Provisions for</i>				
<i>retirement</i>				
<i>allowances</i>				
Change in provisions 30.06.2016			Other provisions	Total
As at the beginning of the period	380 724	63 209	3 306	384 030
Provision charge	175 926	2 361	-	175 926
Utilization	(217 452)	-	(6)	(217 458)
Write back	(38 691)	-	-	(38 691)
Other changes	260	-	-	260
Balance at the end of the period	300 767	65 570	3 300	304 067
Short-term	235 197	-	3 300	238 497
Long-term	65 570	65 570	-	65 570

28. 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.

In thousands of PLN

Assets	30.06.2017		31.12.2016	
	Book Value	Fair Value	Book Value	Fair Value
Cash and balances with central banks	4 112 997	4 112 997	4 775 660	4 775 660
Loans and advances to banks	1 870 753	1 870 753	3 513 278	3 513 278
Financial assets held for trading	5 626 804	5 626 804	3 180 985	3 180 985
Hedging derivatives	89 111	89 111	67 645	67 645
Loans and advances to customers	105 053 727	105 265 369	103 068 538	102 882 533
Financial assets available for sale	26 735 273	26 735 273	29 307 878	29 307 878
Investments in associates	853 327	853 327	871 491	871 491
Liabilities				
Deposits from banks	2 591 607	2 591 607	2 561 281	2 561 281
Hedging derivatives	1 186 008	1 186 008	2 023 344	2 023 344
Financial liabilities held for trading	1 510 292	1 510 292	1 809 060	1 809 060
Subordinated liabilities	929 221	933 086	440 457	564 402
Deposits from customers	109 111 159	109 123 846	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.

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.

Investments in associates: The financial assets representing investments in associates are measured using the equity method. The Management Board of the parent company believes that this is the most accurate estimation of fair value of these instruments.

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

Debt securities in issue and subordinated liabilities: The securities and subordinated liabilities are measured at amortised cost. The fair value of these instruments is not significantly different from their balance sheet value.

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

As at 30.06.2017 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.

In thousands of PLN

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

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

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

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

In the first half of 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 30.06.2017 and in the comparable periods the Group classified its financial instruments to the following fair value levels:

30.06.2017	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	4 022 165	1 604 252	387	5 626 804
Hedging derivatives	-	89 111	-	89 111
Financial assets available for sale - debt securities	25 812 370	-	34 466	25 846 836
Financial assets available for sale- equity securities	22 405	-	866 032	888 437
Total	29 856 940	1 693 363	900 885	32 451 188
Financial liabilities				
Financial liabilities held for trading	8 121	1 502 171	-	1 510 292
Hedging derivatives	-	1 186 008	-	1 186 008
Total	8 121	2 688 179	-	2 696 300

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

In thousands of PLN

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

Level III	Financial assets			Financial liabilities
	Financial assets held for trading	Financial assets available for sale - debt securities	Financial assets available for sale - equity securities	Financial liabilities held for trading
30.06.2017				
Beginning of the period	251	38 240	849 578	-
Profits or losses	(37)	-	15 518	-
<i>recognised in income statement</i>	(37)	-	-	-
<i>recognised in equity</i>	-	-	15 518	-
Purchase	740	-	936	-
Sale/Maturity	(567)	(3 774)	-	-
Other	-	-	-	-
At the period end	387	34 466	866 032	-

Level III	Financial assets			Financial liabilities
	Financial assets held for trading	Financial assets available for sale - debt securities	Financial assets available for sale - equity securities	Financial liabilities held for trading
31.12.2016				
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)	-
Reclassification	-	38 240	-	-
At the period end	251	38 240	849 578	-

29. Contingent liabilities

Significant court proceedings

As at 30.06.2017 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 848,678 k, which is ca 3.88% of the Group's equity. This amount includes PLN 574,580 k claimed by the Group, PLN 270,564 k in claims against the Group and PLN 3,534 k of the Group's receivables due to bankruptcy or arrangement cases.

As at 30.06.2017 the amount of significant court proceedings which had been completed amounted to PLN 138,164 k.

As at 30.06.2017, the value of provisions for legal claims was PLN 81,591 k, including for significant cases against the Bank was PLN 34,715 k. In 27 cases against the Bank, where the claim value was high, a provision of PLN 30,697 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 26.

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

In thousands of PLN

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	30.06.2017	31.12.2016
Liabilities sanctioned		
- financial	22 425 999	23 243 064
- credit lines	18 244 294	19 134 360
- credit cards debits	3 588 874	3 419 031
- import letters of credit	584 868	655 624
- term deposits with future commencement term	7 963	34 049
- guarantees	4 063 530	4 182 758
Allowance for impairment	(49 198)	(50 746)
Total	26 440 331	27 375 076

30. Shareholders with min. 5% voting power

According to the information held by the Bank's Management Board, the shareholders with a min. 5% of the total number of votes at the Bank Zachodni WBK General Meeting as at the publication date of the condensed interim consolidated report for H1 2017 /28.07.2017/ are Banco Santander S.A. and Nationale Nederlanden OFE.

Shareholder	Number of shares held		% in the share capital		Number of votes at AGM		Voting power at AGM	
	28.07.2017	26.04.2017	28.07.2017	26.04.2017	28.07.2017	26.04.2017	28.07.2017	26.04.2017
Banco Santander S.A.	68 880 774	68 880 774	69,41%	69,41%	68 880 774	68 880 774	69,41%	69,41%
Nationale Nederlanden OFE	5 110 586	5 110 586	5,15%	5,15%	5 110 586	5 110 586	5,15%	5,15%
Other	25 243 174	25 243 174	25,44%	25,44%	25 243 174	25 243 174	25,44%	25,44%
Total	99 234 534	99 234 534	100,00%	100,00%	99 234 534	99 234 534	100,00%	100,00%

31. Related parties

Transactions with associates	30.06.2017	31.12.2016
Assets	76	70
Other assets	76	70
Liabilities	186 663	78 706
Deposits from customers	186 422	78 414
Other liabilities	241	292

Transactions with associates	01.01.2017- 30.06.2017	01.01.2016- 30.06.2016
Income	8 544	13 169
Fee and commission income	8 544	13 169
Expenses	2 339	6 812
Interest expense	767	676
Fee and commission expense	1 315	1 451
Operating expenses incl.:	257	4 685
<i>General and administrative expenses</i>	257	4 685

In thousands of PLN

Transactions with Santander Group	with the parent company		with other entities	
	30.06.2017	31.12.2016	30.06.2017	31.12.2016
Assets	433 400	981 961	1 145	3 674
Loans and advances to banks, incl:	175 180	594 042	1 144	274
<i>loans and advances</i>	-	353 911	-	-
<i>current accounts</i>	175 180	240 131	1 144	274
Financial assets held for trading	255 909	387 727	1	3 371
Hedging derivatives	2 283	-	-	-
Other assets	28	192	-	29
LIABILITIES	393 574	633 941	107 622	262 160
Deposits from banks incl.:	137 868	271 312	6 173	174 617
<i>current accounts</i>	137 868	271 312	6 173	3 683
<i>loans from other banks</i>	-	-	-	170 934
Hedging derivatives	2 763	54 503	-	-
Financial liabilities held for trading	252 943	308 126	338	7 365
Deposits from customers	-	-	88 915	71 079
Other liabilities	-	-	12 196	9 099
Contingent liabilities	-	10 706	-	-
Sanctioned:	-	10 706	-	-
- financial	-	10 706	-	-

Transactions with Santander Group	with the parent company		with other entities	
	01.01.2017- 30.06.2017	01.01.2016- 30.06.2016	01.01.2017- 30.06.2017	01.01.2016- 30.06.2016
Income	7 233	7 886	216	5 953
Interest income	6 159	7 054	76	23
Fee and commission income	1 074	832	123	100
Other operating income	-	-	17	-
Net trading income and revaluation	-	-	-	5 830
Expenses	21 451	115 523	50 643	9 826
Interest expense	405	125	1 992	594
Fee and commission expense	586	592	114	115
Net trading income and revaluation	20 460	114 806	35 871	-
Operating expenses incl.:	-	-	12 666	9 117
<i>Bank's staff, operating expenses and management costs</i>	-	-	12 658	9 117
<i>Other operating expenses</i>	-	-	8	-

Transactions with Members of Management and Supervisory Boards

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

Loans and advances made by the Banks to the key management personnel

As at 30.06.2017, 31.12.2016 and 30.06.2016 members of the Management Board were bound by the non-compete agreements which remain in force after they step down from their function. If a Member of the Management Board is removed from their function or not appointed for another term, he/she is entitled to a once-off severance pay. The severance pay does not apply if the person accepts another function in the Bank.

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

In thousands of PLN

Remuneration of Management Board Members and Key Management	Management Board Members		Key Management	
	01.01.2017- 30.06.2017	01.01.2016- 30.06.2016	01.01.2017- 30.06.2017	01.01.2016- 30.06.2016
Remuneration	6 198	5 057	20 141	20 003
Additional benefits (e.g among others, life insurance cover without pension option, medical)	432	369	426	380
The awards* paid in 2017 and 2016	7 794	6 006	18 113	12 403
Equivalent paid for unused annual leave	124	-	51	-
Provision for unused holidays in the amount	905	872	4 366	4 539
The number of conditional rights to shares**	10 541	18 371	18 321	30 350

	Management Board Members		Key Management	
	30.06.2017	31.12.2016	30.06.2017	31.12.2016
Loans and advances made by the Bank to the Members of the Management Board/Key Management	8 401	7 158	22 901	25 697
Deposits from The Management Board/Key management	20 358	13 312	17 679	14 199

* included part of the award for 2016, 2015, 2014, 2013 and 2012 which was conditional and deferred in time

**details about share base payments are presented in Note 44.

The category of key management personnel includes the persons covered by the principles laid down in the "Policy on variable components of remuneration paid to the individuals holding managerial positions at Bank Zachodni WBK", and in the case of subsidiaries – by the principles laid down in their respective internal regulations.

BZ WBK Group applies the Policy on variable components of remuneration for individuals holding managerial positions in BZ WBK Group. The Policy has been approved by the bank's Management Board and Supervisory Board and is reviewed annually or each time significant organisational changes are made.

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

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

In H1 2016, the total remuneration paid to the Supervisory Board Members of Bank Zachodni WBK totalled PLN 879 k. Mr John Power received remuneration of PLN 18 k from subsidiaries for his membership in their Supervisory Boards.

32. Acquisitions and disposals of investments in subsidiaries and associates

Acquisitions and disposals of investments in subsidiaries and associates in H1 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.

In thousands of PLN

33. Controlling stake at the companies PSA Finance Polska Sp. z o.o. and indirectly, PSA Consumer Finance Polska Sp. z o.o.

Transaction description

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 1.10.2016 ("Change of Control Date"), Santander Consumer Finance (a subsidiary of SCB) purchased 50% shares of PSA Finance Polska and, indirectly, PSA Consumer Finance Polska for PLN 61,352,500. The price paid, which is a preliminary price, represents 50% of the reference book value of the acquired companies as agreed by the parties. The final price will be determined by the end of Q3 2017 and will depend on the outcome of the review of the acquired assets and liabilities carried out by the acquiring entity.

Cancellation of shares in PSA Finance Polska

On 5 April 2017, Santander Consumer Bank sold 10% shares of PSA Finance Polska to PSA Finance Polska in order to cancel these shares, following the resolution of the General Meeting of PSA Finance Polska concerning reduction of the company's share capital of PLN 30,000 k and a voluntary cancellation of shares of PLN 12,266 k. The cancellation value was used to adjust the original purchase price and the subsequent payment.

The cancellation of the company's shares and reduction of its share capital will become effective once a corresponding entry is made to the National Court Register (KRS).

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

The transaction will have an immaterial impact on BZ WBK Group performance.

Assets and liabilities recognised at the merger date

As at the date of publication of the Condensed interim consolidated financial statement of BZ WBK Group for the period ended 30.06.2017, a provisional valuation was made of the acquisition of control over PSA Finance Polska and PSA Consumer Finance.

The companies' financial data as at 30.06.2017 that are the basis for this provisional valuation have not been audited and as such are subject to change as a result of a future audit of the financial statements. In addition, the Group has not finalised the process of estimating the fair value as at the date of combination of selected assets and liabilities of the PSA companies or the process of estimating the fair value of the intangible assets recognised in relation to the merger.

The table below shows a preliminary estimate of the fair value of the assets acquired and liabilities assumed by Santander Consumer Bank.

	PSA Finance Polska as at 30.06.2017	PSA Finance Polska sp. z o.o.	PSA Consumer Finance Polska sp. z o.o.
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		(71 930)	-
Total liabilities		(651 585)	-
Fair value of identifiable net assets		133 522	196

In thousands of PLN

	as at	30.06.2017
Goodwill		
Total consideration		49 087
Non-controlling interests		84 631
Less: balance sheet value of identifiable net assets		(133 718)
Total		-

34. 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.

35. 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.

36. 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 28.

37. 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.

38. 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.

39. 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 32),
- 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 33).

In thousands of PLN

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

As at 30.06.2017 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.

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

As at 30.06.2017 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.

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

As at 30.06.2017 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.

43. 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.

44. Share based payments

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

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

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

In every single year annual award not exceeding one third on total award will be considered. Shares will vest on a linear pattern between 25% and 100% contingent on profit after tax (PAT) growth and on RORWA ratio growth.

The range of the scale requires PAT growth between "lower level" set to 80% of assumed level of realization in 2017 and "upper level" of nominal growth at 17,8% in first year and between "lower level" set to 80% of assumed level of realization in 2018 and 2019 and "upper level" of nominal growth at 13,4% in second and third year of duration of scheme. The range of the scale requires RORWA ratio growth between "lower level" set to 80% of assumed level of realization in 2017 and "upper level" of nominal growth at 2,24% in first year, between "lower level" set to 80% of assumed level of realization in 2018 and "upper level" of nominal growth at 2,37% in second year and between "lower level" set to 80% of assumed level of realization in 2019 and "upper level" of nominal growth at 2,5% in third year of duration of scheme.

In thousands of PLN

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

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

The Black-Scholes model has been used to value awards granted at the grant date. The expected volatility of the values of shares is based on an analysis of historical volatility of share prices based on 160 sessions preceding the grant date.

The following table details the assumptions used, and the resulting fair value.

Share based payments granted in 2017:

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

The following table summarizes the share based payments activity:

	6 months of 2017 based payments	6 months of 2016 based payments
Outstanding at 1 January	157 254	168 784
Granted	131 912	-
Exercised	(100 233)	-
Forfeited	(2 495)	(5 676)
Expired	(55 176)	-
Outstanding at 30 June	131 262	163 108
Exercisable at 30 June	-	-

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

For the share based payments outstanding as at 30 June 2017 and as at 30 June 2016 the average remaining contractual life is approximately 3 years and 1 year respectively.

The total expense recognized in profit and loss account for 6 months of 2017 and 2016 amounts to PLN 0.00 and PLN 8 403 k.

The table below presents information about the number of conditional rights to shares vested in BZ WBK Management Board members under the 5th Incentive Scheme.

No. of awards	30.06.2017	30.06.2016
Outstanding at 1 January	17 671	17 918
Awarded before assumption of the duties of Management Board Member	1 017	1 253
Resignation from the Management Board Member function	(2 094)	(800)
Expired	(6 053)	-
As at 30 June	10 541	18 371

Under the sixth edition of the Incentive Scheme described above, the Management Board members have been awarded with 34 670 conditional rights to shares.

In thousands of PLN

The table below presents information about the number of conditional rights to shares vested in Group BZ WBK Key Management under the 5th Incentive Scheme.

No. of awards	30.06.2017	30.06.2016
Outstanding at 1 January	31 415	30 350
Change due to inclusion in key management personnel	2 940	-
Change due to exclusion from key management personnel	(6 055)	-
Expired	(9 979)	-
As at 30 June	18 321	30 350

Under the sixth edition of the Incentive Scheme described above, Key Management have been awarded with 39 974 conditional rights to shares.

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

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

**Signatures of Members of the Management Board**

Date	Name	Function	Signature
25.07.2017	Michał Gajewski	President	
25.07.2017	Andrzej Burliga	Vice-President	
25.07.2017	Michael McCarthy	Vice-President	
25.07.2017	Juan de Porras Aguirre	Vice-President	
25.07.2017	Mirosław Skiba	Vice-President	
25.07.2017	Feliks Szyszkowiak	Vice-President	
25.07.2017	Artur Chodacki	Member	
25.07.2017	Carlos Polaino Izquierdo	Member	
25.07.2017	Marcin Prell	Member	
25.07.2017	Arkadiusz Przybył	Member	
25.07.2017	Maciej Reluga	Member	
25.07.2017	Dorota Strojowska	Member	

Signature of a person who is responsible for maintaining the book of account

Date	Name	Function	Signature
25.07.2017	Wojciech Skalski	Financial Accounting Area Director	