



**REPORT OF
BANK ZACHODNI WBK GROUP
FOR QUARTER 1 2017**

2017



Bank Zachodni WBK

 Grupa Santander

FINANCIAL HIGHLIGHTS		PLN k		EUR k		
		for reporting period ended:		31.03.2017	31.03.2016	31.03.2017
Consolidated financial statement of Bank Zachodni WBK Group						
I	Net interest income		1 253 996	1 124 666	292 368	258 194
II	Net fee and commission income		475 193	472 728	110 791	108 526
III	Operating profit		837 182	829 166	195 188	190 355
IV	Profit before tax		740 028	769 225	172 537	176 594
V	Net profit attributable to owners of BZ WBK S.A.		453 044	556 473	105 627	127 752
VI	Total net cash flows		(4 880 588)	(6 565 575)	(1 137 905)	(1 507 283)
VII	Total assets		146 378 295	137 785 835	34 688 444	32 280 441
VIII	Deposits from banks		2 635 608	2 280 822	624 581	534 351
IX	Deposits from customers		108 452 441	102 198 247	25 700 849	23 942 987
X	Total liabilities		124 686 906	116 492 064	29 548 061	27 291 740
XI	Total equity		21 691 389	21 293 771	5 140 383	4 988 701
XII	Non-controlling interests in equity		1 332 876	1 221 092	315 862	286 077
XIII	Profit of the period attributable to non-controlling interests		74 172	64 929	17 293	14 906
XIV	Number of shares		99 234 534	99 234 534		
XV	Net book value per share in PLN/EUR		218.59	214.58	51.80	50.27
XVI	Capital ratio		15.67%	14.06%		
XVII	Profit per share in PLN/EUR		4.57	5.61	1.07	1.29
XVIII	Diluted earnings per share in PLN/EUR		4.56	5.61	1.06	1.29
XIX	Declared or paid dividend per share in PLN/EUR		5.4*	13.00	1.28	3.05
Stand alone financial statement						
I	Net interest income		902 101	822 361	210 324	188 792
II	Net fee and commission income		401 317	383 842	93 567	88 120
III	Operating profit		608 798	619 450	141 941	142 209
IV	Profit before tax		511 796	557 457	119 325	127 977
V	Profit for the period		353 952	458 258	82 524	105 204
VI	Total net cash flows		(4 574 165)	(5 864 732)	(1 066 463)	(1 346 388)
VII	Total assets		128 550 463	122 836 586	30 463 639	28 778 134
VIII	Deposits from banks		1 176 162	1 396 897	278 725	327 265
IX	Deposits from customers		99 834 787	94 027 658	23 658 654	22 028 783
X	Total liabilities		109 052 866	103 549 267	25 843 136	24 259 504
XI	Total equity		19 497 597	19 287 319	4 620 503	4 518 630
XII	Number of shares		99 234 534	99 234 534		
XIII	Net book value per share in PLN/EUR		196.48	194.36	46.56	45.53
XIV	Capital ratio		17.17%	15.26%		
XV	Profit per share in PLN/EUR		3.57	4.62	0.83	1.06
XVI	Diluted earnings per share in PLN/EUR		3.57	4.62	0.83	1.06
XVII	Declared or paid dividend per share in PLN/EUR		5.4*	13.00	1.28	3.05

FINANCIAL HIGHLIGHTS for the period ended 31.12.2016		Consolidated statement of financial position		Statement of financial position	
		PLN k	EUR k	PLN k	EUR k
I	Total assets	150 099 716	33 928 507	131 417 988	29 705 693
II	Deposits from banks	2 561 281	578 951	1 212 765	274 133
III	Deposits from customers	112 522 457	25 434 552	103 381 249	23 368 275
IV	Total liabilities	129 081 240	29 177 495	112 388 468	25 404 265
V	Total equity	21 018 476	4 751 012	19 029 520	4 301 429
VI	Number of shares	1 237 649	279 758	-	-

*Declared dividend. In accordance with disclosures in Note 46, the final decision shall be made by the AGM.

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

- for balance sheet items – average NBP exchange rate as at 31.03.2017: EUR 1 = PLN 4.2198; as at 30.12.2016: EUR 1 = PLN 4.4240 and as at 31.03.2016: EUR 1 = PLN 4.2684;
- for profit and loss items – as at 31.03.2017 - the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month in 2017: EUR 1 = PLN 4.2891; as at 31.03.2016 - the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month in 2016: EUR 1 = PLN 4.3559.

As at 31.03.2017, FX denominated balance sheet positions were converted into PLN in line with the NBP FX table no. 064/A/NBP/2017 dd. 31.03.2017.



**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENT OF
BANK ZACHODNI WBK GROUP
FOR THE 3-MONTH PERIOD
ENDED 31 MARCH 2017**

2017



Bank Zachodni WBK

 Grupa Santander

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In thousands of PLN

Consolidated income statement

	for reporting period:	01.01.2017 31.03.2017	01.01.2016 31.03.2016
Interest income		1 559 802	1 461 977
Interest expense		(305 806)	(337 311)
Net interest income	Note 4	1 253 996	1 124 666
Fee and commission income		589 294	577 347
Fee and commission expense		(114 101)	(104 619)
Net fee and commission income	Note 5	475 193	472 728
Dividend income		345	79 569
Net gains/(losses) on subordinated entities	Note 38	3 757	100
Net trading income and revaluation	Note 6	55 858	82 793
Gains (losses) from other financial securities	Note 7	17 177	38 986
Other operating income	Note 8	42 340	29 121
Impairment losses on loans and advances	Note 9	(145 512)	(134 144)
Operating expenses incl.:		(865 972)	(864 653)
<i>Bank's staff, operating expenses and management costs</i>	Notes 10, 11	(763 710)	(739 825)
<i>Depreciation/amortisation</i>		(74 269)	(65 313)
<i>Other operating expenses</i>	Note 12	(27 993)	(59 515)
Operating profit		837 182	829 166
Share in net profits (loss) of entities accounted for by the equity method		8 655	7 638
Tax on financial institutions		(105 809)	(67 579)
Profit before tax		740 028	769 225
Corporate income tax	Note 13	(212 812)	(147 823)
Consolidated profit for the period		527 216	621 402
of which:			-
<i>attributable to owners of BZ WBK S.A.</i>		453 044	556 473
<i>attributable to non-controlling interests</i>		74 172	64 929
Net earnings per share (PLN/share)			
Basic earnings per share		4,57	5,61
Diluted earnings per share		4,56	5,61

Consolidated statement of comprehensive income

	for reporting period:	01.01.2017- 31.03.2017	01.01.2016- 31.03.2016
Consolidated profit for the period		527 216	621 402
Other comprehensive income which can be transferred to the profit and loss account:		118 416	122 134
Available-for sale financial assets valuation, gross		163 450	54 526
Deferred tax		(31 056)	(10 360)
Cash flow hedges valuation, gross		(17 257)	96 257
Deferred tax		3 279	(18 289)
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		118 412	122 134
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		645 628	743 536
Attributable to:			
<i>owners of BZ WBK S.A.</i>		569 394	676 201
<i>non-controlling interests</i>		76 234	67 335

Notes presented on pages 14 – 58 constitute an integral part of these Financial Statement.

In thousands of PLN

Consolidated statement of financial position

as at:		31.03.2017	31.12.2016	31.03.2016
ASSETS				
Cash and balances with central banks	Note 14	4 150 507	4 775 660	2 064 088
Loans and advances to banks	Note 15	2 618 114	3 513 278	2 758 247
Financial assets held for trading	Note 16	2 550 063	3 180 985	3 963 255
Hedging derivatives		110 789	67 645	178 655
Loans and advances to customers	Note 17	104 018 178	103 068 538	97 467 955
Buy-sell-back transactions	Note 18	189 656	-	94 883
Financial assets available for sale	Note 19	26 500 766	29 307 878	25 529 462
Investments in associates	Note 20	880 163	871 491	838 780
Intangible assets		452 759	486 762	444 700
Goodwill		1 688 516	1 688 516	1 688 516
Property, plant and equipment		858 934	878 298	811 052
Current income tax assets		24 228	-	2 979
Net deferred tax assets	Note 21	1 383 737	1 534 322	1 223 576
Assets classified as held for sale	Note 22	637	629	704
Other assets	Note 23	951 248	725 714	718 983
Total assets		146 378 295	150 099 716	137 785 835
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from banks	Note 24	2 635 608	2 561 281	2 280 822
Hedging derivatives		1 359 523	2 023 344	1 963 748
Financial liabilities held for trading	Note 16	1 767 848	1 809 060	2 092 948
Deposits from customers	Note 25	108 452 441	112 522 457	102 198 247
Sell-buy-back transactions	Note 26	1 529 209	1 632 613	990 276
Subordinated liabilities	Note 27	931 147	440 457	527 838
Debt securities in issue	Note 28	5 384 435	5 529 187	4 348 075
Current income tax liabilities		-	84 151	-
Provisions	Note 29	134 224	130 128	143 562
Other liabilities	Note 30	2 492 471	2 348 562	1 946 548
Total liabilities		124 686 906	129 081 240	116 492 064
Equity				
Equity attributable to owners of BZ WBK		20 358 513	19 780 827	20 072 679
Share capital		992 345	992 345	992 345
Other reserve capital		15 799 143	15 791 555	14 705 263
Revaluation reserve		392 443	276 093	896 642
Retained earnings		2 721 538	553 987	2 921 956
Profit for the current period		453 044	2 166 847	556 473
Non-controlling interests in equity		1 332 876	1 237 649	1 221 092
Total equity		21 691 389	21 018 476	21 293 771
Total liabilities and equity		146 378 295	150 099 716	137 785 835

Notes presented on pages 14 – 58 constitute an integral part of these Financial Statement.

In thousands of PLN

Consolidated statement of changes in equity

Consolidated statement of changes in equity	Equity attributable to equity holders of BZ WBK SA					Non-controlling interests in equity	Total equity
	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total		
Opening balance 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	-	-	116 350	453 044	569 394	76 234	645 628
Consolidated profit for the period	-	-	-	453 044	453 044	74 172	527 216
Other comprehensive income	-	-	116 350	-	116 350	2 062	118 412
Equity adjustment due to merger and liquidation of subsidiaries and controlling stake at the subsidiaries	-	7 588	-	704	8 292	18 993	27 285
As at 31.03.2017	992 345	15 799 143	392 443	3 174 582	20 358 513	1 332 876	21 691 389

The revaluation reserve of PLN 392,443k comprises valuation of debt securities of PLN (16,918)k, equity shares of PLN 524,129k, cash flow hedges of PLN (122,787)k and the provision for retirement allowances with cumulative actuarial gains of PLN 8,019k.

Consolidated statement of changes in equity	Equity attributable to equity holders of BZ WBK SA					Non-controlling interests in equity	Total equity
	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total		
Opening balance as at 31.12.2015	992 345	14 685 919	776 914	2 936 851	19 392 029	1 176 101	20 568 130
Total comprehensive income	-	-	(500 760)	2 166 847	1 666 087	213 497	1 879 584
Consolidated profit for the period	-	-	-	2 166 847	2 166 847	217 245	2 384 092
Other comprehensive income	-	-	(500 760)	-	(500 760)	(3 748)	(504 508)
Distributions of profits and losses	-	1 177 730	-	(1 177 730)	-	-	-
Share scheme charge	-	16 213	-	-	16 213	-	16 213
Dividends	-	-	-	(1 290 049)	(1 290 049)	(226 025)	(1 516 074)
Equity adjustment due to merger and controlling stake at the subsidiaries	-	(88 307)	(61)	84 915	(3 453)	74 076	70 623
As at 31.12.2016	992 345	15 791 555	276 093	2 720 834	19 780 827	1 237 649	21 018 476

The revaluation reserve of PLN 276,093k comprises valuation of debt securities of PLN (145,039)k, equity shares of PLN 521,877k, cash flow hedges of PLN (108,768)k and the provision for retirement allowances with cumulative actuarial gains of PLN 8,023k.

Consolidated statement of changes in equity	Equity attributable to equity holders of BZ WBK SA					Non-controlling interests in equity	Total equity
	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total		
Opening balance as at 31.12.2015	992 345	14 685 919	776 914	2 936 851	19 392 029	1 176 101	20 568 130
Total comprehensive income	-	-	119 728	556 473	676 201	67 335	743 536
Consolidated profit for the period	-	-	-	556 473	556 473	64 929	621 402
Other comprehensive income	-	-	119 728	-	119 728	2 406	122 134
Distributions of profits and losses	-	14 895	-	(14 895)	-	-	-
Share scheme charge	-	4 449	-	-	4 449	-	4 449
Dividends	-	-	-	-	-	(22 344)	(22 344)
As at 31.03.2016	992 345	14 705 263	896 642	3 478 429	20 072 679	1 221 092	21 293 771

The revaluation reserve of PLN 896,642k comprises valuation of debt securities of PLN 226,160k, equity shares of PLN 786,331k, cash flow hedges of PLN (118,449)k and the provision for retirement allowances with cumulative actuarial gains of PLN 2,600k.

Notes presented on pages 14 – 58 constitute an integral part of these Financial Statement.

In thousands of PLN

Consolidated statement of cash flows

	for the period	01.01.2017- 31.03.2017	01.01.2016- 31.03.2016
Profit before tax		740 028	769 225
Total adjustments:			
Share in net profits (losses) of entities accounted for by the equity method		(8 655)	(7 638)
Depreciation/amortisation		74 269	65 313
Impairment losses		(10)	145
Profit (loss) from investing activities		(20 008)	(41 252)
		785 624	785 793
Changes:			
Provisions		4 096	10 992
Trading portfolio financial instruments		(110 173)	(240 480)
Hedging derivatives		(706 965)	(129 935)
Loans and advances to banks		6	(441)
Loans and advances to customers		(949 640)	(2 554 071)
Deposits from banks		(46 726)	292 367
Deposits from customers		(4 064 851)	673 486
Buy-sell/ Sell-buy-back transactions		(103 404)	(4 250 794)
Other assets and liabilities		(52 331)	216 659
		(6 029 988)	(5 982 217)
Interest accrued excluded from operating activities		(108 434)	(114 614)
Dividend		(344)	(79 569)
Paid income tax		(198 372)	(379 706)
Net cash flows from operating activities		(5 551 514)	(5 770 313)
Inflows		1 294 165	1 437 733
Sale of subordinated entities		-	100
Sale/maturity of financial assets available for sale		1 185 909	1 273 524
Sale of intangible assets and property, plant and equipment		4 939	2 278
Dividend received		180	79 569
Interest received		103 137	82 262
Outflows		(1 072 707)	(3 402 220)
Purchase of financial assets available for sale		(1 047 570)	(3 384 870)
Purchase of intangible assets and property, plant and equipment		(25 137)	(17 350)
Net cash flows from investing activities		221 458	(1 964 487)
Inflows		995 000	1 788 518
Debt securities in issue		670 000	545 000
Drawing of loans		325 000	1 243 518
Outflows		(545 532)	(619 293)
Debt securities buy out		(285 000)	(514 700)
Repayment of loans		(206 748)	(43 072)
Dividends and other payments to shareholders		-	(22 344)
Interest paid		(53 784)	(39 177)
Net cash flows from financing activities		449 468	1 169 225
Total net cash flows		(4 880 588)	(6 565 575)
Cash at the beginning of the accounting period		11 838 799	12 677 692
Cash at the end of the accounting period		6 958 211	6 112 117

Notes presented on pages 14 – 58 constitute an integral part of these Financial Statement.

In thousands of PLN

Income statement of Bank Zachodni WBK

	01.01.2017- 31.03.2017	01.01.2016- 31.03.2016
Interest income	1 125 790	1 087 530
Interest expenses	(223 689)	(265 169)
Net interest income	902 101	822 361
Fee and commission income	466 398	455 846
Fee and commission expenses	(65 081)	(72 004)
Net fee and commission income	401 317	383 842
Dividend income	340	101 913
Net gains/(losses) on subordinated entities	-	-
Net trading income and revaluation	53 941	76 026
Gains (losses) from other financial securities	15 019	38 542
Other operating income	35 004	24 558
Impairment losses on loans and advances	(103 991)	(132 111)
Operating expenses incl.:	(694 933)	(695 681)
<i>Bank's staff, operating expenses and management costs</i>	<i>(616 248)</i>	<i>(596 991)</i>
<i>Depreciation/amortisation</i>	<i>(64 655)</i>	<i>(54 468)</i>
<i>Other operating expenses</i>	<i>(14 030)</i>	<i>(44 222)</i>
Operating profit	608 798	619 450
Tax on financial institutions	(97 002)	(61 993)
Profit before tax	511 796	557 457
Corporate income tax	(157 844)	(99 199)
Profit for the period	353 952	458 258
Net earnings per share (PLN/share)		
Basic earnings per share	3.57	4.62
Diluted earnings per share	3.57	4.62

Statement of comprehensive income of Bank Zachodni WBK

	01.01.2017- 31.03.2017	01.01.2016- 31.03.2016
Profit for the period	353 952	458 258
Other comprehensive income which can be transferred to the profit and loss account:	114 125	115 483
Available-for sale financial assets valuation, gross	158 279	49 142
Deferred tax	(30 073)	(9 337)
Cash flow hedges valuation, gross	(17 384)	93 430
Deferred tax	3 303	(17 752)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	468 077	573 741

Notes presented on pages 14 – 58 constitute an integral part of these Financial Statement.

In thousands of PLN

Statement of financial position of Bank Zachodni WBK

as at:	31.03.2017	31.12.2016	31.03.2016
ASSETS			
Cash and balances with central banks	4 123 933	4 696 634	2 038 301
Loans and advances to banks	2 667 243	3 308 802	2 750 711
Financial assets held for trading	2 557 124	3 198 187	3 972 275
Hedging derivatives	93 203	66 787	171 498
Loans and advances to customers	88 482 475	87 102 390	83 858 174
Buy-sell-back transactions	189 656	-	94 883
Financial assets available for sale	23 629 486	26 322 361	23 428 559
Investments in subsidiaries and associates	2 377 325	2 377 325	2 377 325
Intangible assets	431 061	464 308	425 675
Goodwill	1 688 516	1 688 516	1 688 516
Property, plant and equipment	761 953	779 866	724 679
Current income tax assets	61 508	-	45 599
Net deferred tax assets	776 543	950 307	802 385
Assets classified as held for sale	608	608	637
Other assets	709 829	461 897	457 369
Total assets	128 550 463	131 417 988	122 836 586
LIABILITIES AND EQUITY			
Deposits from banks	1 176 162	1 212 765	1 396 897
Hedging derivatives	1 330 259	1 961 828	1 913 491
Financial liabilities held for trading	1 769 112	1 809 969	2 108 053
Deposits from customers	99 834 787	103 381 249	94 027 658
Sell-buy-back transactions	353 344	-	208 804
Subordinated liabilities	931 147	440 457	427 071
Debt securities in issue	1 637 364	1 783 303	1 902 168
Current income tax liabilities	-	12 999	-
Provisions	58 623	66 345	79 446
Other liabilities	1 962 068	1 719 553	1 485 679
Total liabilities	109 052 866	112 388 468	103 549 267
Equity			
Share capital	992 345	992 345	992 345
Other reserve capital	15 132 993	15 132 993	14 243 124
Revaluation reserve	395 879	281 754	884 730
Retained earnings	2 622 428	540 708	2 708 862
Profit for the current period	353 952	2 081 720	458 258
Total equity	19 497 597	19 029 520	19 287 319
Total liabilities and equity	128 550 463	131 417 988	122 836 586

Notes presented on pages 14 – 58 constitute an integral part of these Financial Statement.

In thousands of PLN

Statement of changes in equity of Bank Zachodni WBK

Statement of changes in equity	Share capital	Other reserve equity	Revaluation reserve	Retained earnings and profit for the period	Total
Opening balance as at 31.12.2016	992 345	15 132 993	281 754	2 622 428	19 029 520
Total comprehensive income	-	-	114 125	353 952	468 077
Profit for the period	-	-	-	353 952	353 952
Share scheme charge	-	-	-	-	-
As at 31.03.2017	992 345	15 132 993	395 879	2 976 380	19 497 597

The revaluation reserve of PLN 395,879k comprises valuation of debt securities of PLN (18,188)k, equity shares of PLN 531,904k, cash flow hedges of PLN (125,663)k and the provision for retirement allowances with cumulative actuarial gains of PLN 7,826k.

Statement of changes in equity	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total
Opening balance as at 31.12.2015	992 345	14 238 675	769 247	2 708 862	18 709 129
Total comprehensive income	-	-	(487 493)	2 081 720	1 594 227
Profit for the period	-	-	-	2 081 720	2 081 720
Other comprehensive income	-	-	(487 493)	-	(487 493)
Distribution of profits and losses	-	878 105	-	(878 105)	-
Dividends	-	-	-	(1 290 049)	(1 290 049)
Share scheme charge	-	16 213	-	-	16 213
As at 31.12.2016	992 345	15 132 993	281 754	2 622 428	19 029 520

The revaluation reserve of PLN 281,754k comprises valuation of debt securities of PLN (143,435)k, equity shares of PLN 528,944k, cash flow hedges of PLN (111,581)k and the provision for retirement allowances with cumulative actuarial gains of PLN 7,826k.

Statement of changes in equity	Share capital	Other reserve equity	Revaluation reserve	Retained earnings and profit for the period	Total
Opening balance as at 31.12.2015	992 345	14 238 675	769 247	2 708 862	18 709 129
Total comprehensive income	-	-	115 483	458 258	573 741
Profit for the period	-	-	-	458 258	458 258
Share scheme charge	-	-	-	-	-
Share scheme charge	-	4 449	-	-	4 449
As at 31.03.2016	992 345	14 243 124	884 730	3 167 120	19 287 319

The revaluation reserve of PLN 884,730k comprises valuation of debt securities of PLN 221,936k, equity shares of PLN 780,940k, cash flow hedges of PLN (120,764)k and the provision for retirement allowances with cumulative actuarial gains of PLN 2,618k.

Notes presented on pages 14 – 58 constitute an integral part of these Financial Statement.

In thousands of PLN

Statement of cash flows of Bank Zachodni WBK

	for reporting period:	01.01.2017- 31.03.2017	01.01.2016- 31.03.2016
Profit before tax		511 796	557 457
Total adjustments:			
Depreciation/amortisation		64 655	54 468
Profit (loss) from investing activities		(15 887)	(41 702)
Impairment losses		-	447
		560 564	570 670
Changes in:			
Provisions		(7 722)	(3 203)
Trading portfolio financial instruments		(99 677)	(225 296)
Hedging derivatives		(657 985)	(119 196)
Loans and advances to banks		16	786 878
Loans and advances to customers		(1 380 085)	(2 732 824)
Deposits from banks		(35 652)	199 299
Deposits from customers		(3 543 808)	(1 197 197)
Buy-sell/ Sell-buy-back transactions		353 344	(3 781 760)
Other assets and liabilities		(5 631)	269 254
		(5 377 200)	(5 804 045)
Interest accrued excluded from operating activities		(134 948)	(128 417)
Dividend		(339)	(101 913)
Paid income tax		(85 358)	(297 046)
Net cash flows from operating activities		(5 037 281)	(5 760 751)
Inflows		856 078	1 297 188
Sale/maturity of financial assets available for sale		775 907	1 124 195
Sale of intangible assets and property, plant and equipment		12	615
Dividend received		175	101 913
Interest received		79 984	70 465
Outflows		(760 426)	(2 441 850)
Purchase of financial assets available for sale		(747 570)	(2 431 279)
Purchase of intangible assets and property, plant and equipment		(12 856)	(10 571)
Net cash flows from investing activities		95 652	(1 144 662)
Inflows		670 000	1 293 259
Debt securities in issue		670 000	435 000
Drawing of loans		-	858 259
Outflows		(302 536)	(252 578)
Debt securities buy out		(285 000)	(230 000)
Repayment of loans		(3 234)	(6 148)
Interest paid		(14 302)	(16 430)
Net cash flows from financing activities		367 464	1 040 681
Total net cash flows		(4 574 165)	(5 864 732)
Cash at the beginning of the accounting period		11 554 555	11 729 903
Cash at the end of the accounting period		6 980 390	5 865 171

Notes presented on pages 14 – 58 constitute an integral part of these Financial Statement.

In thousands of PLN

Additional notes to consolidated financial statement

1. Basis of preparation of interim financial statements

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

The consolidated financial statements of the Group for the year 2016 are available at the Bank's official website: www.bzwbk.pl.

Statement of compliance

Condensed interim consolidated financial statements of Bank Zachodni WBK Group for the period from 1 January 2017 to 31 March 2017 were prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union and other applicable regulations.

In accordance with Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2014 of 28.01.2014, No 133 as amended), the Bank is required to publish the financial results for the nine months ended 31 March 2017 which is deemed to be the current interim financial reporting period.

Accounting policies

The condensed interim consolidated financial statements are presented in PLN, rounded to the nearest thousand.

The consolidated financial statements of Bank Zachodni WBK Group have been prepared in accordance with the International Financial Reporting Standards adopted for application in the European Union (IFRS). The consolidated financial statements have 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 Group entities.

The Group has used the same accounting principles as those used in preparation of the Group's consolidated financial statements 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.

Comparability with results of previous periods

Due to the entry into force of amendments to IAS 1, Bank Zachodni WBK Group decided to adjust the comparative data to provide more transparent information about its financial position.

Starting from 30 June 2016, BZ WBK Group changed the presentation of buy-sell-back transactions and sell-buy-back transactions. They used to be disclosed under the following line items: Loans and advances to customers, Loans and advances to banks and Deposits from banks and Deposits from customers, respectively. Now, buy-sell-back transactions and sell-buy-back transactions are reported under separate line items of the consolidated statement of financial position.

Starting from 31 December 2016, BZ WBK Group changed the presentation of provisions. They used to be disclosed under Other liabilities, now they are reported under a separate line item of the consolidated statement of financial position.

In thousands of PLN

The tables below present the impact of changes in range of presentation for comparative data.

	31.03.2016 before conversion	Change in recognition of Buy-sell-back and Sell-buy-back transactions	31.03.2016 converted
Loans and advances to banks	2 853 130	(94 883)	2 758 247
Loans and advances to customers	97 467 955	-	97 467 955
Buy-sell-back transactions	-	94 883	94 883
Deposits from banks	3 271 098	(990 276)	2 280 822
Deposits from customers	102 198 247	-	102 198 247
Sell-buy-back transactions	-	990 276	990 276

	31.03.2016 before conversion	Change in recognition of provisions	31.03.2016 converted
Provisions	-	143 562	143 562
Other liabilities	2 090 110	(143 562)	1 946 548

The above changes are for presentation purposes only.

Changes in judgments and estimates

Compared with the consolidated financial statements for 2016, in Q1 2017 there were no material changes in Bank Zachodni WBK Group's accounting estimates or judgments.

In thousands of PLN

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 in European Union from	Influence on BZ WBK Group
IFRIC 22 Foreign Currency Transactions and Advance Consideration *	IFRIC 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency	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.
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	The Group does not expect significant impact on revenue recognition model.

In thousands of PLN

IFRS 16 Leases *	<p>Changes relate to the following areas:</p> <ul style="list-style-type: none"> • Introduction of a new definition of lease as an agreement or part of an agreement; • Recognition by lessee - the change will influence balance-sheet measurements; • Recognition by lessor - in the case of book recognition of sales and leaseback and additional disclosures. 	1 January 2019	The Group has not completed impact analysis.
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	The Group does not expect any material impact on revenue recognition.
Annual Improvements to IFRS 2014 2016 *	<p>In December 2016, the International Accounting Standards Board published 'Annual Improvements to IFRS Standards 2014-2016 Cycle' which amended 3 standards, i.e. IFRS 12 'Disclosure of Interests in Other Entities', IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 28 'Investments in Associates'.</p> <p>The improvements feature guidelines and amendments re: the scope of applicability, recognition and valuation as well as terminology and editing changes.</p>	1 January 2018 for improvements to IFRS 1 and IAS 28	The amendment will not have a significant impact on financial statements.
Improvements to IAS 40 'Investment Property' *	Improvements to IAS 40 specify the requirements for transfers to or from investment property classification.	1 January 2018	The amendment will not have a significant impact on financial statements.
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 Group has not completed the analysis of changes.
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. Should the assets constitute a business, the investor shall recognize the profit or loss in full. Should the assets not constitute a business, the profit or loss shall be recognised only to the extent of unrelated investors' interests in the associate or joint venture.</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.

*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"

Classification and measurement

IFRS 9 removes currently existing under IAS 39 categories, in particular held-to-maturity investments and available-for-sale financial assets. Financial assets' classification under IFRS 9 depends from financial assets' business model management and contractual cash flow characteristics. According to the standard financial instruments are classified to one of the two groups:

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

In 2017, the BZ WBK Group has identified business models for the year ended 31 December 2016, which are not contrary to the segments determined for the management purposes.

In thousands of PLN

Based on current contractual cash flow analysis and the business model assessment, BZ WBK Group assumes that there will be no significant changes with respect to the classification:

- financial assets classified as Loans and Advances under IAS 39 will generally be classified into amortized cost under the condition that instrument passes SPPI test,
- available for sale debt instruments will generally continue to be classified into fair value with changes in other comprehensive income,
- available for sale equity instruments shall be classified into fair value, and depending on the nature of the investment, their variations will be recorded in the income statement or in other comprehensive income,
- Financial instruments currently classified into fair value through profit or loss will generally continue to be classified into fair value through profit or loss.

The BZ WBK Group is currently implementing an analysis of its portfolios given contractual cash flow characteristics test and business model assessment outcomes in order to identify and classify the financial instruments into their corresponding portfolio under IFRS 9.

Hedge accounting

IFRS 9 includes new hedge accounting requirements which have a twofold objective: to simplify current requirements, and to bring hedge accounting in line with risk management, so allowing there to be a greater variety of derivative financial instruments which may be considered to be hedging instruments. Furthermore, additional breakdowns are required providing useful information regarding the effect which hedge accounting has on financial statements and also on the entity's risk management strategy.

BZ WBK Group according to the best estimate will continue to apply IAS 39 in respect of hedge accounting.

Impairment of credit exposures

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

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

- Stage 1 – with no significant increase in credit 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, the expected losses will be recognised over the next 12 months.
- Stage 2 – exposures with a significant increase in credit risk since initial recognition, but with no objective evidence of impairment. For such exposures, lifetime expected credit losses are recognised.
- Stage 3 – exposures for which the risk of default has materialised. For such exposures, lifetime expected credit losses are 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 as Stage 2. The BZ WBK Group started work on elaborating detailed criteria for the definition of a significant increase in risk. The definition will use the key conditions laid down in IFRS 9, such as delay in repayment exceeding 30 days, and the BZ WBK Group's PD/rating models as well as additional elements of a qualitative risk assessment used in the process of exposure monitoring.

Another key feature introduced by IFRS 9 is the approach to the estimation of risk parameters. For the purpose of estimating impairment allowances, the BZ WBK Group plans to continue using own estimates of risk parameters (PD, LGD, CCF) 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). The BZ WBK Group is working on defining a methodology for model parameters and on developing models compliant with IFRS 9. At the moment, the BZ WBK Group is developing a new method of calculating allowances and designing and implementing changes in IT systems.

Comparatives data

According to the best estimate BZ WBK Group will restate the comparatives in financial statement for 2018 in order to make them fully comparable.

IFRS 9 impact

BZ WBK Group is currently devising and implementing new solutions in IT systems, accounting policy and developing new business processes. The completion of implementing changes in respect of IFRS 9 is planned until the end of the fourth quarter 2017.

Due to the ongoing process of IFRS 9 "Financial instruments" implementation and the lack of reliable impact estimation, BZ WBK Group has not disclosed quantitative implications of the IFRS 9 implementation.

In thousands of PLN

Standards and interpretations or changes to existing standards or interpretations which were applied for the first time in the accounting year 2017

IFRS	Nature of changes	Effective in European Union 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.	1 January 2017	The amendments does not have any material impact on the financial statements.
Amendment to IAS 12 Income Taxes *	The amendment clarifies the application of the standard for the recognition of a deferred tax asset in the case of losses on measurement of financial instruments classified as available for sale, among other things debt instruments.	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 amendments does not have any material impact on the financial statements.

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

In thousands of PLN

2. Description of organization of Bank Zachodni WBK Group

BZ WBK Group consists of the following subsidiaries and associates:

Subsidiaries *	Registered office	[%] of the Group's capital share	
		31.03.2017	31.03.2016
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. Giełdokracja 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 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.	-
12. PSA Consumer Finance Sp. z o.o. ³⁾	Warszawa	100% of AGM votes are held by PSA Finance 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.
15. SC Poland Auto 2014-1 Limited	Dublin	-	subsidiary of Santander Consumer Bank S.A.
16. SC Poland Consumer 15-1 Sp. z o.o.	Warszawa	subsidiary of Santander Consumer Bank S.A.	subsidiary of Santander Consumer Bank S.A.
17. SC Poland Consumer 16-1 Sp. z o.o. ⁵⁾	Warszawa	subsidiary of Santander Consumer Bank S.A.	-

* subsidiaries consolidated with BZ WBK

¹⁾ Details about the merger of BZWBK Leasing S.A. and BZWBK Lease S.A. are provided in Note 38.

²⁾ On 31.03.2016, a merger of BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. (BZ WBK TFI) and BZ WBK Asset Management S.A. (BZ WBK AM) was completed, as a result of which BZ WBK TFI has acquired AM.

In thousands of PLN

The merger was executed by way of transfer of all assets of BZ WBK AM (the acquired company) to BZ WBK TFI (the acquiring company) in return for shares which BZ WBK TFI has allotted to the shareholders of the acquired company. The merger of the companies took effect on the date of entry of the merger into the register of businesses. Upon recording of the merger, BZ WBK AM has been deleted from the register of businesses. As of the merger date BZ WBK TFI has taken over all rights and obligations of its legal predecessor, i.e. BZ WBK AM. Business combinations under common control have no material impact on the financial statements.

As at 31.03.2017, 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 Sp. z o.o. and indirectly, PSA Consumer Finance Sp. z o.o. are provided in Note 38.

⁴⁾ Details about the liquidation of AKB Marketing Services Sp. z o.o. in liquidation are provided in Note 38.

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.

Associates	Registered office	[%] of the Group's capital share	
		31.03.2017	31.03.2016
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

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.

Comparable data are adjusted accordingly.

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

Retail Banking

Retail Banking generates income from the sale of products and services to personal customers and small 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)

01.01.2017-31.03.2017	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Global Corporate Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	594 293	129 916	42 426	168 197	319 164	1 253 996
incl. internal transactions	(24 269)	(11 760)	250	35 550	229	-
Net fee and commission income	335 858	54 635	50 427	(2 350)	36 623	475 193
incl. internal transactions	22 694	8 916	(33 202)	2 032	(440)	-
Other income	12 665	21 037	20 857	57 539	7 034	119 132
incl. internal transactions	895	9 395	(10 864)	(11 484)	12 058	-
Dividend income	-	-	1	338	6	345
Operating costs	(470 470)	(74 627)	(49 556)	(59 857)	(137 193)	(791 703)
incl. internal transactions	(1 938)	(345)	(1)	3 110	(826)	-
Depreciation/amortisation	(49 743)	(5 253)	(5 250)	(6 439)	(7 584)	(74 269)
Impairment losses on loans and advances	(93 075)	(18 884)	(1 461)	(187)	(31 905)	(145 512)
Share in net profits (loss) of entities accounted for by the equity method	-	-	-	8 655	-	8 655
Tax on financial institutions	-	-	-	(97 002)	(8 807)	(105 809)
Profit before tax	329 528	106 824	57 444	68 894	177 338	740 028
Corporate income tax						(212 812)
Consolidated profit for the period						527 216
of which:						
attributable to owners of BZ WBK S.A.						453 044
attributable to non-controlling interests						74 172

* Includes individual customers and small and medium companies

In thousands of PLN

Consolidated statement of financial position (by operating segments)

31.03.2017	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	55 543 830	23 462 395	11 267 094	1 574	13 743 285	104 018 178
Investments in associates	-	-	-	880 163	-	880 163
Other assets	5 648 001	1 072 257	3 172 928	27 739 984	3 846 784	41 479 954
Total assets	61 191 831	24 534 652	14 440 022	28 621 721	17 590 069	146 378 295
Deposits from customers	70 717 898	17 504 780	7 767 853	4 626 992	7 834 918	108 452 441
Other liabilities and equity	4 318 951	2 686 432	4 137 426	17 027 894	9 755 151	37 925 854
Total equity and liabilities	75 036 849	20 191 212	11 905 279	21 654 886	17 590 069	146 378 295

* Includes individual customers and small and medium companies

In thousands of PLN

Consolidated income statement (by operating segments)

01.01.2016-31.03.2016	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Global Corporate Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	515 857	129 796	40 551	168 953	269 509	1 124 666
incl. internal transactions	(21 875)	(8 121)	8	29 914	74	-
Net fee and commission income	329 569	48 747	39 419	(2 515)	57 508	472 728
incl. internal transactions	21 205	8 780	(30 944)	1 385	(426)	-
Other income	17 400	21 092	30 776	73 361	8 371	151 000
incl. internal transactions	4 648	15 463	(17 097)	(33 407)	30 393	-
Dividend income	-	-	-	79 569	-	79 569
Operating costs	(510 134)	(77 674)	(51 197)	(26 666)	(133 669)	(799 340)
incl. internal transactions	(3 670)	(394)	(1)	4 377	(312)	-
Depreciation/amortisation	(41 806)	(4 882)	(5 065)	(4 548)	(9 012)	(65 313)
Impairment losses on loans and advances	(125 778)	(9 029)	(4 036)	1 022	3 677	(134 144)
Share in net profits (loss) of entities accounted for by the equity method	-	-	-	7 638	-	7 638
Tax on financial institutions	-	-	-	(61 993)	(5 586)	(67 579)
Profit before tax	185 108	108 050	50 448	234 821	190 798	769 225
Corporate income tax						(147 823)
Consolidated profit for the period						621 402
of which:						
attributable to owners of BZ WBK S.A.						556 473
attributable to non-controlling interests						64 929

* Includes individual customers and small and medium companies

In thousands of PLN

Consolidated statement of financial position (by operating segments)

31.03.2016	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	50 600 028	23 698 811	10 382 636	58 132	12 728 348	97 467 955
Investments in associates	-	-	-	838 780	-	838 780
Other assets	4 028 416	679 635	4 138 438	27 668 714	2 963 897	39 479 100
Total assets	54 628 444	24 378 446	14 521 074	28 565 626	15 692 245	137 785 835
Deposits from customers	66 392 530	16 464 872	7 572 246	3 912 230	7 856 369	102 198 247
Other liabilities and equity	4 096 693	2 821 395	3 797 305	17 036 319	7 835 876	35 587 588
Total equity and liabilities	70 489 223	19 286 267	11 369 551	20 948 549	15 692 245	137 785 835

* Includes individual customers and small and medium companies

In thousands of PLN

4. Net interest income

	01.01.2017- 31.03.2017	01.01.2016- 31.03.2016
Interest income		
Loans and advances to enterprises	399 019	399 567
Loans and advances to individuals, of which:	853 134	764 655
<i>Home mortgage loans</i>	250 682	217 493
Debt securities incl.:	161 140	153 641
<i>Investment portfolio available for sale</i>	158 239	145 858
<i>Trading portfolio</i>	2 901	7 783
Leasing agreements	61 066	42 714
Loans and advances to banks	15 191	15 493
Public sector	1 710	2 002
Reverse repo transactions	3 093	866
Interest recorded on hedging IRS	65 449	83 039
Total	1 559 802	1 461 977
Interest expenses		
Deposits from individuals	(140 425)	(179 930)
Deposits from enterprises	(89 816)	(94 760)
Repo transactions	(7 225)	(10 260)
Deposits from public sector	(10 913)	(10 962)
Deposits from banks	(12 773)	(7 011)
Subordinated liabilities and issue of securities	(44 654)	(34 388)
Total	(305 806)	(337 311)
Net interest income	1 253 996	1 124 666

In thousands of PLN

5. Net fee and commission income

	01.01.2017- 31.03.2017	01.01.2016- 31.03.2016
Fee and commission income		
eBusiness & payments	138 585	140 634
Current accounts and money transfer	83 361	80 752
Asset management fees	69 065	61 703
Foreign exchange commissions	78 131	73 793
Credit commissions	72 258	65 137
Insurance commissions	51 481	81 730
Brokerage activities	22 069	16 562
Credit cards	40 029	37 078
Off-balance sheet guarantee commissions	12 788	11 126
Finance lease commissions	10 692	3 596
Issue arrangement fees	997	2 171
Distribution fees	3 856	1 501
Other commissions	5 982	1 564
Total	589 294	577 347
Fee and commission expenses		
eBusiness & payments	(43 941)	(52 810)
Distribution fees	(5 805)	(5 961)
Brokerage activities	(3 172)	(2 326)
Credit cards	(8 923)	(11 043)
Credit commissions paid	(19 307)	(6 710)
Insurance commissions	(2 302)	(5 924)
Finance lease commissions	(12 685)	(6 140)
Asset management fees and other costs	(1 630)	(1 785)
Other	(16 336)	(11 920)
Total	(114 101)	(104 619)
Net fee and commission income	475 193	472 728

6. Net trading income and revaluation

	01.01.2017- 31.03.2017	01.01.2016- 31.03.2016
Net trading income and revaluation		
Derivative instruments and interbank fx transactions	41 015	63 595
Other FX related income	10 968	11 040
Profit on equity instruments	3 356	1 878
Profit on debt instruments	519	6 280
Total	55 858	82 793

Net trading income and revaluation includes the change of the value of derivative instruments in the amount of PLN (4,918) k for 1Q 2017 and PLN (6,983) k for 1Q 2016. The amounts included CVA and DVA adjustments which in 1Q 2017 and 1Q 2016 totaled PLN (4 797) k and PLN (6 697) k respectively.

In thousands of PLN

7. Gains (losses) from other financial securities

	01.01.2017- 31.03.2017	01.01.2016- 31.03.2016
Gains (losses) from other financial securities		
Profit on sale of equity shares available for sale	10 775	1 893
Profit on sale of debt securities available for sale	5 503	40 456
Charge due to impairment losses	-	(447)
Total profit (losses) on financial instruments	16 278	41 902
Change in fair value of hedging instruments	2 789	(24 282)
Change in fair value of underlying hedged positions	(1 890)	21 366
Total profit (losses) on hedging and hedged instruments	899	(2 916)
Total	17 177	38 986

8. Other operating income

	01.01.2017- 31.03.2017	01.01.2016- 31.03.2016
Other operating income		
Income on sale of services	3 376	4 047
Reimbursements of BGF charges *	433	6 489
Release of provision for legal cases and other assets	1 429	6 427
Settlements of leasing agreements	952	1 289
Recovery of other receivables	1 503	1 438
Profit on sales or liquidation of fixed assets, intangible assets and assets for disposal	220	-
Received compensations, penalties and fines	362	255
Other income from legal cases	24 131	-
Other	9 934	9 176
Total	42 340	29 121

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

9. Impairment losses on loans and advances

	01.01.2017- 31.03.2017	01.01.2016- 31.03.2016
Impairment losses on loans and advances		
Collective and individual impairment charge	(158 316)	(174 083)
Incurred but not reported losses charge	(17 316)	(14 449)
Recoveries of loans previously written off	31 262	53 946
Off-balance sheet credit related facilities	(1 142)	442
Total	(145 512)	(134 144)

In thousands of PLN

10. Employee costs

Employee costs	01.01.2017- 31.03.2017	01.01.2016- 31.03.2016
Salaries and bonuses	(313 223)	(302 958)
Salary related costs	(58 065)	(56 360)
Staff benefits costs	(8 395)	(8 055)
Professional trainings	(2 480)	(2 582)
Retirement fund, holiday provisions and other employee costs	(624)	(594)
Total	(382 787)	(370 549)

11. General and administrative expenses

General and administrative expenses	01.01.2017- 31.03.2017	01.01.2016- 31.03.2016
Maintenance and rentals of premises	(86 295)	(93 336)
Marketing and representation	(30 598)	(32 538)
IT systems costs	(54 010)	(50 357)
Bank Guarantee Fund, Polish Financial Supervision Authority and National Depository for Securities	(105 152)	(79 074)
Postal and telecommunication costs	(12 876)	(14 598)
Consulting fees	(13 314)	(11 387)
Cars, transport expenses, carriage of cash	(16 399)	(17 461)
Other external services	(20 821)	(26 016)
Stationery, cards, cheques etc.	(6 104)	(7 533)
Sundry taxes	(8 126)	(8 877)
Data transmission	(3 609)	(4 324)
KIR, SWIFT settlements	(7 501)	(6 998)
Security costs	(6 765)	(6 120)
Costs of repairs	(3 587)	(5 139)
Other	(5 766)	(5 518)
Total	(380 923)	(369 276)

12. Other operating expenses

Other operating expenses	01.01.2017- 31.03.2017	01.01.2016- 31.03.2016
Charge of provisions for legal cases and other assets	(15 749)	(46 174)
Costs of purchased services	(1 004)	(92)
Other membership fees	(190)	(184)
Paid compensations, penalties and fines	(4 725)	(785)
Donations paid	(1 500)	(1 503)
Other	(4 825)	(10 777)
Total	(27 993)	(59 515)

In thousands of PLN

13. Corporate income tax

	01.01.2017- 31.03.2017	01.01.2016- 31.03.2016
Corporate income tax		
Current tax charge	(89 991)	(148 239)
Deferred tax	(122 821)	416
Total	(212 812)	(147 823)

	01.01.2017- 31.03.2017	01.01.2016- 31.03.2016
Corporate total tax charge information		
Profit before tax	740 028	769 225
Tax rate	19%	19%
Tax calculated at the tax rate	(140 605)	(146 153)
Non-tax-deductible expenses, incl. the fee to the Bank Guarantee Fund	(19 359)	(8 587)
Tax on financial institutions	(20 104)	(12 840)
Sale of receivables	(20 186)	(2 533)
Non-taxable income (dividends)	-	15 118
Non-tax deductible bad debt provisions	(4 902)	503
Adjustment of prior year tax	570	8 385
Consolidation adjustments	(5 761)	(1 202)
Other	(2 465)	(514)
Total income tax expense	(212 812)	(147 823)

	31.03.2017	31.03.2016
Deferred tax recognised directly in equity		
Relating to equity securities available-for-sale	(123 076)	(185 182)
Relating to debt securities available-for-sale	4 530	(52 950)
Relating to cash flow hedging activity	28 530	27 600
Relating to valuation of defined benefit plans	(1 912)	(610)
Total	(91 928)	(211 142)

14. Cash and balances with central banks

	31.03.2017	31.12.2016	31.03.2016
Cash and balances with central banks			
Cash	1 878 679	2 134 971	1 891 719
Current accounts in central banks	2 271 828	2 538 686	172 369
Term deposits	-	102 003	-
Total	4 150 507	4 775 660	2 064 088

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.

In thousands of PLN

15. Loans and advances to banks

Loans and advances to banks	31.03.2017	31.12.2016	31.03.2016
Loans and advances	619 378	795 140	175 495
Current accounts	1 998 736	2 718 138	2 582 753
Gross receivables	2 618 114	3 513 278	2 758 248
Impairment write down	-	-	(1)
Total	2 618 114	3 513 278	2 758 247

16. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading	31.03.2017		31.12.2016		31.03.2016	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Trading derivatives	1 742 397	1 590 912	1 859 361	1 728 931	2 006 766	1 911 812
Interest rate operations	966 161	875 142	970 357	898 100	1 213 955	1 186 610
Forward	539	-	6	20	625	2
Options	14 211	14 211	17 744	17 743	8 073	8 073
IRS	944 941	855 453	945 715	873 241	1 198 040	1 174 290
FRA	6 470	5 478	6 892	7 096	7 217	4 245
Transactions on equity instruments	13 079	13 079	12 032	12 032	10 024	10 024
Options	13 079	13 079	12 032	12 032	10 024	10 024
FX operations	763 157	702 691	876 972	818 799	782 787	715 178
CIRS	191 744	161 540	210 135	245 130	133 085	149 998
Forward	35 767	115 438	69 838	61 693	49 698	71 473
FX Swap	416 511	306 696	429 814	352 967	390 208	293 466
Spot	1 519	1 396	1 561	2 041	2 398	1 513
Options	117 616	117 621	156 718	156 718	198 719	198 719
Other	-	-	8 906	250	8 679	9
Debt and equity securities	807 666	-	1 321 624	-	1 956 489	-
Debt securities	778 120	-	1 312 589	-	1 903 073	-
Government securities:	777 628	-	612 233	-	1 902 409	-
- bonds	777 628	-	612 233	-	1 902 409	-
Central Bank securities:	-	-	699 883	-	-	-
- bills	-	-	699 883	-	-	-
Commercial securities:	492	-	473	-	664	-
- bonds	492	-	473	-	664	-
Equity securities:	29 546	-	9 035	-	53 416	-
- listed	29 546	-	9 035	-	53 416	-
Short sale	-	176 936	-	80 129	-	181 136
Total financial assets/liabilities	2 550 063	1 767 848	3 180 985	1 809 060	3 963 255	2 092 948

Financial assets and liabilities held for trading - trading derivatives include the change in the value of counterparty risk in the amount of PLN 4,813 k as at 31.03.2017, PLN 9,525 k as at 31.12.2016 and PLN 7,571 k as at 31.03.2016.

In thousands of PLN

17. Loans and advances to customers

Loans and advances to customers	31.03.2017	31.12.2016	31.03.2016
Loans and advances to enterprises	46 253 167	45 179 803	45 175 368
Loans and advances to individuals, of which:	55 996 633	56 291 404	52 466 333
<i>Home mortgage loans</i>	36 864 612	37 008 380	34 167 565
Finance lease receivables	6 171 276	6 098 499	4 819 493
Loans and advances to public sector	197 405	195 900	217 968
Other	215 358	181 813	9 022
Gross receivables	108 833 839	107 947 419	102 688 184
Impairment write down	(4 815 661)	(4 878 881)	(5 220 229)
Total	104 018 178	103 068 538	97 467 955

Movements on impairment losses on loans and advances to customers	31.03.2017	31.12.2016	31.03.2016
Individual and collective impairment			
As at the beginning of the period	(4 187 798)	(4 471 467)	(4 471 467)
Individual and collective impairment acquired in a business combination	-	(11 548)	-
Charge/write back of current period	(158 316)	(828 170)	(174 084)
Write off/Sale of receivables	230 053	1 110 443	97 745
Transfer	(15 685)	26 631	(696)
F/X differences	15 517	(13 687)	1 147
Balance at the end of the period	(4 116 229)	(4 187 798)	(4 547 355)
IBNR			
As at the beginning of the period	(691 083)	(659 596)	(659 596)
IBNR acquired in a business combination	-	(1 947)	-
Charge/write back of current period	(17 317)	(27 015)	(14 448)
Sale of receivables	1 630	3 182	-
Transfer	1 495	558	182
F/X differences	5 843	(6 265)	988
Balance at the end of the period	(699 432)	(691 083)	(672 874)
Allowance for impairment	(4 815 661)	(4 878 881)	(5 220 229)

In September 2015, SCB securitized the instalment loan portfolio. The transaction was a traditional, revolving transaction and consisted in transferring the right to securitized receivables to SC Poland Consumer Sp. z o.o. 15-1 (SPV2), with its registered seat in Poland.

On the basis of the securitized assets, the aforesaid company issued bonds with a total value of PLN 1 051 125 k secured in the form of a registered pledge on the assets of SPV2. The bonds bear an interest rate comprising 1M WIBOR and margin. As a result of the securitization, SCB obtained financing in return for the right to future cash flows from the securitized credit portfolio. The latest redemption date is 19 August 2025, but in SCB estimation, the aforesaid bonds should be redeemed within two years from the transaction date.

SCB granted SPV2 a subordinated loan of PLN 297 805 k as at 31 March 2017. The loan is subordinated to preference and secured bonds. Loan interest repayment is included in the cascading payments i.e. realized in a specified sequence, made from the funds of SPV2, whereas the principal will be repaid after full redemption of bonds. The interest is fixed.

In August 2016 SCB performed a transaction of securitization of cash loans portfolio. The concluded transaction is a traditional and revolving securitization including transfer of ownership rights to securitized receivables for the benefit of the special purpose vehicle SC Poland Consumer 16-1 Sp. z o.o. (SPV3) with its registered seat in Poland.

This Company issued, on the basis of securitized assets, bonds of the total value of PLN 1 225 000 k, secured with a registered pledge on the property of SPV3. The bonds bear an interest rate comprising 1M WIBOR and margin. As a result of the securitization SCB obtained funding of its activity in exchange for giving rights to future flows arising from the securitized loans portfolio. The maximum period for redemption of the bonds is 16 September 2026 but SCB estimated that it shall take place within 3 years from the transaction date.

In order to support funding of the transaction SCB granted a subordinated loan to SPV3 in the amount of PLN 37 397 k as of 31 March 2017. This loan is subordinated against preference and secured bonds. Interests from the loan are paid in a form of cascade payments, i.e. realized in a predefined sequence from funds held by SPV3, and the principle amount will be repaid after total redemptions of the bonds. The loan interest rate is based on a fixed rate.

In thousands of PLN

In the light of provisions of the IAS 39, the contractual terms and conditions of the securitization transaction do not require SCB to derecognize the securitized assets from its financial statements. Consequently, at 31 March 2017, SCB recognizes securitized assets under Loans and advances granted to clients in the net amount of PLN 2 146 707 k. The fair value of net securitized assets measured as of 31 March 2017 amounted respectively to PLN 2 144 230 k. At the same time SCB recognizes liabilities in respect of securitization cash flows under Liabilities to clients in the amount of PLN 2 614 321 k as at 31 March 2017.

At 31 March 2017, SCB recognizes also receivables in respect of current settlements with SPVs in the net amount of PLN 151 201 k under Other assets.

In May 2016 SCB finalized the transaction of securitization of car loans and instalment loans portfolios concluded in 2014. The transaction included transfer of ownership rights to securitized receivables for the benefit of the special purpose vehicle SC Poland Auto 2014-1 Limited (SPV1) with its registered seat in Ireland. The transaction was finalized after redemption of all issued bonds and included exercising of the procedure specified in the agreement, so called redemption option. In the frame of realization of the procedure of datio in payment, SCB took over from the SPV the rights to remaining unpaid receivables which allowed total settlement of the transaction. The value of the net securitization portfolio as of the redemption moment was PLN 391 684 k.

The profit earned by all SPVs is zero because SPV absorbs all revenues and expenses of SPV1 and SPV2 are offset against the revenues and expenses of SCB. In this model SPV allocated all payments received from SCB to particular types of payments, including other settlements with SCB, according to a specified priority, in the sequence as agreed in the agreement.

Mortgage loans – currency analysis

Mortgage portfolio of Bank Zachodni 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. Bank Zachodni WBK Group actively manages the CHF position using derivative instruments (swaps) and direct financing including loans and repo transactions. As at the end of March 2017, the volume of the above instruments added up to CHF 2.8 bn and CHF 0.4 bn, respectively.

The table below presents the PLN equivalent of the mortgage loan-book value of Bank Zachodni WBK Group as at 31.03.2017, 31.12.2016 and 31.03.2016:

Gross mortgage loans by currency	31.03.2017	31.12.2016	31.03.2016
CHF denominated mortgage loans, of which:	12 655 543	13 458 166	13 483 027
<i>Bank Zachodni WBK</i>	9 885 136	10 507 854	10 520 641
<i>Santander Consumer Bank</i>	2 770 407	2 950 312	2 962 386
Mortgage loans denominated in other currencies, of which:	24 209 069	23 550 214	20 684 538
<i>in PLN</i>	22 097 168	21 287 359	18 391 050
Total	36 864 612	37 008 380	34 167 565

Risk profile of CHF-indexed/denominated loans

CHF gross mortgage loans as at 31.03.2017	Gross amount	Impairment losses	Coverage ratio
Performing loans	12 471 026	77 340	0,62%
Non-performing loans	184 517	85 521	46,35%
Total	12 655 543	162 861	

Average LTV ratio and NPL ratio amounted to 105% and 1.5%, respectively. As at 31 March 2017, 99% of CHF loans were sanctioned before 2009.

18. Buy-sell-back transactions

Buy-sell-back transactions	31.03.2017	31.12.2016	31.03.2016
Buy-sell-back transactions to banks	189 656	-	94 883
Buy-sell-back transactions to customers	-	-	-
Total	189 656	-	94 883

In thousands of PLN

19. Financial assets available for sale

Financial assets available for sale	31.03.2017	31.12.2016	31.03.2016
Available for sale investments - measured at fair value			
Debt securities	25 622 445	28 423 828	24 375 992
Government securities:	23 592 325	23 429 089	20 891 600
- bills	292 894	-	-
- bonds	23 299 431	23 429 089	20 891 600
Central Bank securities:	-	2 849 694	1 200 000
- bills	-	2 849 694	1 200 000
Commercial securities:	2 030 120	2 145 045	2 284 392
-bonds	2 030 120	2 145 045	2 284 392
Equity securities	878 320	884 050	1 149 015
- listed	22 970	34 473	42 636
- unlisted	855 350	849 577	1 106 379
Investment certificates	-	-	4 455
Total	26 500 765	29 307 878	25 529 462

20. Investments in associates

Movements on investments in associates	31.03.2017	31.12.2016	31.03.2016
Balance as at 1 January	871 491	831 142	831 142
Share of profits/(losses)	8 655	55 439	7 638
Dividends	-	(10 827)	-
Other	17	(4 263)	-
Balance at the end of the period	880 163	871 491	838 780

Balance sheet value of associates	31.03.2017	31.12.2016	31.03.2016
Polfund - Fundusz Poręczeń Kredytowych S.A.	43 212	43 216	42 728
BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A.	836 951	828 275	796 052
Total	880 163	871 491	838 780

In thousands of PLN

21. Net deferred tax assets

Deferred tax assets	31.03.2017	Changes to equity*	Changes to financial result	Changes in temporary differences	31.12.2016
Provisions for impairment of loans and advances	646 989	-	(3 443)	(3 443)	650 432
Valuation of derivative financial instruments	566 584	-	(151 628)	(151 628)	718 212
Cash flow hedges valuation	28 531	3 279	-	3 279	25 252
Other provisions	134 799	-	(11 341)	(11 341)	146 140
Deferred income	448 550	-	6 138	6 138	442 412
Differences between carrying and tax value of lease	317 488	-	19 833	19 833	297 655
Unrealised interest expense on loans, deposits and securities	92 030	-	418	418	91 612
Other negative temporary differences	15 653	-	2 634	2 634	13 019
Total assets of deferred tax	2 250 624	3 279	(137 389)	(134 110)	2 384 734

Deferred tax liabilities	31.03.2017	Changes to equity*	Changes to financial result	Changes in temporary differences	31.12.2016
Revaluation of financial instruments available for sale	(118 547)	(31 056)	-	(31 056)	(87 491)
Provisions for retirement allowances	(1 913)	1	-	1	(1 914)
Valuation of derivative financial instruments	(350 152)	-	17 393	17 393	(367 545)
Unrealised interest income on loans, securities and interbank deposits	(205 654)	-	4 844	4 844	(210 498)
Prepayments regarding amortization of applied investment relief	(1 846)	-	30	30	(1 876)
Difference between balance sheet and taxable value of non-financial assets	5 874	-	748	748	5 126
Unrealised FX translation differences from b/s valuation of receivables and liabilities	(10 976)	-	(1 694)	(1 694)	(9 282)
Valuation of shares / interests in subsidiaries	(149 194)	-	(1 412)	(1 412)	(147 782)
Other positive temporary differences	(34 479)	-	(5 329)	(5 329)	(29 150)
Total liabilities deferred tax	(866 887)	(31 055)	14 580	(16 475)	(850 412)

Net deferred tax assets	1 383 737	(27 776)	(122 809)	(150 585)	1 534 322
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*The changes carried in equity do not reflect the deferred tax effect in relation to the item recognised in non-controlling interests.

As at 31.03.2017 the assets in the calculation of deferred tax assets do not include purchased receivables in the amount of gross PLN 8,135 k and provisions for loans that do not become tax expense in the amount of gross PLN 64,928 k.

In thousands of PLN

Deferred tax assets	31.12.2016	Changes to equity*	Changes to financial result	Changes in temporary differences	31.03.2016
Provisions for impairment of loans and advances	650 432	-	16 924	16 924	633 508
Valuation of derivative financial instruments	718 212	-	(26 513)	(26 513)	744 725
Cash flow hedges valuation	25 252	(2 348)	-	(2 348)	27 600
Other provisions	146 140	-	21 979	21 979	124 161
Deferred income	442 412	-	35 308	35 308	407 103
Differences between carrying and tax value of lease	297 655	-	85 911	85 911	211 744
Unrealised interest expense on loans, deposits and securities	91 612	-	2 399	2 399	89 213
Other negative temporary differences	13 019	-	177	177	12 847
Total assets of deferred tax	2 384 734	(2 348)	136 185	133 837	2 250 901

Deferred tax liabilities	31.12.2016	Changes to equity*	Changes to financial result	Changes in temporary differences	31.03.2016
Revaluation of financial instruments available for sale	(87 491)	150 643	-	150 643	(238 134)
Provisions for retirement allowances	(1 914)	(1 304)	-	(1 304)	(610)
Valuation of derivative financial instruments	(367 545)	-	45 725	45 725	(413 270)
Unrealised interest income on loans, securities and interbank deposits	(210 498)	-	(13 887)	(13 887)	(196 611)
Prepayments regarding amortization of applied investment relief	(1 876)	-	297	297	(2 173)
Difference between balance sheet and taxable value of non-financial assets	5 126	-	2 447	2 447	2 679
Unrealised FX translation differences from b/s valuation of receivables and liabilities	(9 282)	-	(938)	(938)	(8 344)
Valuation of shares / interests in subsidiaries	(147 782)	-	1 766	1 766	(149 548)
Other positive temporary differences	(29 150)	-	(7 836)	(7 836)	(21 314)
Total liabilities deferred tax	(850 412)	149 339	27 574	176 913	(1 027 325)

Net deferred tax assets	1 534 322	146 991	163 759	310 750	1 223 576
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*The changes carried in equity do not reflect the deferred tax effect in relation to the item recognised in non-controlling interests.

As at 31.12.2016 the assets in the calculation of deferred tax assets do not include purchased receivables in the amount of gross PLN 8,500 k and provisions for loans that do not become tax expense in the amount of gross PLN 52,896 k.

In thousands of PLN

Deferred tax assets	31.03.2016	Changes to equity*	Changes to financial result	Changes in temporary differences	31.12.2015
Provisions for impairment of loans and advances	633 508	-	24 775	24 775	608 733
Valuation of derivative financial instruments	744 725	-	(23 119)	(23 119)	767 844
Cash flow hedges valuation	27 600	(18 289)	-	(18 289)	45 889
Other provisions	124 161	-	(18 764)	(18 764)	142 925
Deferred income	407 103	-	376	376	406 727
Differences between carrying and tax value of lease	211 744	-	20 823	20 823	190 921
Unrealised interest expense on loans, deposits and securities	89 213	-	(684)	(684)	89 897
Other negative temporary differences	12 847	-	(2 560)	(2 560)	15 407
Total assets of deferred tax	2 250 901	(18 289)	847	(17 442)	2 268 343

Deferred tax liabilities	31.03.2016	Changes to equity*	Changes to financial result	Changes in temporary differences	31.12.2015
Revaluation of financial instruments available for sale	(238 134)	(10 360)	-	(10 360)	(227 774)
Provisions for retirement allowances	(610)	-	-	-	(610)
Valuation of derivative financial instruments	(413 270)	-	10 338	10 338	(423 608)
Unrealised interest income on loans, securities and interbank deposits	(196 611)	-	(13 951)	(13 951)	(182 660)
Prepayments regarding amortization of applied investment relief	(2 173)	-	30	30	(2 203)
Difference between balance sheet and taxable value of non-financial assets	2 679	-	504	504	2 175
Unrealised FX translation differences from b/s valuation of receivables and liabilities	(8 344)	-	148	148	(8 492)
Valuation of shares / interests in subsidiaries	(149 548)	-	3 116	3 116	(152 664)
Other positive temporary differences	(21 314)	-	(615)	(615)	(20 699)
Total liabilities deferred tax	(1 027 325)	(10 360)	(430)	(10 790)	(1 016 535)

Net deferred tax assets	1 223 576	(28 649)	417	(28 232)	1 251 808
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*The changes carried in equity do not reflect the deferred tax effect in relation to the item recognised in non-controlling interests.

As at 31.03.2016 the assets in the calculation of deferred tax assets do not include purchased receivables in the amount of gross PLN 10,321 k and provisions for loans that do not become tax expense in the amount of gross PLN 44,965 k.

22. Assets classified as held for sale

Assets classified as held for sale	31.03.2017	31.12.2016	31.03.2016
Land and buildings	608	608	638
Other fixed assets	29	21	66
Total	637	629	704

23. Other assets

Other assets	31.03.2017	31.12.2016	31.03.2016
Interbank and interbranch settlements	130 183	106 829	117 315
Sundry debtors	621 468	443 476	404 041
Prepayments	131 705	125 164	123 428
Repossessed assets	24 481	24 567	37 577
Settlements of stock exchange transactions	41 004	21 385	32 460
Other	2 407	4 293	4 162
Total	951 248	725 714	718 983
of which financial assets*	792 655	571 690	553 816

* Financial assets include all items of Other assets, with the exception of Prepayments, Repossessed assets and Other.

In thousands of PLN

24. Deposits from banks

Deposits from banks	31.03.2017	31.12.2016	31.03.2016
Term deposits	48 352	98 531	412 715
loans from other banks	2 015 734	1 945 101	1 478 769
Current accounts	571 522	517 649	389 338
Total	2 635 608	2 561 281	2 280 822

25. Deposits from customers

Deposits from customers	31.03.2017	31.12.2016	31.03.2016
Deposits from individuals	64 290 407	63 547 942	61 004 135
Term deposits	24 166 929	23 711 846	26 516 627
Current accounts	39 939 251	39 650 731	34 335 676
Other	184 227	185 365	151 832
Deposits from enterprises	40 057 684	45 709 065	37 436 599
Term deposits	19 197 466	22 608 733	19 814 459
Current accounts	16 291 067	18 464 132	13 577 777
Loans	3 891 725	4 075 897	3 282 401
Other	677 426	560 303	761 962
Deposits from public sector	4 104 350	3 265 450	3 757 513
Term deposits	2 354 035	1 504 136	2 151 736
Current accounts	1 746 282	1 747 709	1 597 687
Other	4 033	13 605	8 090
Total	108 452 441	112 522 457	102 198 247

26. Sell-buy-back transactions

Sell-buy-back transactions	31.03.2017	31.12.2016	31.03.2016
Sell-buy-back transactions from banks	1 529 209	1 632 613	990 276
Sell-buy-back transactions from customers	-	-	-
Total	1 529 209	1 632 613	990 276

27. 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

In thousands of PLN

Movements in subordinated liabilities	31.03.2017	31.12.2016	31.03.2016
As at the beginning of the period	440 457	526 634	526 634
Increase (due to):	494 164	31 671	5 475
- interest on subordinated loan	6 829	18 919	4 793
- FX differences	(29 889)	12 752	682
- reclassification *	517 224	-	-
Decrease (due to):	(3 474)	(117 848)	(4 271)
- subordinated loans repayment	-	(100 000)	-
- interest repayment	(3 474)	(17 848)	(4 271)
Subordinated liabilities - as at the end of the period	931 147	440 457	527 838
Short-term	6 254	1 604	102 742
Long-term (over 1 year)	924 893	438 853	425 096

* 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.

28. Debt securities in issue

Debt securities in issue	ISIN	Nominal value	Currency	Redemption date	31.03.2017
Series B	PLBZ00000168	475 000	PLN	17.07.2017	
SCB00006	PLSNTND00034	100 000	PLN	07.08.2017	
Series D deposit certificates	PLBZ00000234	420 000	PLN	17.08.2017	
SCB00008	not quoted	110 000	PLN	30.08.2017	
SCB00010	not quoted	20 000	PLN	30.08.2017	
SCB00012	PLSNTND00042	215 000	PLN	04.10.2017	
Series E deposit certificates	PLBZ00000242	250 000	PLN	17.10.2017	
SCB00019	PLSNTND00083	220 000	PLN	30.10.2017	
SCB00022	PLSNTND00091	100 000	PLN	16.02.2018	
SCB00031	not quoted	40 000	PLN	23.02.2018	
SCB00017	PLSNTND00059	50 000	PLN	18.06.2018	
Series C	PLBZ00000176	485 000	PLN	25.06.2018	
SCB00018	PLSNTND00067	170 000	PLN	12.08.2019	
SCB00032	not quoted	20 000	PLN	26.08.2019	
SCB00037	not quoted	40 000	PLN	02.12.2019	
SCB00033	not quoted	50 000	PLN	26.02.2020	
SCB00034	not quoted	140 000	PLN	05.05.2020	
SCB00035	not quoted	82 000	PLN	29.05.2020	
SCB00036	not quoted	100 000	PLN	10.08.2020	
Securitized bonds Float sale	XS1275288295	1 051 125	PLN	19.08.2025	
Securitized bonds Float sale	not quoted	1 000 000	PLN	16.09.2026	
Securitized bonds Float sale	XS1463240967	84 375	PLN	16.09.2026	
Securitized bonds Float sale	XS1463240884	140 625	PLN	16.09.2026	
Debt securities in issue					
- as at the end of the period					5 384 435

In thousands of PLN

Debt securities in issue	ISIN	Nominal value	Currency	Redemption date	31.12.2016
Series C bank securities	PLBZ0000218	100 000	PLN	17.02.2017	
Series D	PLBZ0000200	185 000	PLN	26.02.2017	
Series B	PLBZ0000168	475 000	PLN	17.07.2017	
SCB00006	PLSNTND00034	100 000	PLN	07.08.2017	
SCB00008	not quoted	110 000	PLN	30.08.2017	
SCB00010	not quoted	20 000	PLN	30.08.2017	
SCB00012	PLSNTND00042	215 000	PLN	04.10.2017	
SCB00019	PLSNTND00083	220 000	PLN	30.10.2017	
SCB00022	PLSNTND00091	100 000	PLN	16.02.2018	
SCB00031	not quoted	40 000	PLN	23.02.2018	
SCB00017	PLSNTND00059	50 000	PLN	18.06.2018	
Series C	PLBZ00000176	485 000	PLN	25.06.2018	
SCB00018	PLSNTND00067	170 000	PLN	12.08.2019	
SCB00032	not quoted	20 000	PLN	26.08.2019	
SCB00037	not quoted	40 000	PLN	02.12.2019	
SCB00033	not quoted	50 000	PLN	26.02.2020	
SCB00034	not quoted	140 000	PLN	05.05.2020	
SCB00035	not quoted	82 000	PLN	29.05.2020	
SCB00036	not quoted	100 000	PLN	10.08.2020	
Securitized bonds Float sale	XS1275288295	1 051 125	PLN	19.08.2025	
Securitized bonds Float sale	not quoted	1 225 000	PLN	16.09.2026	
Series E	PLBZ00000226	120 000	EUR	03.12.2026	
Debt securities in issue - as at the end of the period					5 529 187

Debt securities in issue	ISIN	Nominal value	Currency	Redemption date	31.03.2016
SCB00001	not quoted	60 000	PLN	29.04.2016	
SCB00002	not quoted	10 000	PLN	29.04.2016	
SCB00027	not quoted	50 000	PLN	29.04.2016	
SCB00028	not quoted	20 000	PLN	29.04.2016	
SCB00029	not quoted	50 000	PLN	13.05.2016	
SCB00005	PLSNTND00026	100 000	PLN	08.08.2016	
Series B bank securities	PLBZ00000192	250 000	PLN	17.08.2016	
Series A	PLBZ00000150	500 000	PLN	19.12.2016	
Series D	PLBZ00000200	185 000	PLN	26.02.2017	
Series B	PLBZ00000168	475 000	PLN	17.07.2017	
SCB00006	PLSNTND00034	100 000	PLN	07.08.2017	
SCB00008	not quoted	110 000	PLN	30.08.2017	
SCB00010	not quoted	20 000	PLN	30.08.2017	
SCB00012	PLSNTND00042	215 000	PLN	04.10.2017	
SCB00019	PLSNTND00083	220 000	PLN	30.10.2017	
SCB00022	PLSNTND00091	100 000	PLN	16.02.2018	
SCB00031	not quoted	40 000	PLN	23.02.2018	
SCB00017	PLSNTND00059	50 000	PLN	18.06.2018	
Series C	PLBZ00000176	485 000	PLN	25.06.2018	
SCB00018	PLSNTND00067	170 000	PLN	12.08.2019	
SCB00033	not quoted	20 000	PLN	26.08.2019	
SCB00032	not quoted	50 000	PLN	26.02.2020	
Securitized bonds Float sale	XS1275288295	1 051 125	PLN	19.08.2025	
Debt securities in issue - as at the end of the period					4 348 075

In thousands of PLN

Movements in debt securities in issue	31.03.2017	31.12.2016	31.03.2016
As at the beginning of the period	5 529 187	4 320 891	4 320 891
Increase (due to):	706 741	2 894 670	570 491
- debt securities in issue	670 000	2 762 880	545 000
- interest on debt securities in issue	36 741	131 790	25 491
Decrease (due to):	(851 493)	(1 686 374)	(543 307)
- debt securities redemption	(285 000)	(1 554 700)	(514 700)
- reclassification*	(517 224)	-	-
- FX differences	(13 656)	-	-
- interest repayment	(35 613)	(131 674)	(28 607)
As at the end of the period	5 384 435	5 529 187	4 348 075

* 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.

29. Provisions

Provisions	31.03.2017	31.12.2016	31.03.2016
Provisions for off-balance sheet credit facilities	51 497	50 746	74 923
Provisions for legal claims	78 499	74 396	61 701
Provisions for restructuring *	4 228	4 986	6 938
Total	134 224	130 128	143 562

* Provision acquired as a result of the acquisition of control over Santander Consumer Bank on July 1, 2014 in the amount of PLN 15,547 k (as at 31.03.2017 in the amount of PLN 4,228 k) referred to:

- restructuring of employment in the bank PLN 3,323 k (as at 31.03.2017 in the amount of PLN 1,703 k),
- liquidation of branches PLN 12,224 k (as at 31.03.2017 in the amount of PLN 2,525 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 31.03.2017	Provisions for off			Total
	Provisions for legal claims	balance sheet credit facilities	Provisions for restructuring	
As at the beginning of the period	74 396	50 746	4 986	130 128
Provision charge	15 493	19 366	266	35 125
Utilization	(11 664)	(391)	-	(12 055)
Write back	274	(18 224)	(1 024)	(18 974)
Other changes	-	-	-	-
Balance at the end of the period	78 499	51 497	4 228	134 224
Short-term	78 499	43 555	4 228	126 282
Long-term	-	7 942	-	7 942

In thousands of PLN

Change in provisions 31.12.2016	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	93 280	93 586	377	187 243
Utilization	(66 157)	835	-	(65 322)
Write back	(1 309)	(119 015)	(4 000)	(124 324)
Other changes	-	-	(39)	(39)
Balance at the end of the period	74 396	50 746	4 986	130 128
Short-term	74 396	41 752	4 986	121 134
Long-term	-	8 994	-	8 994

Change in provisions 31.03.2016	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	43 953	28 785	-	72 738
Utilization	(30 780)	25	-	(30 755)
Write back	(54)	(29 227)	(1 710)	(30 991)
Other changes	-	-	-	-
Balance at the end of the period	61 701	74 923	6 938	143 562
Short-term	61 701	62 506	6 938	131 145
Long-term	-	12 417	-	12 417

30. Other liabilities

Other liabilities	31.03.2017	31.12.2016	31.03.2016
Settlements of stock exchange transactions	34 874	25 314	50 908
Interbank and interbranch settlements	340 597	585 606	468 586
Employee provisions	270 238	375 959	269 388
Other provisions	3 300	3 300	3 300
Sundry creditors	914 439	512 010	292 141
Other deferred and suspended income	256 874	250 059	254 995
Public and law settlements	133 302	86 298	137 135
Accrued liabilities	480 321	436 249	409 972
Finance lease related settlements	57 977	72 901	59 730
Other	549	866	393
Total	2 492 471	2 348 562	1 946 548
of which financial liabilities *	2 101 746	2 011 339	1 554 025

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

Change in provisions 31.03.2017	Employee provisions	Other provisions	Total
As at the beginning of the period	375 959	3 300	379 259
Provision charge	68 747	-	68 747
Utilization	(149 366)	-	(149 366)
Write back	(25 025)	-	(25 025)
Other changes	(77)	-	(77)
Balance at the end of the period	270 238	3 300	273 538
Short-term	208 603	3 300	211 903
Long-term	61 635	-	61 635

In thousands of PLN

Change in provisions 31.12.2016	Employee provisions	Other provisions	Total
As at the beginning of the period	380 724	3 306	384 030
Provision acquired in a business combination	747	-	747
Provision charge	327 004	-	327 004
Utilization	(269 233)	(6)	(269 239)
Write back	(63 543)	-	(63 543)
Other changes	260	-	260
Balance at the end of the period	375 959	3 300	379 259
Short-term	315 562	3 300	318 862
Long-term	60 397	-	60 397

Change in provisions 31.03.2016	Employee provisions	Other provisions	Total
As at the beginning of the period	380 724	3 306	384 030
Provision charge	105 008	-	105 008
Utilization	(187 101)	(6)	(187 107)
Write back	(29 503)	-	(29 503)
Other changes	260	-	260
Balance at the end of the period	269 388	3 300	272 688
Short-term	205 066	3 300	208 366
Long-term	64 322	-	64 322

31. Fair value

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

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

Assets	31.03.2017		31.12.2016		31.03.2016	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
Cash and balances with central banks	4 150 507	4 150 507	4 775 660	4 775 660	2 064 088	2 064 088
Loans and advances to banks	2 618 114	2 618 114	3 513 278	3 513 278	2 758 247	2 758 247
Financial assets held for trading	2 550 063	2 550 063	3 180 985	3 180 985	3 963 255	3 963 255
Hedging derivatives	110 789	110 789	67 645	67 645	178 655	178 655
Loans and advances to customers	104 018 178	103 791 337	103 068 538	102 882 533	97 467 955	97 956 866
Financial assets available for sale	26 500 766	26 500 766	29 307 878	29 307 878	25 529 462	25 529 462
Investments in associates	880 163	880 163	871 491	871 491	838 780	838 780
Liabilities						
Deposits from banks	2 635 608	2 635 608	2 561 281	2 561 281	2 280 822	2 280 822
Hedging derivatives	1 359 523	1 359 523	2 023 344	2 023 344	1 963 748	1 963 748
Financial liabilities held for trading	1 767 848	1 767 848	1 809 060	1 809 060	2 092 948	2 092 948
Subordinated liabilities	931 147	1 189 362	440 457	564 402	527 838	601 241
Deposits from customers	108 452 441	108 447 342	112 522 457	112 548 047	102 198 247	102 220 272

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.

In thousands of PLN

Apart from assets that are not measured at fair value, all the other fair values fulfil conditions for classification to Level II of fair value.

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.

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

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

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

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

As at 31.03.2017 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 fixed-rate State Treasury bonds, treasury bills, shares of listed companies and WIG 20 futures.

Level II (the measurement methods based on market-derived parameters): This level includes derivative instruments. Level II also classifies variable-rate State Treasury bonds. These bonds were measured using discounted cash flow models based on the discount curve derived from the market of fixed-rate treasury bonds. 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 S.A. (AVIVA TUŻ),
- b) AVIVA Powszechne Towarzystwo Emerytalne S.A. (AVIVA PTE),
- c) AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. (AVIVA TUO).

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

In thousands of PLN

As at 31.03.2017 and in the comparable periods the Group classified its financial instruments to the following fair value levels:

31.03.2017	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	698 984	1 850 706	373	2 550 063
Hedging derivatives	-	110 789	-	110 789
Financial assets available for sale - debt securities	16 606 322	8 978 206	37 917	25 622 445
Financial assets available for sale- equity securities	22 970	-	855 351	878 321
Total	17 328 276	10 939 701	893 641	29 161 618
Financial liabilities				
Financial liabilities held for trading	176 936	1 590 912	-	1 767 848
Hedging derivatives	-	1 359 523	-	1 359 523
Total	176 936	2 950 435	-	3 127 371

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

31.03.2016	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	1 684 418	2 278 483	354	3 963 255
Hedging derivatives	-	178 655	-	178 655
Financial assets available for sale - debt securities	15 155 199	9 220 793	-	24 375 992
Financial assets available for sale- equity securities	42 636	-	1 110 834	1 153 470
Total	16 882 253	11 677 931	1 111 188	29 671 372
Financial liabilities				
Financial liabilities held for trading	181 136	1 911 812	-	2 092 948
Hedging derivatives	-	1 963 748	-	1 963 748
Total	181 136	3 875 560	-	4 056 696

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
31.03.2017				
Beginning of the period	251	38 240	849 578	-
Profits or losses	(54)	-	5 737	-
<i>recognised in income statement</i>	(54)	-	-	-
<i>recognised in equity</i>	-	-	5 737	-
Purchase	392	-	36	-
Sale	(216)	-	-	-
Other	-	(323)	-	-
At the period end	373	37 917	855 351	-

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)	-
Other	-	38 240	-	-
At the period end	251	38 240	849 578	-

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
31.03.2016				
Beginning of the period	1 839	-	1 115 212	-
Profits or losses	10	-	646	-
<i>recognised in income statement</i>	10	-	-	-
<i>recognised in equity</i>	-	-	646	-
Purchase	257	-	5 000	-
Sale	(1 752)	-	(10 024)	-
Other	-	-	-	-
At the period end	354	-	1 110 834	-

In thousands of PLN

32. Contingent liabilities

Significant court proceedings

As at 31.03.2017 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 770,967 k, which is ca 3.55% of the Group's equity. This amount includes PLN 557,985 k claimed by the Group, PLN 210,518 k in claims against the Group and PLN 2,464 k of the Group's receivables due to bankruptcy or arrangement cases.

As at 31.03.2017 the amount of significant court proceedings which had been completed amounted to PLN 137,437 k.

As at 31.03.2017, the value of provisions for legal claims was PLN 79,499 k, including for significant cases against the Bank was PLN 32,942 k. In 7 cases against the Bank, where the claim value was high, a provision of PLN 29,486 k was raised.

The Bank raises provisions for legal risk where an internal risk assessment for a particular case indicates a possible outflow of cash. Provisions for cases disputed in court are presented in Note 29.

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

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

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

As at 31.12.2016, the value of provisions for legal claims was 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.

As at 31.03.2016 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 546 781 k, which is ca 2.57% of the Group's equity. This amount includes PLN 384,259 k claimed by the Group, PLN 148,502 k in claims against the Group and PLN 14,020 k of the Group's receivables due to bankruptcy or arrangement cases.

As at 31.03.2016 the amount of significant court proceedings which had been completed amounted to PLN 159,811 k.

As at 31.03.2016, the value of provisions for legal claims was PLN 61,701 k, including for significant cases against the Bank was PLN 30,491 k. In 6 cases against the Bank, where the claim value was high, a provision of PLN 26,624 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	31.03.2017	31.12.2016	31.03.2016
Liabilities sanctioned			
- financial	22 542 536	23 243 064	21 944 266
- credit lines	18 451 098	19 134 360	18 243 696
- credit cards debits	3 530 685	3 419 031	3 184 964
- import letters of credit	552 763	655 624	512 823
- term deposits with future commencement term	7 990	34 049	2 783
- guarantees	4 038 260	4 182 758	4 682 684
Allowance for impairment	(51 496)	(50 746)	(74 924)
Total	26 529 300	27 375 076	26 552 026

In thousands of PLN

33. The nominal value of derivatives

The table below presents off-balance sheet liabilities relating to derivatives' nominal values.

Derivatives' nominal values	31.03.2017	31.12.2016	31.03.2016
1. Term derivatives (hedging)	28 978 849	32 810 487	37 877 190
a) Single-currency interest rate swap	2 280 198	2 881 319	2 430 684
b) Macro cash flow hedge -purchased (IRS)	2 005 000	2 242 000	2 912 032
c) Macro cash flow hedge -purchased (CIRS)	11 465 038	12 714 713	14 972 438
d) Macro cash flow hedge -sold (CIRS)	12 432 591	14 402 131	16 424 426
e) FX Swap cash flow hedge -purchased (FX)	405 358	284 172	571 530
f) FX Swap cash flow hedge-sold (FX)	390 664	286 152	566 080
2. Term derivatives (trading)	301 500 289	289 441 541	268 658 782
a) Interest rate operations	185 921 288	170 149 579	153 102 552
Single-currency interest rate swap	153 683 264	146 126 096	122 056 703
FRA - purchased amounts	25 310 000	16 680 000	26 175 000
Options	6 728 024	7 314 133	4 774 674
Forward- purchased amounts	200 000	27 090	93 975
Forward- sold amounts	-	2 260	2 200
b) FX operations	115 579 001	119 291 962	115 556 230
FX swap – purchased amounts	30 308 713	30 143 163	27 964 245
FX swap – sold amounts	30 171 079	30 025 420	27 872 386
Forward- purchased amounts	4 704 688	5 580 260	5 359 659
Forward- sold amounts	4 820 053	5 620 242	5 396 558
Cross-currency interest rate swap – purchased amounts	11 305 310	12 916 870	9 675 269
Cross-currency interest rate swap – sold amounts	11 288 526	12 961 985	9 715 401
FX options -purchased CALL	5 648 489	5 398 974	7 217 613
FX options -purchased PUT	5 841 827	5 623 037	7 568 743
FX options -sold CALL	5 648 489	5 398 974	7 217 613
FX options -sold PUT	5 841 827	5 623 037	7 568 743
3. Currency transactions- spot	2 990 026	1 540 212	2 225 458
Spot-purchased	1 495 053	769 621	1 113 166
Spot-sold	1 494 973	770 591	1 112 292
4. Transactions on equity financial instruments	1 279 813	1 335 679	1 053 574
Derivatives contract - purchased	626 245	664 431	500 987
Derivatives contract - sold	653 568	671 248	552 587
Total	334 748 977	325 127 919	309 815 004

In the case of single-currency transactions (IRS, FRA, non-FX options) only purchased amounts are presented.

34. Basis of FX conversion

As at 31.03.2017, FX denominated balance sheet positions were converted into PLN in line with the NBP FX table no. 064/A/NBP/2017 dd. 31.03.2017.

35. 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 Q1 2017 /26.04.2017/ are Banco Santander S.A. and Nationale Nederlanden OFE.

In thousands of PLN

Shareholder	Number of shares held		% in the share capital		Number of votes at AGM		Voting power at AGM	
	26.04.2017	25.01.2017	26.04.2017	25.01.2017	26.04.2017	25.01.2017	26.04.2017	25.01.2017
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%

36. Changes in shareholding of members of the Management and Supervisory Board

No. of Bank Zachodni WBK shares held and rights to them	As at 26.04.2017	As at 17.02.2017	Change
Members of the Supervisory Board	-	-	-
Members of the Management Board	21 056	21 932	(876)

Management Board members	26.04.2017		17.02.2017	
	No. of BZ WBK shares	Rights	No. of BZ WBK shares	Rights
Michał Gajewski	-	-	-	-
Andrzej Burliga	3 000	2 204	3 000	2 204
Artur Chodacki	-	1 253	-	1 253
Eamonn Crowley ¹⁾	-	-	-	2 094
Michael McCarthy	-	2 424	-	2 424
Carlos Polaino Izquierdo	-	1 000	-	1 000
Juan de Porras Aguirre	-	2 217	-	2 217
Marcin Prell	-	1 983	-	1 983
Arkadiusz Przybył ²⁾	-	-	-	-
Maciej Reluga ³⁾	-	800	-	-
Miroslaw Skiba	1 057	2 248	1 057	2 248
Dorota Strojowska ⁴⁾	418	-	-	-
Feliks Szyszkowiak	204	2 248	204	2 248
Total	4 679	16 377	4 261	17 671

¹⁾ Mr Eamonn Crowley submitted his decision to stand down from his position of the Management Board of the Bank from the 16.02.2017 (to be effective as of 16.02.2017).

²⁾ Mr Arkadiusz Przybył was appointed as member of the Management Board of the Bank with effect from 10.03.2017.

³⁾ Mr Maciej Reluga was appointed as member of the Management Board of the Bank with effect from 16.02.2017.

⁴⁾ Mrs Dorota Strojowska was appointed as member of the Management Board of the Bank with effect from 01.04.2017.

In thousands of PLN

37. Related parties

Transactions with associates	31.03.2017	31.12.2016	31.03.2016
Assets	67	70	64
Other assets	67	70	64
Liabilities	127 443	78 706	110 277
Deposits from customers	127 206	78 414	110 007
Other liabilities	237	292	270
Income	2 036	18 393	8 569
Fee and commission income	2 036	18 393	8 569
Expenses	825	10 924	5 019
Interest expense	298	1 313	306
Fee and commission expense	527	3 230	1 104
Operating expenses incl.:	-	6 381	3 609
<i>General and administrative expenses</i>	-	6 381	3 609
Contingent liabilities	-	-	407
Sanctioned:	-	-	407
- <i>guarantees</i>	-	-	407

In thousands of PLN

Transactions with Santander Group	with the parent company			with other entities		
	31.03.2017	31.12.2016	31.03.2016	31.03.2017	31.12.2016	31.03.2016
Assets	899 811	981 961	415 477	1 608	3 674	8 883
Loans and advances to banks, incl:	554 689	594 042	108 711	502	274	1 725
<i>loans and advances</i>	337 584	353 911	-	-	-	-
<i>current accounts</i>	217 105	240 131	108 711	502	274	1 725
Financial assets held for trading	342 198	387 727	303 206	1 106	3 371	7 158
Hedging derivatives	2 459	-	1 920	-	-	-
Other assets	465	192	1 640	-	29	-
LIABILITIES	384 764	633 941	426 738	321 613	262 160	136 400
Deposits from banks incl.:	157 737	271 312	58 501	200 324	174 617	5 755
<i>current accounts</i>	157 737	271 312	58 501	29 396	3 683	5 755
<i>loans from other banks</i>	-	-	-	170 928	170 934	-
Hedging derivatives	1 778	54 503	19 785	-	-	-
Financial liabilities held for trading	225 249	308 126	348 450	9 232	7 365	13 876
Deposits from customers	-	-	-	101 280	71 079	110 318
Other liabilities	-	-	2	10 777	9 099	6 451
Income	(290 092)	2 265 606	(295 559)	(15 923)	(2 126)	3 921
Interest income	3 565	14 268	3 408	68	28	15
Fee and commission income	430	2 096	327	45	239	77
Other operating income	-	-	-	-	27	-
Net trading income and revaluation	(294 087)	2 249 242	(299 294)	(16 036)	(2 420)	3 829
Expenses	483	1 721	274	7 119	26 479	5 145
Interest expense	153	446	28	1 464	2 211	282
Fee and commission expense	330	1 106	246	71	281	60
Operating expenses incl.:	-	169	-	5 584	23 987	4 803
<i>Bank's staff, operating expenses and management costs</i>	-	-	-	5 576	23 987	4 803
<i>other operating expenses</i>	-	169	-	8	-	-
Contingent liabilities	-	10 706	-	-	-	-
Sanctioned:	-	10 706	-	-	-	-
- <i>financial</i>	-	10 706	-	-	-	-
- <i>guarantees</i>	-	-	-	-	-	-
Derivatives' nominal values	53 134 581	57 761 351	51 798 339	631 767	634 312	1 718 681
Cross-currency interest rate swap – purchased amounts	4 571 044	5 645 125	3 926 136	-	-	-
Cross-currency interest rate swap – sold amounts	4 328 241	5 424 101	3 807 134	-	-	-
Single-currency interest rate swap	16 483 611	16 517 900	14 059 328	631 767	633 412	1 591 221
FRA - purchased amounts	-	-	800 000	-	-	-
Options	6 701 410	7 285 846	4 731 732	-	-	-
FX swap – purchased amounts	4 010 644	5 363 317	4 241 176	-	-	-
FX swap – sold amounts	4 043 399	5 344 715	4 326 229	-	-	-
FX options -purchased CALL	2 825 370	2 643 269	3 692 864	-	-	-
FX options -purchased PUT	2 851 409	2 798 804	3 820 025	-	-	-
FX options -sold CALL	2 823 119	2 755 705	3 524 750	-	-	-
FX options -sold PUT	2 990 418	2 824 233	3 748 717	-	-	-
Spot-purchased	398 576	162 456	144 822	-	-	-
Spot-sold	398 732	162 876	144 976	-	-	-
Forward- purchased amounts	49 291	101 365	224 637	-	-	-
Forward- sold amounts	48 820	74 665	232 509	-	900	-
Capital derivatives contract - purchased	610 497	656 974	373 304	-	-	127 460

In thousands of PLN

38. Acquisitions and disposals of investments in subsidiaries and associates

Acquisitions and disposals of investments in subsidiaries and associates in 1Q 2017 and in 2016

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 SA and BZ WBK Lease SA merged. The companies merged by way of absorption of BZ WBK Lease S.A. (the absorbed entity) by BZ WBK Leasing 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.

Controlling stake at the companies PSA Finance Sp. z o.o. and indirectly, PSA Consumer Finance 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 and, indirectly, PSA Consumer Finance 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 Q2 2017 and will depend on the outcome of the review of the acquired assets and liabilities carried out by the acquiring entity.

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 31.03.2017, a provisional valuation was made of the acquisition of control over PSA Finance and PSA Consumer Finance.

The companies' financial data as at 30.09.2016 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.

In thousands of PLN

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

as at 01.10.2016	PSA Finance sp. z o.o.	PSA Consumer Finance 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	(40 591)	-
Total liabilities	(620 246)	-
Fair value of identifiable net assets	164 861	196

as at	01.10.2016
Goodwill	
Total consideration	61 353
Non-controlling interests	103 704
Less: balance sheet value of identifiable net assets	(165 057)
Total	-

Registration of SC Poland Consumer 16-1 Sp. z o.o.

On 17.05.2016, a subsidiary of Santander Consumer Bank trading as SC Poland Consumer 16-1 Sp. z o.o. was registered. This is a special-purpose vehicle formed for the purpose of securitisation of a part of the credit portfolio, its shareholder being a Polish legal person that is not associated with the Group. As the control criteria set out in IFRS 10.7 are met, the company is considered as an entity controlled by Santander Consumer Bank.

A merger of BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. and BZ WBK Asset Management S.A. was completed, as a result of which BZ WBK TFI has acquired AM.

On 31.03.2016, a merger of BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. (BZ WBK TFI) and BZ WBK Asset Management S.A. (BZ WBK AM) was completed, as a result of which BZ WBK TFI has acquired AM.

The merger was executed by way of transfer of all assets of AM (the acquired company) to BZ WBK TFI (the acquiring company) in return for shares which BZ WBK TFI has allotted to the shareholders of the acquired company. The merger of the companies took effect on the date of entry of the merger into the register of businesses. Upon recording of the merger, AM has been deleted from the register of businesses. As of the merger date BZ WBK TFI has taken over all rights and obligations of its legal predecessor, i.e. AM. Business combinations under common control have no material impact on the financial statements.

Metrohouse Franchise S.A. shares sale transaction

On 22.01.2016, BZ WBK Inwestycje Sp. z o.o. sold all its shares of Metrohouse Franchise S.A. and ceased to be a shareholder of Metrohouse Franchise S.A.

In thousands of PLN

39. 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.

40. 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.

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

No transfers were made in the reporting period and the comparable period.

42. 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.

43. 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.

44. 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 38),
- Controlling stake at the companies PSA Finance Sp. z o.o. and indirectly, PSA Consumer Finance Sp. z o.o. (details in Note 38).

In thousands of PLN

45. Issues, repurchases and repayments of debt and equity securities

Detailed information on the issue of bonds are presented in Note 28.

46. Dividend per share

The Management Board Bank Zachodni WBK informed that in full compliance with the recommendation issued by the Polish Financial Supervision Authority on 21.12.2016 with regard to the dividend policy of banks for 2017 and the individual recommendation issued to the Bank on 09.03.2017, it recommends not to allocate to dividend any part of the net profit for 2016. The Supervisory Board also approved that recommendation.

At the same time, taking into account a good capital position of the Bank and Group, the Bank's Management Board tabled the following proposal, that has been approved by the Supervisory Board, to allocate:

- PLN 535,866,483.60 from the Bank's undivided net profit for 2014 and 2015 to dividend for shareholders, for which means that the proposed dividend per share will be PLN 5,4,
- to set the dividend registration date for 31st May 2017, while the dividend pay-out date for 14th June 2017.

The Management Board and the Supervisory Board will submit the above proposal along with the recommendation to the Annual General Meeting of Bank.

On 20.04.2016, the Annual General Meeting of Bank Zachodni WBK adopted a resolution to distribute the net profit of PLN 1,756,210 k in respect of 2015 as follows: PLN 702,484 k to be allocated to the dividend for shareholders, PLN 878,105 k to be allocated to the reserve capital and the remainder of PLN 175,621 k to be left undistributed.

The Annual General Meeting of Bank Zachodni WBK allocated to the dividend for shareholders, the amount PLN 587,565 k from retained profit in the amount of PLN 952,652 k generated by the Bank in the accounting year commenced on 01.01.2014 and ended on 31.12.2014. The remaining part PLN 365,087 k to be left undivided. Dividend per share is PLN 13.

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

As at 31.03.2017, 31.12.2016 and 31.03.2016 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.

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

As at 31.03.2017, 31.12.2016 and 31.03.2016, 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.

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

As at 31.03.2017, 31.12.2016 and 31.03.2016 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.

In thousands of PLN

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

Convening the Annual General Meeting of Bank Zachodni WBK and providing the draft resolutions that will be considered by this Meeting

On 19.04.2017 the Management Board of Bank Zachodni WBK S.A. provided the information contained in the notice of the Annual General Meeting of Bank Zachodni WBK S.A. at 17.05.2017 in Warsaw, the draft resolutions with their appendices that will be considered by this Meeting.

The proposal regarding dividend

On 19.04.2017 the Management Board Bank Zachodni WBK informed that in full compliance with the recommendation issued by the Polish Financial Supervision Authority on 21.12.2016 with regard to the dividend policy of banks for 2017 and the individual recommendation issued to the Bank on 09.03.2017, it recommends not to allocate to dividend any part of the net profit for 2016. The Supervisory Board also approved that recommendation.

At the same time, taking into account a good capital position of the Bank and Group, the Bank's Management Board tabled the following proposal, that has been approved by the Supervisory Board, to allocate:

- PLN 535,866,483.60 from the Bank's undivided net profit for 2014 and 2015 to dividend for shareholders, for which means that the proposed dividend per share will be PLN 5,4,
- to set the dividend registration date for 31st May 2017, while the dividend pay-out date for 14th June 2017.

The Management Board and the Supervisory Board will submit the above proposal along with the recommendation to the Annual General Meeting of Bank.

Redemption of shares in PSA Finance Sp. z o.o.

On 05.04.2017 Santander Consumer Bank S.A. sold 10% shares of PSA Finance Sp. z o.o. to PSA Finance Sp. z o.o. in order to redeem these shares, following the resolution of Shareholders' Meeting of PSA Finance Sp. z o.o. adopted to reduce the share capital of PSA Finance Sp. z o.o. in form of voluntary redemption.

Formal redemption agreements between Management board of PSA Finance Sp. z o.o. and both shareholders were concluded in equal parts on shares, whereby ownership structure of company has not changed.

Remission of shares and share capital reduction of PSA Finance Sp. z o.o. will become effective at the time of entry into the National Court Register.

The impact of the above transaction on BZWBK Group performance will be immaterial.

51. Macroeconomic situation in Q1 2017

Economic growth

Available data suggest that Poland's economic growth in Q1 2017 accelerated markedly and probably has exceeded 3.5% YoY versus 2.5% YoY in Q4 2016. The increase may be mainly driven by the rebound in investments, which could have risen by almost 4% YoY, after having dropped by 9.8% YoY in Q4 2016. The evidence of the improvement in investments is, among others, the rebound in construction output and investment goods output. Industry also scored higher, which resulted in accelerated exports. The increase of private consumption presumably stayed at the relatively high level observed at the end of 2016, supported by a good situation on the labour market and benefits distributed within the 500+ programme. Robust domestic demand caused that imports accelerated more than exports. As a result, the improving trend of the foreign trade balance, observed in the previous quarters, started to reverse at the beginning of 2017. However, a significant surplus was noted on the current account after two months in Q1 2017, which was to a large extent triggered by the considerable inflow of EU funds within the frame of Common Agricultural Policy.

Labour market

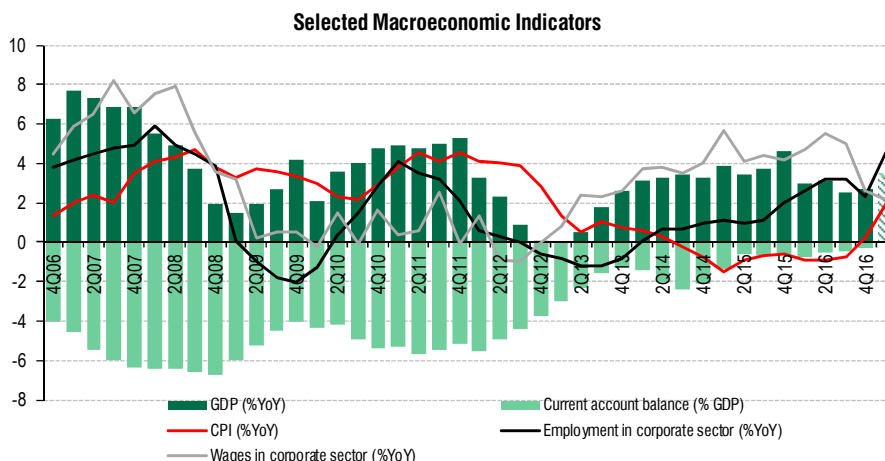
Labour market remained strong in Q1 2017. The average employment in corporate sector increased by c4.5% YoY and according to LFS data by c2.5% YoY. Both registered unemployment rate and LFS unemployment rate continued its downward trend and reached the lowest level since 90s' (respectively 8.5% and 5.3% in February). The nominal pay rise in corporate sector reached c4.5% YoY, which with the increase of employment resulted in a robust growth of real wage bill (by c7.1% YoY), though slightly lower than in Q4 2016, due to the increase of inflation. Despite the rise of employment and the shrinking labour force, wage pressure remains moderate.

Inflation

Q1 2017 brought significant changes in inflation readings: CPI index reached 2.0% YoY on average versus 0.2% YoY in Q4 2016. The inflation growth was mainly triggered by the growing prices of fuel and food, though core inflation also noted an increase from -0.1% YoY to 0.3% YoY on average in 4Q16. PPI was also going up and reached on average c4.3% YoY in 1Q17 – the highest since 2012.

Monetary policy

In Q1 2017 the Monetary Policy Council (MPC) kept interest rates unchanged. In March inflation rose to 2.0% exceeding the central bank's reference rate (1.5%). However, MPC members stick to the view that negative real interest rates shouldn't influence the economy negatively, as shown by experience of the Western Europe. According to the MPC, CPI will stabilize in the quarters to come, which will support Poland's economic growth. The mid-point of the central bank's CPI projection went up by 0.8pbs in 2017 (to slightly above 2%) and by 0.5pbs in 2018 (to 1.9%). According to the central bank, the main source of uncertainty regarding both the economy and prices is the risk of a global economic downturn and volatile prices of raw materials. According to the MPC, if the tendencies from the newest projections persist, there will be no reason for monetary policy tightening in 2017. The NBP Governor Adam Glapiński stated that in such scenario rate hikes might not be needed even in 2018.



Credit and deposit markets

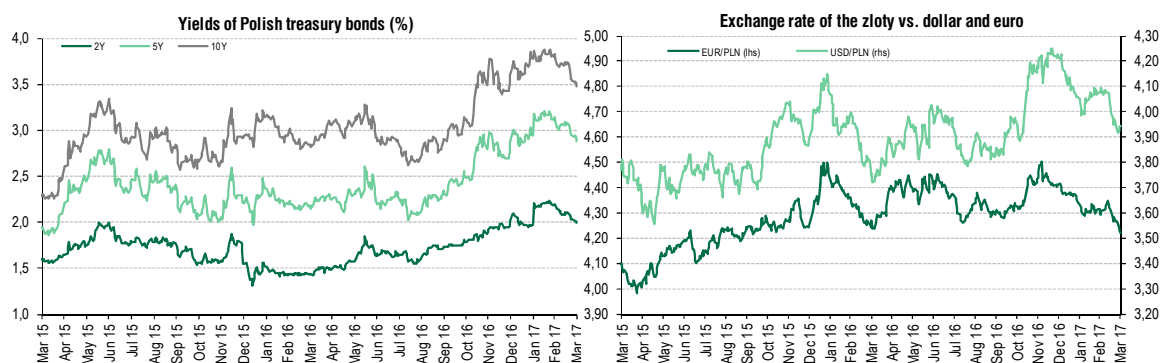
In Q1 2017, deposit growth remained at about 8% YoY. Some deceleration versus end of 2016 was due to outflow of deposits to alternative investments, e.g. the stock market. Demand deposits grew really fast, by 15-16% YoY, while term deposits fell by about 2% YoY. It seems that record-low interest rates discourage deposit holders from choosing term deposits. Tendencies on the loan market are more or less the same as in 2016, with total market rising by about 5% YoY. Consumer loans are still growing at a solid 7-8% YoY while PLN-denominated mortgage loan growth rate is slightly above 10% YoY. Corporate loans are rising rather slowly, at about 3% YoY in February 2017. Positive financial results of the non-financial companies and their favourable liquidity position markedly reduced demand for current loans, which are stagnating. Meanwhile, investment loans are growing by healthy 7-8% YoY.

Financial market situation

Sentiment on the financial markets in Q1 2017 was quite good with several positive factors being acting simultaneously. First of all, the March interest rate hike in the United States by 25 bp (base rate rose from 0.50%-0.75% to 0.75%-1.00%) was accompanied by a dovish rhetoric, and not by suggestion of further hikes, as feared by some. The Fed statement read that with the gradual adjustment of monetary policy, economic activity will grow at a moderate pace, the labour market situation will improve further and inflation will stabilize around 2% in the medium term. Secondly, domestic macroeconomic data confirmed that the economic slowdown in Poland at the end of 2016 was moderate and temporary and that Q1 2017 brought about an improvement in economic activity. As a result, economic forecasts for the following quarters began to improve significantly. Thirdly, the center-right victory and the defeat of the eurosceptics in the Netherlands added some optimism to the markets ahead of the forthcoming presidential elections in France and parliamentary in Germany. The geopolitical factors, particularly the outlook for a “hard Brexit” (UK leaving the EU without an agreement on the free transfer of goods, services and capital) and Donald Trump’s failure in the US Congress to change the US healthcare system (that undermined capability of the new administration to change the tax system) had only a temporary impact on the market.

The abovementioned factors together with weaker expectations for the global ‘reflation’ and higher capital inflow on the emerging markets provided a clear support for the domestic bonds. The short-term yields proved pretty stable, anchored by the dovish rhetoric of the Polish Monetary Policy Council, while the mid-term and long-term yields fell (by 12bp and 22bp, respectively) following debt strengthening seen abroad. The 2-10Y bond yield spread narrowed to c148bp and so the bond curve was the flattest since mid-December 2016.

The zloty’s Q1 2017 appreciation versus the euro has been the best quarterly performance of the Polish currency since Q1 2015. EUR/PLN reached a fresh 2017 low at just below 4.21 thanks to the rather positive global market sentiment as the strong macro data boosted expectations for an economic revival later in the year, the FOMC delivered a “dovish” rate hike and anti-EU party did not win the Dutch elections. During the first three months of the year the zloty gained 3.9% vs the euro, 3.6% vs the Swiss franc, more than 5% vs the dollar and 3.2% vs the British pound.



52. Activities of Bank Zachodni WBK Group in Q1 2017

Retail Banking Division

Cash loans

- In order to increase the competitiveness of BZ WBK cash loans, the bank:
 - ✓ introduced a variable interest rate on loans granted for more than 24 months;
 - ✓ set a minimum fixed interest rate of 4.99% on loans in the range of PLN 4k and PLN 15k;
 - ✓ modified the terms for loans consolidation (March 2017) by extending the lending period above 72 months.
- Promotional and marketing campaigns were launched, such as:
 - ✓ a special offer called “Light-weight loans” (“Brak ciężenia”) and a marketing campaign “Zero-weight loans (“Zero ciężenia”) for customers looking to consolidate debt taken with other banks” (March 2017);
 - ✓ special pricing terms to support sales in remote channels (BZWBK24 internet, BZWBK24 mobile).

Cash loan portfolio

- Quarterly cash loan sales increased by 12.4% YoY, reaching nearly PLN 1bn. The respective loan portfolio was up 6.8% YoY and totalled PLN 7.2bn.

Mortgage loans

- Pursuant to Recommendation S issued by KNF, the minimum downpayment for mortgage loans was increased to 20%, effective from 2017. The bank accepts a lower downpayment (min. 10%) on condition of taking out a payment protection insurance from PZU in relation to home loans with an LTV above 80%.
- In response to customers’ needs, in February 2017 the terms of self-build mortgage loans were modified to increase their availability and facilitate credit application processing.

Support for home loan borrowers

- Bank Zachodni WBK continued measures to assist mortgage borrowers, in particular:
 - ✓ it provided support to customers with CHF mortgage loans by:
 - applying a negative CHF LIBOR interest rate;
 - reducing the currency spread to 2% for CHF;
 - providing an opportunity to reduce loan instalments free of charge through an interest-only option, payment holidays or an extension of maturity;
 - offering loan conversion to PLN at the mean NBP rate with no additional fees charged;
 - waiving a fee for annexes made in relation to CHF loans.
 - ✓ it introduced a solution which made it easier for borrowers to sell a mortgaged property with a swap of collateral into a newly purchased property;
 - ✓ it accepted requests from home loan borrowers under the Act on supporting borrowers in financial distress providing for a financial support of max PLN 1,500 per month for up to 18 months.

Mortgage loan portfolio

- In Q1 2017, home loans offered under the “Home for the Young” (“Mieszkanie dla Młodych”) programme became increasingly in demand, after 31 January 2017 when the National Economy Bank (BGK) announced that the pool of funds for subsidies in 2017 had been almost used.
- In Q1 2017, the value of new (disbursed) mortgage loans totalled PLN 1.3bn, down 2.7% YoY. The gross mortgage portfolio grew by 9.6% YoY, reaching PLN 33.9bn at the end of March 2017. The value of PLN mortgage loans amounted to PLN 21.2m, up 21.3% YoY.

Credit card sales and transaction volumes

- In Q1 2017, the bank took further measures to grow sales and encourage wider use of credit cards:
 - ✓ The functionality of remote channels was extended in relation to credit cards:
 - The range of cards available in BZWBK24 internet was increased to include MC 1|2|3 and Visa Platinum;
 - A special offer was launched in the Internet and mobile application in relation to 1|2|3 Card;
 - New features were added to BZWBK24 mobile application in February 2017, such as an option to increase credit card limit, sign up for Ratio service or conclude a credit card agreement (MC 1|2|3, Visa Silver Akcja Pajacyk, MasterCard Silver or Visa Platinum).
 - ✓ The bank facilitated access to products and services:
 - The limits of respective credit cards were changed to increase their availability;
 - On 20 February 2017, the Balance Transfer service was offered to customers looking to transfer their credit card debt from other banks;
 - The minimum net income requirement for 1|2|3 Card was reduced (in line with Mastercard Silver and Visa Silver Akcja Pajacyk) along with the waiver of a requirement for automatic minimum payment.
 - ✓ The bank introduced a series of promotional initiatives, including:
 - campaigns launched to grow sales of credit cards: a special offer for mass customers called “A welcome PLN 200” (“200 zł na Dzień Dobry”) and an offer for VIP and Private Banking customers called “Suitcase with a credit card” (“Walizka do karty kredytowej”) (both launched on 1 March); the second edition of the CashBack offer under which active credit card holders were rewarded with a partial refund of a fee;
 - a new loyalty programme called Priceless Specials launched by Mastercard for holders of World MasterCard cards in January 2017, rewarding active users for card transactions made with partners and online.

Credit card portfolio

- As at 31 March 2017, the credit card portfolio of Bank Zachodni WBK comprised 781k instruments, an increase of 4.3% YoY. The average drawdown of credit card limits went up by 8.4% at that time.

Sales of consumer loans through remote channels

- In Q1 2017 consumer loans delivery via BZ WBK remote channels increased by 55.8% in terms of value, contributing 28.5% to the total sales.

Personal accounts

- In Q1 2017, a range of special offers were launched to encourage customers to open a personal account with Bank Zachodni WBK (including the continuation of a special offer for students, a promotional campaign called “Active 50+ Account with Nordic Walking” (“Konto Aktywni 50+ z Nordic Walking”), a sales campaign of Account Worth Recommending (Konto Godne Polecenia) and 1|2|3 Current Account (Konto 1|2|3) with a debit card available via electronic banking).
- During the first three months of 2017, the portfolio of PLN personal accounts increased by 4.2% YoY to PLN 3.1k. Including FX accounts, the personal accounts base totalled 3.9m.

Changes in the environment

- In view of a growing share of non-residents in BZ WBK customer base, in particular customers from Ukraine, the bank’s marketing materials and regulations were translated into Ukrainian. Customer advisors were also provided with a dedicated website with information and materials about services for non-residents.

Debit card portfolio

- As at the end of March 2017, the personal debit card portfolio of Bank Zachodni WBK (excluding prepaid cards) comprised nearly 3.3m items and increased by 5.5% YoY. Taking business cards into account, the total number of debit cards reached 3.5m, up 5.6% YoY.

Deposit product management

- In Q1 2017, the management of deposit products was focused mainly on increasing the strength of relationship with deposit customers.
- Bank Zachodni WBK continued its policy to reward active customers. To this end, the bank launched the third edition of the "Active Deposit" ("Aktywny Depozyt") campaign with interest on savings accounts automatically linked with the volume of online and debit card transactions in personal accounts. The bank also modified the terms of Bonus Deposit (Lokata Bonusowa), which paid relatively high interest on condition of active use of other banking products (both settlement and savings/investment instruments) and continued to offer e-Investor Deposit (e-Inwestor) via Internet banking to holders of investment products.
- New funds have been acquired on the back of a 12-month deposit (available since mid-January), and new Max Savings Account (Konto Max Oszczędnościowe) introduced in March for new funds.
- Deposit retention was facilitated by negotiated deposits and the centralised retention process, using term deposits and savings accounts.

Restructuring deposits

- In Q1 2017, Bank Zachodni WBK continued its activity on the structured deposit market. The bank sold products with a yield linked to exchange rates (EUR/PLN, USD/PLN, EUR/USD), stock indices (NASDAQ 100) or investment fund performance (SPDR® S&P® Metals and Mining), providing 100% capital protection at the end of the deposit term. The bank offered 30 products with a wide variety of tenors in the total of 16 subscriptions, including 14 subscriptions for standard personal customers and 2 subscriptions for Private Banking customers. In all, PLN 102.4m worth of funds were collected (until mid-April) as a result of the aforementioned subscriptions.

Deposit portfolio

- As at 31 March 2017, the personal deposit portfolio totalled PLN 64.3bn, up PLN 3.3bn YoY and PLN 0.7bn QoQ. During the first three months of 2017, the bank reported an increase in the balances of term deposits and personal accounts alike. At the same time, a slight decrease in savings account balances was recorded due to product optimisation efforts and promotional schedules followed.

Investment funds

- In Q1 2017, a number of Arka investment funds prospectuses were updated to reflect changes in the investment policies and service procedures (such as cancellation of clauses related to a simple blockade of participation units, withdrawal of an option to make contributions and redemptions in foreign currencies). Also, the Statutes of Arka BZ WBK Akcji Środkowej i Wschodniej Europy was updated with regard to the method and principles of the assets' valuation and liquidation.

Sale of investment funds

- As at 31 March 2017, the total net assets in mutual funds managed by BZ WBK TFI were PLN 14.0bn and up 10.1% YoY and 4.8% QoQ. In Q1 2017, the highest net sales were recorded by the following corporate bond subfunds and the Polish equity subfund: Arka Prestiż Obligacji Korporacyjnych, Arka Prestiż Akcji Polskich and Arka BZ WBK Obligacji Korporacyjnych which were supported by bullish market.
- In Q1 2017, BZ WBK TFI was ranked among leaders of the mutual fund market. Corporate bond subfunds continued to be the most popular products among customers, followed by equity subfunds (in particular Polish equity subfunds), replacing cash subfunds. The change in the structure of net sales resulted from strong performance of equity subfunds (in particular Arka Prestiż Akcji Polskich) supported by favourable trends in the stock markets.

Sale of investment funds in remote channels

- Since January 2017, Arka investment funds may be purchased via telephone, in line with the strategy to enhance sales in remote channels. In Q1 2017, net sales of Arka funds via telephone and Internet accounted for over 50% of total quarterly sales delivered through Bank Zachodni WBK.
- Since March 2017, customers may check information about Arka funds in social media.

Awards for Arka funds

- In Q1 2017, the following three Arka funds received accolades from an independent research company Anality Online for 2016:
 - ✓ Arka Prestiż Akcji Polskich, in the category: Best Polish Equity Fund
 - ✓ Arka Prestiż Obligacji Korporacyjnych, in the category: Best Polish Corporate Bond Subfund
 - ✓ Arka Prestiż Obligacji Korporacyjnych, in the category: Best Selling Fund

4Sure Insurance Programme

- The bank launched a strategic programme called 4Sure, which is designed to digitise insurance processes, enhance customer loyalty, increase insurance sales volumes and extend the range of products and services.
- In Q1 2017, a new product was developed: Plan B – unemployment insurance available only via the Multichannel Communication Centre.

Insurance performance

- In Q1 2017, the total gross premium declined YoY due to the legal and regulatory regime of the bancassurance market, in particular the statutory ban imposed by the Act of 11 September 2015 on insurance and reinsurance activity (effective as of 1 April 2016) on collection of insurance fees by banks acting as insuring parties in relation to group insurance plans (e.g. linked with payment cards). The decrease was also attributed to lower annual sales of insurance plans linked to banking products, such as Worry-Free Loan (Spokojny Kredyt) CPI cash loan insurance. On the other hand, sales of non-linked insurance grew considerably.
- BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie was among the top three insurance companies in terms of life insurance in the seventh edition of the Friendly Insurance Company ranking published by *Gazeta Bankowa* daily.

Development of Brokerage Office activities

- In Q1 2017, measures were taken to develop remote channels for distribution of brokerage services (including mobile and video-advisor services) and increase the competitiveness of brokerage products. As a result of the review of strategic business lines, a decision was taken to withdraw services related to OTC instruments from the offer.
- The Brokerage House introduced three new analytical reports regarding investments in foreign stock markets, and continued to offer special pricing terms for such transactions (started in August 2016), which translated into higher fee and commission income on foreign markets transactions.

Primary market

- BZ WBK Brokerage House was the lead underwriter in a syndicate formed to issue shares of Griffin Premium RE. N.V. as part of public offering. It was also a member of a distributing syndicate that sold shares of Dino Polska S.A. to private investors.

Awards for the Brokerage House

- BZ WBK Brokerage Office was granted an award by the Warsaw Stock Exchange in recognition of the highest share in the index options trading without market-making in 2016.
- The Analysts Team of BZ WBK Brokerage House came top in the annual ranking of stock market analysts published by *Parket* daily (January 2017), taking the first position in terms of the quality of analysis in the food sector, second position in terms of trade and distribution, market strategy and public sector, and third place in terms of mining, construction and banking sectors. Overall, the ranking included 133 analysts who were evaluated in 15 categories by the panel of investment companies, pension fund managers and asset managers.

Distribution channels

Basic Distribution Channels of BZ WBK		
Bank Zachodni WBK	31.03.2017	31.03.2016
Branches (location)	631	700
Partner Outlets	108	112
Business and Corporate Banking Centres	12	12
ATMs	1 020	1 206
CDMs	17	155
Dual Function Machines	716	350
BZWBK24 - registered users (in thousands)	3 212	3 153
Moja Firma Plus - software packages in use (in thousands)	19	20
iBiznes24 and Moja Firma Plus - companies (in thousands)	16	14

Self-service machines

- In Q1 2017, the bank continued to carry out the Self-Service Channels Development Programme with a focus on relieving branches from cashier services. This included inplacements of dual function machines with a recycling mode, replacements of old machines with new ones and branch network optimisation by transferring them to new locations.
- As at the end of March 2017, the BZ WBK network was composed of 1 753 self-service machines compared with 1 711 as at the end of March 2016.

Branch network

- In Q1 2017, the bank continued to optimise the bank's branch network (through rationalisation, liquidation and relocation), taking into account customer behaviour and developments of remote channels. The number of branches was reduced by 27 QoQ to 631 units operating within the structures of 65 regions and 8 macroregions.
- The Multichannel Communication Centre was in the process of centralisation of incoming phone connections in branches. In Q1 2017, connections were centralised for 143 branches.

SME Banking Division

Organisational changes in SME Banking

- New sales structures were set up in the SME Banking Division to handle customers from the upper-end of the segment, i.e. firms with turnover of PLN 5-10m. Previously, such customers were serviced by branch banking. The newly created SME2 Sales Area was divided into four regional departments (central, south, west and north) composed of service centres employing ca. 160 customer advisors.
- In order to facilitate multichannel access to SME products and services, the SME Digital Customer Office was set up to manage remote communication with customers. Furthermore, the SME Service Centre was assigned new discretions and a project was launched to create a virtual branch.

Credit facilities for SME customers

- Bank Zachodni WBK signed a guarantee agreement with the European Investment Bank (EIB) to facilitate the sale of loans to SME customers at an attractive price.
- The credit process was further simplified:
 - ✓ On 20 February 2017, the level of debt (all the existing and sought mortgage-backed loans) requiring a customer to submit a valuation report was increased to PLN 500k;
 - ✓ On 20 March 2017, a new simplified credit application form for SME customers was introduced in relation to all credit facilities.

New Visa Business BZ WBK

- On 1 March 2017, the range of products and services for business customers was extended to include Visa Business BZ WBK card dedicated to customers who make frequent payments and cash withdrawals abroad and look for comfort and additional benefits such as access to VIP airport lounges or Visa Luxury Hotel Collection programme for Premium customers.

Development of iBiznes24 internet for SME customers

- In February 2017, the functionality of iBiznes24 internet was expanded to include a cash module that helps SME customers to manage their cash in a more convenient way under the agreement for sealed cash deposits and withdrawals. Customers can now remotely order or cancel such services as cash transport, bank confirmation of cash deposit, review of cash counting reports and status of cash deposits.

Non-financial initiatives for SME customers

- The bank launched another series of local meetings with companies from the SME sector - 46 workshops were held across Poland by the end of March. This year, the meetings focus on such issues as: succession planning, foreign trade, EU funds, taxes, recruitment, HR management, funding and financial management.

Core business volumes of SME Banking segment

- As at 31 March 2017 SME customer deposits increased by 12.1% YoY to PLN 12.3bn while net loans (after write-offs for loan loss) were higher by 8.9% YoY and totalled PLN 12.9bn.

Participation in Programmes of the National Economy Bank (BGK)

- As of the end of January 2017, BGK completed the Guarantee Fund project delivered under the Innovative Economy Operational Programme (FG POIG). Bank Zachodni WBK was ranked first among ten banks in terms of sales of de minimis guarantees distributed by BGK under the above government scheme.
- The bank maintained the second position in terms of the number and value of de minimis and COSME guarantees distributed by BGK.

Leasing business

Merger of leasing companies

- On 28 February 2017, the merger between BZ WBK Leasing and BZ WBK Lease was entered in the National Court Register. Accordingly, BZ WBK Leasing, an acquiring company, assumed all rights and obligations of BZ WBK Lease, an acquired company, which was removed from the National Court Register without formal liquidation. For more information see Note 38 to the financial statements.

Lease products and services

- BZ WBK Leasing launched a new product called Truck Assistance – insurance for trucks and trailers, offering a wide coverage for breakdowns, accidents or immobilisation due to adverse weather or driving conditions (using assistance services across Poland and Europe).

Promotion of projects involving female entrepreneurs

- The representatives of the company took part in a series of meetings called “Successful Businesswomen” held in 10 largest cities in Poland to promote financing solutions for female sole traders. In addition to financing, as part of the special offer businesswomen may avail of the Office Assistance insurance for only PLN 1.

Lease sales

- In Q1 2017, BZ WBK Leasing financed fixed assets of PLN 881.8m vs. PLN 985.1m in the corresponding period last year. Sales were dominated by the vehicles segment with the share of 55%.

Business and Corporate Banking (BCB) Division

Products and services for strategic sectors

- In Q1 2017, Bank Zachodni WBK developed comprehensive products and services for sectors identified as strategic, in line with specific needs and profiles of related production chain companies. This approach is based on the bank’s experience of servicing the food and agri sector, the first industry acknowledged as strategically importance.

Export Development Programme

- The bank continued the Export Development Programme, which focused on:
 - ✓ meetings with customers, mainly with companies looking to start or expand their exports;
 - ✓ trade missions and Trade Corridors Programme, including initiatives that promote foreign expansion into high-potential markets and help customers gain market insight and share experience.

Development of remote channels

- Remote distribution channels are becoming increasingly popular, as confirmed by the number of logins to iBiznes24 mobile application (up from 2.7k in February 2017 to 4.8k in March 2017).
- As part of digitisation of distribution channels, new services were offered to users of iBiznes24 internet platform (such as new features in the cards and trade finance modules and an opportunity to draw down and repay a FX revolving loan).
- The functionality of iBiznes24 application was improved in terms of operations related to several companies, and new features were provided such as an option to log in via Touch ID on iOS devices. New solutions were also introduced to enhance the security of operations with Android devices.

Guarantees under the Innovative Economy Operational Program (POIG)

- Three employees of BZ WBK Business and Corporate Banking Division won a competition held by Bank Gospodarstwa Krajowego (BGK) and the Polish Banks Association (ZBP) which awarded customer advisors issuing guarantees under the Guarantee Fund of the Innovative Economy Operational Programme (POIG). The bank also received the title of the Banking Leader Incubator for the highest amounts of guarantees issued. The total value of guarantees exceeded the level of funds initially allocated by BGK to BZ WBK by 30%. Detailed information about guarantees issued under the Innovative Economy Operational Program is presented in the SME Banking section.

Factoring business

- The turnover of BZ WBK Faktor Sp. z o.o. in Q1 2017 was PLN 5.3bn and 30.9% higher YoY. This performance gave the company a market share of 13% and the second position in the ranking by the Association of Factoring companies. The credit exposure increased by 16.4% YoY to PLN 3.1bn.

Core business volumes of BCB segment

- Business and Corporate Banking segment reported customer deposits of PLN 17.5bn (+6.3% YoY) and net loans of PLN 23.5bn (-1% YoY).

Global Corporate Banking (GCB)

Changes in the organisational structure

- In Q1 2017, the Global Corporate Banking Division operated with a modified organisational structure:
 - ✓ The Brokerage Office which used to be part of GCB Financial Markets was incorporated into the structures of the Retail Banking Division; customers were provided with continued brokerage services as part of the GCB Division;
 - ✓ BZ WBK Inwestycje was incorporated into the structures of the Financial Management Division.

International cooperation under the corporate banking framework of Santander Group

- The GCB Division rendered services to corporations under the global framework of GCB of Santander Group and liaised with the Group's entities (Santander UK, Santander Chile, Santander USA, Santander Mexico and Santander Madrid) on large corporate finance projects such as the issue of eurobonds.

Credit Markets

- In Q1 2017, Credit Markets closed financing deals with companies from economically-important sectors such as the energy, fuel, media and telecommunications, chemical and FMCG sectors. They also worked closely with the Business and Corporate Banking Division in terms of financing for the property sector. The largest deals completed by Credit Markets in Q1 2017 include:
 - ✓ a facility of PLN 7bn provided to a telecommunications company by a syndicate of banks, with Bank Zachodni WBK acting as the agent and security agent;
 - ✓ financing of acquisition of a pharmaceutical company;
 - ✓ lending to a company from the agricultural sector.

Capital Markets

- In the reporting period, Capital Markets provided analytical and advisory services to customers and were engaged as a financial/transactional advisor for companies from the property, pharmaceutical and service sectors. In cooperation with the Brokerage House, Capital Markets completed a successful IPO of a company from the property sector.

Transactional Banking

- In Q1 2017, Global Transactional Banking launched a new communication channel – BZ WBK Connect, which added to the bank's competitive edge in the electronic payments market. By connecting the customer's server (supporting the financial and accounting system) with the bank's server, the platform allows customers to make domestic and cross-border payments, download daily bank statements and check account balance.

Treasury

- The Financial Market Transactions Department strengthened its position on the global electronic trading platforms in terms of Polish treasury bonds. With an increased share in trading, the bank climbed up in the ranking of Dealers in Treasury Securities.
- In line with the income diversification strategy, the Treasury Service Department developed interest rate hedges and offered solutions to enable customers to hedge currency risk in the long term. The Department also made intensive efforts to extend the range of structured products for corporate customers in response to market demand and trends. It generated satisfactory income from market making activity.

Core business volumes of GCB

- As at the end of March 2017, the active GCB customer base included nearly 220 of the largest companies and groups from the fuel, energy, mining, media and telecommunications, financial, FMCG, pharmaceutical, retail, chemical and household appliance sectors.
- As at 31 March 2017, net loans and advances to GCB customers, including factoring receivables, increased by 8.5% YoY to PLN 11.3bn, while customer deposits grew by 2.6% YoY, reaching PLN 7.8bn.

Santander Consumer Bank Group

Development directions

- Pursuant to the strategy adopted by Santander Consumer Bank (SCB), measures taken in Q1 2017 focused on strengthening the bank's leadership position in the instalment loans market by maintaining the share in traditional sales and growing the share in online sales, identifying new sales growth opportunities, and maintaining the profitability of collaboration with trade partners.

Products and services

- In the reporting period, the bank implemented an instalment loan for farmers and sole traders (March 2017), launched the sale of a credit card in partnership with a large chain of DIY stores and provided customers with assistance insurance cover linked to credit cards sold in the bank's branches.
- In terms of cash loans, the bank pursued the policy aimed at maximisation of customer relationships and optimisation of product range. In Q1 2017, the bank reported higher-than-projected sales of New Profile facility (Nowy Profil) and satisfactory results of the NPS (Net Promoter Score) survey (37% vs. sector average of 7.1% in 2016).
- In March 2017, a new channel was launched to acquire retail deposits, providing customers with an opportunity to manage their term deposits online.

Core business portfolios

Loans to customers

- SCB lending business is based on the following product groups: car loans for the purchase of new and used vehicles, business loans, instalment loans, cash loans, consolidation loans and credit cards.
- As at 31 March 2017, gross loans originated by Santander Consumer Bank Group (excluding intercompany transactions) were PLN 15.2bn, up 6.2% YoY, as a result of an increase in lease, w/c loans and cash loans portfolios. The growth in w/c loans and lease facilities resulted from the acquisition of control over PSA Finance Polska, which offers factoring solutions for car dealers, among other things. The increase in cash loans was attributed to higher sales supported by an extensive marketing campaign.

Deposits from customers

- Compared with 31 March 2016, deposits from SCB Group customers (excluding intercompany loans) declined by 1.1% to PLN 7.8bn. Retail deposits are the bulk of the bank's deposit base, and mainly include term deposits paying a fixed interest rate. The remaining portion of the deposit base is made up of business deposits.
- Liabilities in respect of debt securities increased by PLN 1.3bn to PLN 3.7bn as a result of issue of bonds by SC Poland Consumer 16-1 as part of securitisation transaction in 2016.

Other developments

Cooperation with a new business partner

- On 1 March 2017, SCB entered into partnership with one of the largest chains of DIY stores in Poland, as part of which customers are offered instalment loans, credit cards and – starting from Q2 2017 – cash loans. The credit facilities are complemented with insurance products.

Sale of credit portfolio

- In March 2017, Santander Consumer Bank sold the written-off portfolio of cash loans and instalment loans of PLN 206.8m.

Extension and amendment of the securitisation agreement

- In March 2017, an agreement was signed whereby the current balance of loan agreements securitised by SC Poland Consumer 15-1 was extended by another two years.

Liquidation of AKB Marketing Services in liquidation

- The Extraordinary General Meeting of AKB Marketing Services in liquidation held on 28 March 2017 approved the liquidation statements of the company as at 27 March 2017. The funds left after the liquidation of AKB Marketing Services in liquidation on 28 March 2017 were transferred to an account of Santander Consumer Bank, the sole shareholder. For more information see Note 38.

Distribution network

- In Q1 2017, Santander Consumer Bank continued the measures aimed at increasing the effectiveness of the sales network. To that end, the structure of branches and franchise outlets was reviewed to take account of customers' needs and development of remote and mobile services implemented in 2016.
- The bank also sold its products through the following distribution channels: mobile sales channels for car loans and corporate deposits, call centre and the internet (sale of cash loans, credit cards and instalment loans), a remote channel for car loans and a network of external partners offering the bank's car loans (439) as well as instalment loans and credit cards (11,981).

Basic Distribution Channels of SCB S.A.		
Santander Consumer Bank	31.03.2017	31.03.2016
Branches	161	167
Partner Outlets	152	138
Registered Electronic Banking Users (in thousands)	30	-

Other information**Diversification of funding sources in Bank Zachodni WBK Group****Funding provided by international financial institutions**

- On 9 February 2017, Bank Zachodni WBK signed a guarantee agreement with the European Investment Bank, providing security for lending up to EUR 300m to be granted by BZ WBK. In order to activate the guarantee, the bank undertook to provide financing of up to EUR 600m to SMEs (including lease facilities) and midcaps (as per the EU definition).

Own issues of securities

- On 24 February 2017, KNF gave its consent to allocate bonds issued by Bank Zachodni WBK on 2 December 2016 to subordinated debt. The bonds have the total nominal value of EUR 120m and mature on 3 December 2026.
- In the reporting period, the bank made two issues of certificates of deposits as part of the Issue Programme of 18 March 2015 aimed at financing the bank's general corporate purposes:
 - ✓ On 17 February 2017, series D certificates of deposit were issued for the total amount of PLN 420m, maturing on 17 August 2017;
 - ✓ On 17 March 2017, series E certificates of deposits were issued for the total amount of PLN 250m, maturing on 17 October 2017.

Changes to the Management Board

- On 16 February 2017, Mr. Eamonn Crowley resigned with an immediate effect as the Management Board Member.
- On the same day, the bank's Supervisory Board appointed Mr. Maciej Reluga as the Management Board Member, effective as of 16 February 2017.
- On 10 March 2017, the bank's Supervisory Board made the following nominations with an immediate effect:
 - ✓ Mr. Arkadiusz Przybył was appointed the Management Board Member.

- ✓ The following Management Board Members were appointed Vice-Presidents of the bank's Management Board:
 - Mr. Andrzej Burliga
 - Mr. Michael McCarthy
 - Mr. Juan de Porras Aguirre
 - Mr. Mirosław Skiba
 - Mr. Feliks Szyszkowiak.
- Ms. Dorota Strojowska, who was appointed the Management Board Member on 14 December 2016, took up the position on 1 April 2017 following the expiry of her previous employment commitments.

Amendments to the bank's Statutes

- In the current reports of 15 March and 22 March 2017, the Management Board of Bank Zachodni WBK announced its intention to introduce the following amendments to the bank's Statutes, subject to the approval of the Annual General Meeting of Shareholders:
 - ✓ to extend the list of activities performed by the bank to include trust services and electronic identification and to bring the relevant provisions in line with the Banking Law;
 - ✓ to increase the bank's share capital by max PLN 1,030,000 to PLN 993,375,340 by way of issue of shares to be taken up by eligible participants of the 5th edition of Performance Share Programme.

53. BZ WBK Group financial performance in Q1 2017

Overview of Bank Zachodni WBK Group performance in Q1 2017

Key financial and business highlights of Bank Zachodni WBK Group for Q1 2017	
Total income	<ul style="list-style-type: none"> • Total income of Bank Zachodni WBK Group for Q1 2017 increased by 1.1% YoY to PLN 1,848.7m. • Excluding dividend from both analysed periods, the underlying total income increased by 5.7% YoY.
Total costs	<ul style="list-style-type: none"> • Total costs amounted to PLN 866.0m and were stable YoY. • Assuming non-occurrence of changes in the methodology for computing and settling the BFG fees, and stable base for its calculation (i.e. eliminating the amount of PLN 39.3m representing the surplus fee charged in Q1 2017 compared with Q1 2016), the underlying total costs decreased by 4.4% YoY.
Profit	<ul style="list-style-type: none"> • Profit before tax amounted to PLN 740.0m, down 3.8% YoY. Adjusting income and costs as above, the underlying profit before tax increased by 13.0% YoY. • Profit attributable to the shareholders of Bank Zachodni WBK was PLN 453.0m and 18.6% lower YoY (3.2% higher on a comparable basis).
Capital ratio	<ul style="list-style-type: none"> • Capital ratio stood at 15.67% (15.05% as at 31 December 2016 and 14.06% as at 31 March 2016), ensuring security of operations and a stable growth.
ROE	<ul style="list-style-type: none"> • Return on Equity (ROE) was 11.5% (12.8% as at 31 December 2016 and 10.8% as at 31 March 2016). The QoQ decrease in ROE results from higher tax charges and costs and larger capital base.
Costs/Income	<ul style="list-style-type: none"> • Cost to income ratio was 46.8% (47.3% in Q1 2016), and adjusting income and costs as above it was further reduced to 44.7%.
Net impairment losses	<ul style="list-style-type: none"> • Net impairment losses on loans and advances amounted to PLN 145.5m compared with PLN 134.2m in Q1 2016.
Credit quality	<ul style="list-style-type: none"> • NPL ratio was 6.4% (6.6% as at 31 December 2016 and 7.0% as at 31 March 2016), while the ratio of impairment losses to the average gross credit volumes was 0.73% (0.75% as at 31 December 2016 and 0.74% as at 31 March 2016).
Loans to customers	<ul style="list-style-type: none"> • Gross loans to customers increased by 6.0% YoY to PLN 108,833.8m due to the growth of 6.7% YoY in personal loans and 2.3% YoY in loans to enterprises and the public sector to PLN 55,996.6m and PLN 46,450.6m, respectively.

Key financial and business highlights of Bank Zachodni WBK Group for Q1 2017 (cont.)

Deposits from customers	<ul style="list-style-type: none"> Deposits from customers increased by 6.1% YoY to PLN 108,452.4m as a result of the expansion of deposits from enterprises and the public sector by 7.2% YoY to PLN 44,162.0m and increase of 5.4% YoY in personal deposits to PLN 64,290.4m.
Loans/Deposits	<ul style="list-style-type: none"> Customer loans to deposit ratio was 95.9% as at 31 March 2017 compared with 91.6% as at 31 December 2016 and 95.4% as at 31 March 2016.
Net assets under management	<ul style="list-style-type: none"> Net value of assets in mutual funds and private portfolios totalled PLN 14.4bn, up 9.6% YoY and 4.5% QoQ.
Electronic banking	<ul style="list-style-type: none"> The number of customers using BZWBK24 electronic banking services totalled 3.2m (+1.9% YoY), including over 0.9m customers with access to mobile services (+26.2% YoY). The BZ WBK Group payment card base (excluding prepaid cards) included 3.5m debit cards (+5.6% YoY) and more than 1.2m credit cards of BZ WBK and SCB (+5.9% YoY).
Customer base	<ul style="list-style-type: none"> The customer base was more than 6.4m customers, including 4.4m BZ WBK customers.

Key macroeconomic factors impacting financial and business performance of the Group for the first quarter of 2017

Economic growth	<ul style="list-style-type: none"> Acceleration of economic growth in Poland and abroad.
Labour market	<ul style="list-style-type: none"> Favourable situation in the labour market – gradual increase in employment in the corporate sector, declining unemployment and relatively fast wage growth, supporting private consumption.
Inflation	<ul style="list-style-type: none"> Fast rise of inflation to 2% YoY.
Monetary policy	<ul style="list-style-type: none"> NBP official rates kept at the lowest level ever.
Credit market	<ul style="list-style-type: none"> Deceleration of credit growth in the banking sector.
Financial markets	<ul style="list-style-type: none"> Changes of mood in international financial markets influenced by the expected policy orientation of the main central banks (Federal Reserve, ECB), incoming macroeconomic data, worries about the geopolitical situation, including the results of the negotiations regarding the British exit from the EU and of the forthcoming elections in Europe. Interest rate hike in the USA. Strengthening of the Polish zloty versus foreign currencies, changes in domestic bond yields.

Income Statement of Bank Zachodni WBK Group

Bank Zachodni WBK Group profit for Q1 2017

PLN m

Condensed Consolidated Income Statement of BZ WBK Group (for analytical purposes)	Q1 2017	Q4 2016	Q1 2016	QoQ Change	YoY Change
Total income	1 848,7	1 860,3	1 828,0	-0,6%	1,1%
- Net interest income	1 254,0	1 274,8	1 124,7	-1,6%	11,5%
- Net fee & commission income	475,2	484,0	472,7	-1,8%	0,5%
- Other income ¹⁾	119,5	101,5	230,6	17,7%	-48,2%
Total costs	(866,0)	(840,3)	(864,6)	3,1%	0,2%
- Staff, general and administrative expenses	(763,7)	(720,2)	(739,8)	6,0%	3,2%
- Depreciation/amortisation	(74,3)	(74,7)	(65,3)	-0,5%	13,8%
- Other operating expenses	(28,0)	(45,4)	(59,5)	-38,3%	-52,9%
Impairment losses on loans and advances	(145,5)	(219,3)	(134,2)	-33,7%	8,4%
Profit/loss attributable to the entities accounted for using the equity method	8,6	19,3	7,6	-55,4%	13,2%
Tax on financial institutions ²⁾	(105,8)	(108,9)	(67,6)	-2,8%	56,5%
Consolidated profit before tax	740,0	711,1	769,2	4,1%	-3,8%
Tax charges	(212,8)	(201,8)	(147,8)	5,5%	44,0%
Net profit for the period	527,2	509,3	621,4	3,5%	-15,2%
- Net profit attributable to BZ WBK shareholders	453,0	461,0	556,5	-1,7%	-18,6%
- Net profit attributable to non-controlling shareholders	74,2	48,3	64,9	53,6%	14,3%

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

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

In Q1 2017, Bank Zachodni WBK Group posted a profit before tax of PLN 740.0m, down 3.8% YoY under the impact of a decrease in non-interest and non-fee income disclosed as "Other income" in the table above (including in such items as dividend income, gains on derivative and interbank transactions and gains on available-for-sale debt securities), higher impairment losses on loans and advances, and also a larger charge in respect of tax on financial institutions. Higher tax on financial institutions reflects the difference in the taxable periods in the analysed quarters (three full months in 2017 vs. two months in 2016 as per the effective date of the Act on tax imposed on certain financial institutions, i.e. 1 February 2016) and an increase in the tax base.

At the same time an overall growth in net interest and fee income was reported. BZ WBK Group maintained a stable level of total costs despite changes in the structure of connected entities (acquisition of PSA Finance Polska and PSA Consumer Finance Polska by SCB in October 2016), higher BFG fees and the continuation of long-term development programmes focused on digital and business model transformation.

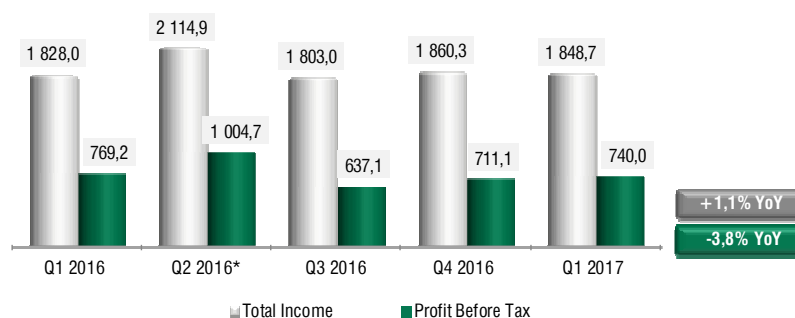
Profit attributable to the shareholders of Bank Zachodni WBK was PLN 453.0m and fell by 18.6% YoY due to a considerable increase in an effective tax rate and. Higher effective tax rate is attributed to the sale of a significant portion of debt and changes in the regulations regarding the tax treatment of contributions made to the Bank Guarantee Fund (BFG).

Excluding dividend income (PLN 0.3m in Q1 2017 and PLN 79.6m in Q1 2016) and a YoY increase in contribution made by BZ WBK Group to the bank resolution fund and the bank guarantee fund of PLN 39.3m (resulting from the provisions of the new BFG Act and the applicable settlement procedure), the underlying profit before tax of Bank Zachodni WBK Group increased by 13.0% YoY, while the underlying profit attributable to the shareholders of Bank Zachodni WBK went up by 3.2% YoY.

Comparability of periods in the income statement of BZ WBK Group for Q1 2017

Comparability of periods in the Income Statement of BZ WBK Group for Q1 2017		
Key items of the Income Statement	Q1 2017	Q1 2016
Tax on financial institutions effective as of 1 February 2016	<ul style="list-style-type: none"> PLN 105.8m for three months of Q1 2017 	<ul style="list-style-type: none"> PLN 67.6m for two months of Q1 2016
New contributions to BFG introduced on 1 January 2017 (change in the fees' definition, collection and calculation basis)	<ul style="list-style-type: none"> PLN 102m, including an annual contribution to the bank resolution fund (preliminary estimation) and a quarterly contribution to the bank guarantee fund 	<ul style="list-style-type: none"> PLN 62.7m, i.e. an annual contribution and a prudential fee for BFG settled on a quarterly basis
Dividend income	<ul style="list-style-type: none"> dividend of PLN 0.3m from Visa Inc. 	<ul style="list-style-type: none"> dividend of PLN 79.6m from Aviva Towarzystwo Ubezpieczeń na Życie (Aviva TUŃ)

Total Income and Profit Before Tax by Quarter in 2016 and 2017 (PLN m)



* The figure includes total gains of PLN 316.1m reported by BZ WBK and SCB as a result of the settlement of acquisition of Visa Europe Ltd. by Visa Inc. on 21 June 2016.

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

PLN m

Components of Bank Zachodni WBK Group Profit Before Tax by contributing entities	1Q 2017	1Q 2016	YoY Change
Bank Zachodni WBK S.A.	511,8	557,5	-8,2%
Existing subsidiary undertakings:	215,8	226,4	-4,7%
Santander Consumer Bank and its subsidiaries ¹⁾	178,9	190,7	-6,2%
BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. ²⁾	18,4	14,5	26,9%
BZ WBK Finanse Sp. z o.o., BZ WBK Leasing S.A., BZ WBK Lease S.A. and BZ WBK Faktor Sp. z o.o.	18,6	21,2	-12,3%
Other subsidiary undertakings ³⁾	(0,1)	0,0	-
Equity method valuation	8,6	7,6	13,2%
Elimination of dividends received by BZ WBK	-	(22,3)	-100,0%
Other intercompany and consolidation adjustments ⁴⁾	3,8	-	-
Profit before tax	740,0	769,2	-3,8%

1) As at 31 March 2017, SCB Group comprised Santander Consumer Bank and the following entities: Santander Consumer Multirent, Santander Consumer Finance, SC Poland Consumer 15-1, SC Poland Consumer 16-1, PSA Finance Polska and PSA Consumer Finance Polska. As at 31 March 2016, SCB Group did not include the last three entities, over which control was taken in H2 2016, but additionally included AKB Marketing Services in liquidation and SC Poland Auto 2014-1 Ltd. which were subsequently liquidated. The amounts provided represent profit before tax (after intercompany and consolidation adjustments) of SCB Group for the periods indicated. The profit before tax for Q1 2017 stated above differs from PLN 177.3m disclosed in the statement by business segment by PLN 1.6m as a result of a divergent presentation of a single intercompany transaction.

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

3) Other subsidiaries, i.e. BZ WBK Inwestycje, BZ WBK Nieruchomości and Geldokracja in liquidation disclosed a total loss of PLN 64.1m in Q1 2017 vs. a profit of PLN 6m in Q1 2016.

4) Gain of PLN 3.8m from settlement of liquidation of AKB Marketing Services Sp. z o.o. in liquidation, previously a member of SCB Group.

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

In Q1 2017, the unconsolidated profit before tax of Bank Zachodni WBK decreased by 8.2% YoY to PLN 511.8m as a combined effect of the following:

- a major improvement in net interest income (+9.7% YoY to PLN 902.1m) driven by robust credit delivery to personal customers and optimisation of the deposit range focused on development of current account balances and long-term relationships with deposit customers;
- an increase in fee and commission income (+4.6% YoY to PLN 401.3m) attributed to higher volumes in the majority of product lines (in particular brokerage services, investment funds and credit cards) which were offset by a decrease in insurance fee income arising from changes in the regulations;
- lower (-99.7% YoY) dividend income in Q1 2017 (PLN 0.3m from Visa Inc.) compared with Q1 2016 as a result of earlier recognition of dividends from Aviva Towarzystwo Ubezpieczeń na Życie (PLN 79.6m) and BZ WBK Asset Management (PLN 22.3m);
- a decrease in net trading profit (-29.0% YoY to PLN 53.9m) mainly due to lower profit on derivatives and FX transactions;
- lower gains on other financial instruments (-61.0% to PLN 15.0m) amid lower trading in treasury bonds;
- lower impairment losses on loans and advances (PLN 104.0m, down 21.3% YoY) supported by the debt sale, especially the amounts owed by personal customers;
- stable total underlying cost base of PLN 694.9m as a result of a reduction in other operating costs (including a provision to cover legal disputes) which was offset by an increase in amortisation/depreciation (+18.7% YoY) and general and administrative expenses (+3.2% YoY).

Excluding dividend income and a YoY increase in contribution made by BZ WBK to the BFG funds, the underlying profit before tax of Bank Zachodni WBK increased by 20.8 YoY.

Subsidiaries

The subsidiaries consolidated by Bank Zachodni WBK reported a decrease of 4.7% YoY in their total profit before tax mainly as a result of the lower profitability of SCB Group and BZ WBK Faktor.

SCB Group

The contribution of SCB Group to the consolidated profit before tax of Bank Zachodni WBK Group for Q1 2017 was PLN 178.9m (after intercompany transactions and consolidation adjustments) and decreased by 6.2% YoY due to the following factors:

- an increase of PLN 49.9m in net interest income to PLN 317.3m, driven by higher net interest margin amid lower funding cost, growth of the credit portfolio and favourable changes in its structure (e.g. a bigger share of high-margin products such as cash loans and credit cards);
- a decrease of PLN 19.1m in net fee and commission income to PLN 38.3m on account of lower insurance income and higher one-off agency commissions related to the sales network development;
- a slight rise of PLN 1.5m in operating costs to PLN 143.9m following the extension of the scope of consolidation of SCB Group to include PSA Finance Polska and PSA Consumer Finance Polska starting from October 2016;
- a higher net impairment charge by PLN 35.6m YoY (-PLN 31.9m), mainly attributable to the lower value of disposal of bad loans compared with Q1 2016;
- a higher charge of PLN 8.8m (up PLN 3.2m) in respect of tax on financial institutions, connected with a longer taxable period in Q1 2017 (three full months) compared with Q1 2016 (two months starting from 1 February 2016, i.e. effective date of the Act on tax imposed on certain financial institutions).

Other subsidiaries

Total profit before tax posted by companies controlled by BZ WBK Finanse decreased by 12.3% YoY due to lower profit earned by BZ WBK Faktor (-PLN 2.7m YoY), which resulted from higher impairment loss on factoring receivables along with a 16.4% YoY increase in credit exposures and lower net interest income attributed to increasing costs of funding.

Profit before tax earned by the leasing companies and BZ WBK Finanse in Q1 2017 was stable and totalled PLN 15.2m. An increase of 17.6% YoY in the gross lease portfolio translated into higher net interest income and higher net impairment losses on lease receivables, with a concurrent improvement of the portfolio quality. A substantial increase was also reported in net fee and commission income, which was mainly driven by insurance products.

The 26.9% YoY rise in profit before tax reported by BZ WBK TFI (a legal successor of BZ WBK Asset Management following its merger with BZ WBK TFI) reflects higher fee and commission income from asset management as a result of an increase in the average value of net assets in commercial bond and equity funds supported by favourable trends in the stock market. A dynamic growth was also reported in net income from distribution of investment funds, which was attributed to higher sales and revised fees from the last year.

Components of Bank Zachodni WBK Group profit before tax

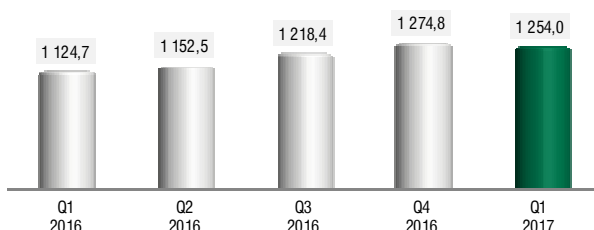
Total income

Total income of Bank Zachodni WBK Group for Q1 2017 increased by 1.1% YoY to PLN 1,848.7m. Excluding dividend from both analysed periods, the underlying total income increased by 5.7% YoY.

Net interest income

In Q1 2017, net interest income amounted to PLN 1,254.0m, up 11.5% YoY.

Net Interest Income of BZ WBK Group by Quarter in 2016 and 2017 (PLN m)

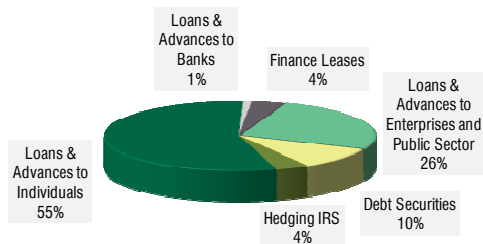


The Group reported increased interest revenues (up 6.7% YoY to PLN 1,559.8m) alongside a decline in interest expense (down 9.3% YoY to PLN 305.8m).

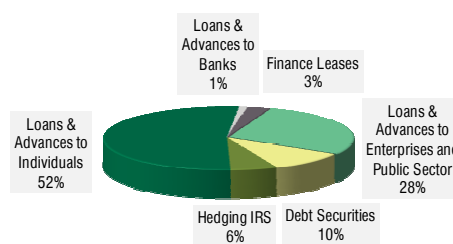
The growth rate of interest revenues – fueled by loans to personal customers, lease receivables and securities available for sale – was slowed down by decreases in CIRS/IRS transactions hedging cash flows and debt securities held for trading.

The continued decline in interest expense was driven by deposits from retail customers and enterprises as well as amounts due in respect of repo transactions. It was offset by increasing interest expense connected with the issue of securities and bank deposits.

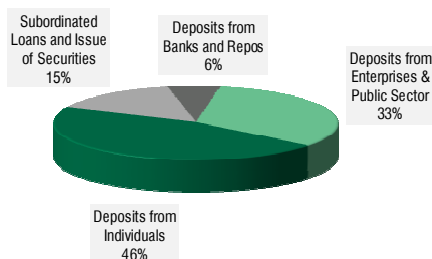
Structure of Interest Revenues of BZ WBK Group in Q1 2017



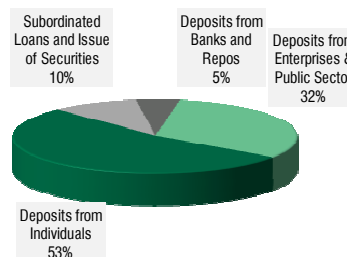
Structure of Interest Revenues of BZ WBK Group in Q1 2016



Structure of Interest Expense of BZ WBK Group in Q1 2017

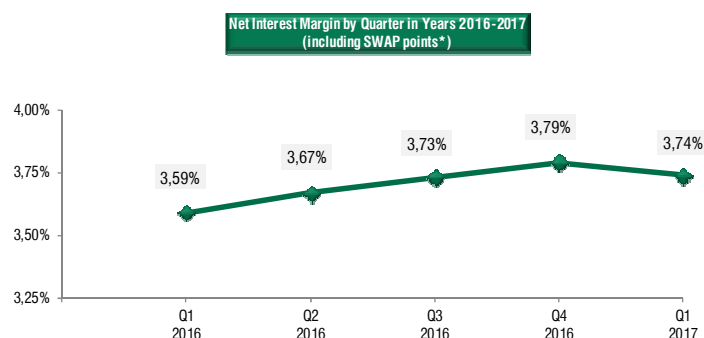


Structure of Interest Expense of BZ WBK Group in Q1 2016



The annualised net interest margin of Bank Zachodni WBK Group went up from 3.59% in Q1 2016 to 3.74% in Q1 2017 amid slightly higher YoY market interest rates. The growth in the net interest margin was supported by lower costs of funding under the impact of adaptation processes and the strategy of optimisation of basic sources of funding. Thanks to favourable trends in sales that were generated or strengthened through the use of tools designed to improve the quality, accessibility and competitiveness of products and services, the Group reported positive changes (from the perspective of a net interest margin) in core business volumes such as a YoY increase in loans and advances to retail customers (notably cash loans and mortgage loans) and a significant rise in low-cost current account balances of individuals and companies as well as a drop in term deposits from personal customers.

Compared with Q4 2016, the Group's net interest margin declined by 0.05 p.p. on account of continually low NBP interest rates, flexible management of pricing (cash loans, term deposits for new funds, a promotional campaign of Max Savings Account (Konto Max Oszczędnościowe) and development of business volumes (increase in low-margin loans and advances to business customers, lower value of loans and advances to personal customers and deposits from enterprises).



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

Net fee and commission income

Net fee and commission income for Q1 2017 was PLN 475.2m and was stable as a decline in net insurance and credit fees were offset by increases witnessed in other product lines.

PLN m			
Net Fee and Commission Income of BZ WBK Group	Q1 2017	Q1 2016	YoY Change
E-Business and payments ¹⁾	94,6	87,8	7,7%
Account maintenance and cash transactions ²⁾	83,2	80,0	4,0%
FX fees	78,1	73,8	5,8%
Asset management and distribution	65,5	55,5	18,0%
Credit fees ³⁾	51,0	55,9	-8,8%
Insurance fees ⁴⁾	49,2	75,8	-35,1%
Credit cards	31,1	26,0	19,6%
Brokerage activities	18,9	14,2	33,1%
Other ⁵⁾	3,6	3,7	-2,7%
Total	475,2	472,7	0,5%

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

2) Fee and commission income from account maintenance and cash transactions has been reduced by the corresponding expenses which in Note 5 of BZ WBK Group Report for Q1 2017 are included in the line item "Other" (PLN 0.2m for Q1 2017 vs. PLN 0.8m for Q1 2016).

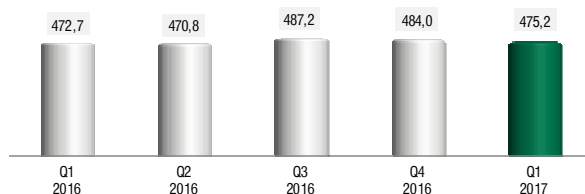
3) Fee and commission income from lending, factoring and lease activities which is not amortised to interest income. This line item includes, inter alia, the cost of credit agency.

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

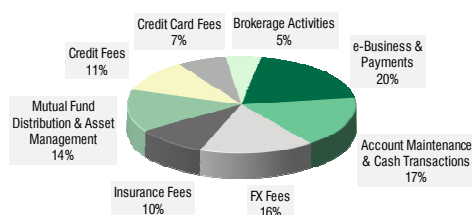
5) Fee and commission income from lending, factoring and lease activities which is not amortised to interest income. This line item includes, inter alia, the cost of credit agency.

6) Guarantees, issue arrangement fees and others.

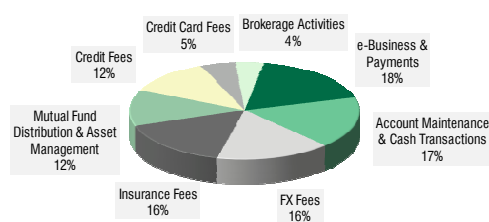
Net Fee & Commission Income of BZ WBK Group by Quarter in Years 2016-2017
(PLN m)



Net Commission Income Structure of BZ WBK Group for Q1 2017



Net Commission Income Structure of BZ WBK Group for Q1 2016



The highest YoY growth in net fee and commission income was reported in relation to brokerage services (+33.1% YoY), which reflected higher volumes of trading in the secondary market and favourable trends in the stock market (highest peaks in WSE indices since November 2016).

Net fee and commission income from issuance and management of credit cards went up by 19.6% YoY on account of a 5.9% YoY increase in the size of the combined credit card portfolio of Bank Zachodni WBK and SCB, a higher volume of credit card transactions and the revision of selected credit card fees and charges of both banks.

Higher net fee and commission income from fund distribution and asset management (+18.0% YoY) reflects an increase in the average net value of assets managed by BZ WBK TFI driven by the sales of equity and corporate bonds funds amid improved investor sentiment compared with the corresponding period last year.

Fee and commission income aggregated under the “eBusiness and payments” line item rose by 7.7% YoY as a result of an increase in income from issuance and management of debit cards driven by the growth of this instrument base (+5.6 YoY) and an increasing number of cash and non-cash transactions made with such cards as well as the revision of fees and charges applicable to card services for individuals and companies (August 2016).

An improvement in FX fee income (+5.8% YoY) is attributed to the Group’s comprehensive measures taken to support foreign trade and develop e-FX services in iBiznes24.

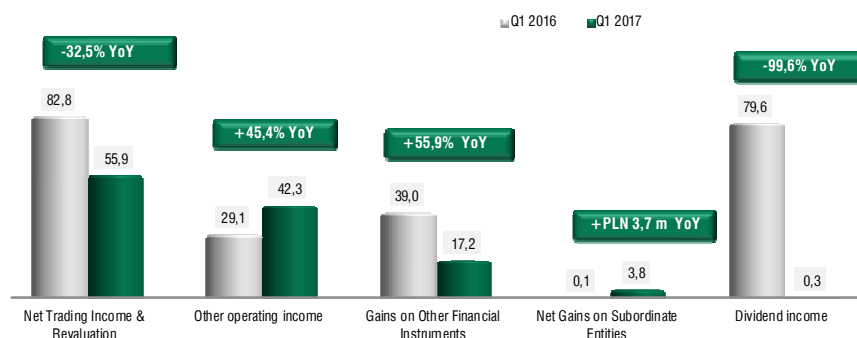
Active promotion of trade finance solutions also triggered an increase in fee and commission income related to guarantees, sureties and letters of credit (+14.9% YoY), which totalled PLN 12.8m (“Other income” in the table above).

Lower credit fees (-8,8% YoY) are due to a marked increase in agency commissions paid as a result of one-off fee related to the development of SCB sales network. The fee income, generated mostly by credit exposures to corporate customers, increased at a lower rate compared with costs.

The decline of 35.1% YoY in net fee and commission income from insurance business was connected with the legal and regulatory regime of the bancassurance market, in particular the statutory ban imposed by the Act of 11 September 2015 on insurance and reinsurance activity (effective as of 1 April 2016) on collection of insurance fees by banks acting as insuring parties in relation to group insurance plans (e.g. linked with payment cards).

Other income of the Group

Components of Other Income of BZ WBK Group (PLN m) in 2015 vs. 2016



Other income indicated above totalled PLN 119.5m and decreased by 48.2% YoY.

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

In Q1 2017, net trading income and revaluation reported by Bank Zachodni WBK Group was PLN 55.9m, down 32.5% YoY.

The Group generated a profit on derivatives and interbank FX trading of PLN 41.0m vs. PLN 63.6m a year before. The above-mentioned item includes net interest-related income from the non-hedging CIRS/IRS transactions totalling PLN 3.8m for Q1 2017 vs. PLN 3.2m for Q1 2016. It excludes, however, net interest income from the CIRS and IRS transactions designated as hedging instruments under the cash flow hedge accounting (PLN 60.0m for Q1 2017 vs. PLN 70.8m for Q1 2016), which is disclosed under “Interest income”.

Other FX trading related income was PLN 11.0m and held steady YoY.

Debt and equity securities trading brought in a total profit of PLN 3.9m compared to a loss of PLN 8.2m in the corresponding period.

Other operating income

Other operating income increased by 45.4% in Q1 2017 to PLN 42.3m, mainly on account of disputed issues of PLN 24.1m which were taken to operating income based on the respective legal resolution.

The level of returned BFG fees declined by PLN 6.1m due to a change in recognition of such income as commission income following implementation of Act of 10 June 2016 on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution which provides for a new method of BFG contribution calculation.

Gains on other financial instruments

Gains on other financial instruments fell by 55.9% YoY to PLN 17.2m, of which PLN 10.8m was a profit on the sale of all shares (2.8m) in Polimex Mostostal S.A. from the bank’s available-for-sale portfolio of equity investments.

Gains on the sale of debt instruments (mainly treasury bonds) were PLN 5.5m, down PLN 35m YoY. The decisions regarding the volume and structure of the available-for-sale portfolio of debt instruments are determined by various internal and external factors, such as availability of securities, expectations of interest rate cycle movements and fluctuations of yield curves. The measures taken as part of duration management were in line with market conditions and took into account the Group’s objectives with regard to risk and liquidity management.

Gains on subordinate entities

In Q1 2017, SCB recognised a gain of PLN 3.8m arising from the settlement of liquidation of AKB Marketing Services in liquidation.

Dividends

In Q1 2017, the Group disclosed dividend income of PLN 0.3m vs. PLN 79.6m in Q1 2016 on account of dividend from Aviva Towarzystwo Ubezpieczeń na Życie, which had distributed the profit earlier than in 2017.

Impairment charges

PLN m			
Impairment Losses of BZ WBK Group on Loans and Advances	Q1 2017	Q1 2016	YoY Change
Collective and individual impairment charge	(158,3)	(174,1)	-9,1%
Impaired but not reported losses charge	(17,3)	(14,4)	20,1%
Recoveries of loans previously written off	31,3	53,9	-41,9%
Off-balance sheet credit related facilities	(1,2)	0,4	-
Total	(145,5)	(134,2)	8,4%

In Q1 2017, the loan impairment charge to the income statement of Bank Zachodni WBK Group was PLN 145.5m, up 8.4% YoY mainly on account of a decrease of PLN 22.6m in recoveries of loans previously written off. The contribution of SCB Group to that figure was PLN 31.9m in Q1 2017 vs. PLN 3.6m in Q1 2016, as a result of lower sales of bad loans in the reporting period.

The charge for incurred and reported losses (on individual and collective exposures) was PLN 158.3m for Q1 2017 and decreased by 9.1% YoY amid steady growth in the Group's credit portfolio: loans to enterprises and the public sector increased by 2.3% YoY (including factoring receivables), personal loans by 6.7% YoY and lease receivables by 28% YoY. Compared with the corresponding period of 2016, impairment charges decreased especially on collectively assessed exposures towards retail customers.

The impairment charge for incurred but not reported losses was PLN 17.3m vs. PLN 14.4m in Q1 2016.

In Q1 2017, Bank Zachodni WBK sold non-performing receivables of PLN 356.6m vs. PLN 86.4m in the corresponding period (including the principal amount of PLN 337.2m and PLN 77.3m, respectively), which contributed PLN 81.9m and PLN 10.2m to the profit before tax in both periods, respectively. The sold portfolio included mainly loans and advances to retail customers, whereas corporate loans totalled only PLN 81.5m.

Santander Consumer Bank sold the written-off portfolio of cash loans and instalment loans of PLN 206.8m, which brought in a profit before tax of PLN 32.0m. Last year, SCB sold the credit portfolio of PLN 326.7m, generating profit before tax of PLN 51.9m.

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

Bank Zachodni WBK Group's NPL ratio decreased considerably from 7.0% as at 31 March 2016 to 6.4% as at 31 March 2017. The cost of credit totalled 0.73% vs. 0.74% twelve months before.

Total costs

PLN m			
Total costs of BZ WBK Group	Q1 2017	Q1 2016	YoY Change
Staff, general and administrative expenses, of which:	(763,7)	(739,8)	3,2%
- Staff expenses	(382,8)	(370,5)	3,3%
- General and administrative expenses	(380,9)	(369,3)	3,1%
Depreciation/amortisation	(74,3)	(65,3)	13,8%
Other operating expenses	(28,0)	(59,5)	-52,9%
Total costs	(866,0)	(864,6)	0,2%

The total costs of BZ WBK Group for Q1 2017 amounted to PLN 866.0m, and were relatively stable compared with Q1 2016. This result was achieved despite significant costs associated with the maintenance and extension of IT systems, high expenses associated with the Group's development projects (including digital and business model transformation), larger BFG fees taken to the income statement for Q1 2017 and higher amortization/depreciation charges.

Assuming non-occurrence of changes in the methodology for computing and settling the BFG fees, and stable base for its calculation (i.e. adjusting for PLN 39.3m representing the excess amount charged in Q1 2017 over Q1 2016), the underlying total costs decreased by 4.4% YoY.

With a moderate growth in total income and a stable level of total costs, the Group's cost to income ratio decreased from 47.3% in Q1 2016 to 46.8% in Q1 2017. If the BFG fees remained stable, the ratio would be further reduced to 44.7%.

Staff expenses

Bank Zachodni WBK Group's staff expenses for Q1 2017 totalled PLN 382.8m and increased by 3.3% YoY. SCB Group's contribution to consolidated staff expenses was PLN 60.0m and up 6.0% YoY.

The key staff expense line items, i.e. "Salaries and bonuses" and "Statutory deductions from salaries" increased by 3.3% YoY to PLN 371.3m in total as a result of increase in headcount and salary review conducted in H2 2016, which was partly offset by the release of the unused provision for bonuses.

The number of FTEs in Bank Zachodni Group increased by 667 YoY, as a result of incorporation of the Multichannel Communication Centre to ensure seamless centralised omni-channel customer experience, including services via telephone. The above change includes an increase in SCB Group staff by 44 FTEs resulting from the acquisition of control over PSA Finance Polska and PSA Consumer Finance Polska on 1 October 2016.

General and administrative expenses

In Q1 2017, general and administrative expenses of Bank Zachodni WBK Group increased by 3.1% YoY to PLN 380.9m. Costs incurred by SCB Group totalled PLN 64.1m and were 2.7% higher YoY on account of costs of IT usage, maintenance of premises and consultancy and advisory fees.

The most pronounced growth of 33.0% YoY was seen in the fees payable by BZ WBK Group to market regulators, which amounted to PLN 105.2m. The Act on Bank Guarantee Fund of 10 June 2016 introduced a quarterly contribution to the bank guarantee fund and an annual contribution to the bank resolution fund in the place of the previous contributions made by banks. By the end of March 2017, BZ WBK Group made a total contribution of PLN 102m to both funds, up PLN 39.3m YoY.

Consultancy and advisory fees increased significantly by 16.9% YoY on account of higher costs of legal and consultancy services related to the bank's digital and business model transformation programme. Cost of IT usage went up by 7.3% YoY, with the major share of costs incurred by SCB.

Visible decreases were reported in many other line items as an effect of:

- high base connected with projects delivered last year, such as the fit-out of new premises of the Business Support Centre (cost of repair of machines and equipment (-30.2%)), mass communication campaign (postal fees and telecommunication fees (-11.8% YoY)), cash loan campaign underway (cost of marketing and entertainment (-6.0% YoY));
- optimisation measures such as the rationalisation of branch network (cost of maintenance and rental of premises (-7.5% YoY)) and incorporation of the Multichannel Communication Centre into the structures of the Business Support Centre (costs of other third party services (-20.0% YoY)).

Tax on financial institutions

Pursuant to the Act of 1 February 2016 on tax imposed on certain financial institutions, bank assets above PLN 4bn are subject to tax of 0.0366% per month. As the above regulations became effective on 1 February 2016, the taxable period in Q1 2016 covered only two months, which combined with a higher level of assets resulted in an increase of PLN 38.2m in the total charge of PLN 105.8m to the BZ WBK Group's income statement for Q1 2017.

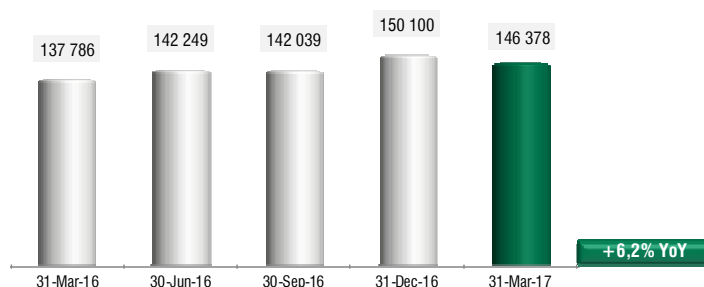
Effective tax rate

In Q1 2017, the effective interest rate was 28.8% vs. 19.2% in 2016, due to higher debt sales, higher charge on account of banking tax and contributions to BFG (guarantee fund and resolution fund), which are not tax deductible and do not reduce the tax base of corporate income tax.

Financial Position of Bank Zachodni WBK Group

Consolidated assets

As at 31 March 2017, the total assets of Bank Zachodni WBK Group were PLN 146,378.3m, an increase of 6.2% YoY and a decrease of 2.5% QoQ. The value and structure of the Group's financial position is determined by the parent entity, which accounts for 87.8% of the consolidated total assets as at the end of March 2017 vs. 87.6% as at the end of December 2016.

Total Assets of BZ WBK Group at the End of Consecutive Quarter in Years 2016-2017 (PLN m)**Structure of consolidated assets**

Assets of BZ WBK Group (condensed presentation for analytical purposes)	PLN m							
	31.03.2017	Structure 31.03.2017	31.12.2016	Structure 31.12.2016	31.03.2016	Structure 31.03.2016	QoQ Change	YoY Change
	1	2	3	4	5	6	1/3	1/6
Loans and advances to customers ¹⁾	104 018,2	71,1%	103 068,5	68,7%	97 467,9	70,7%	0,9%	6,7%
Financial assets available for sale	26 500,8	18,1%	29 307,9	19,5%	25 529,5	18,5%	-9,6%	3,8%
Cash and operations with Central Banks	4 150,5	2,8%	4 775,7	3,2%	2 064,1	1,5%	-13,1%	101,1%
Financial assets held for trading and hedging derivatives	2 660,8	1,8%	3 248,6	2,2%	4 141,9	3,0%	-18,1%	-35,8%
Loans and advances to banks ²⁾	2 618,1	1,8%	3 513,3	2,3%	2 758,2	2,0%	-25,5%	-5,1%
Fixed assets, intangibles and goodwill	3 000,2	2,1%	3 053,6	2,0%	2 944,3	2,2%	-1,7%	1,9%
Other assets ³⁾	3 429,7	2,3%	3 132,1	2,1%	2 879,9	2,1%	9,5%	19,1%
Total	146 378,3	100,0%	150 099,7	100,0%	137 785,8	100,0%	-2,5%	6,2%

- 1) Loans and advances to customers take into account an impairment charge and exclude receivables from buy-sell-back transactions which are reported under other assets, whereas in the full version of financial statements they are disclosed in a separate line item together with the corresponding loans and advances to banks.
- 2) Loans and advances to banks do not include receivables from buy-sell-back transactions which are reported under other assets.
- 3) Other assets include the following: receivables from buy-sell-back transactions, investments in associates, current income tax assets, net deferred tax assets, assets classified as held for sale and other assets.

As at 31 March 2017, consolidated net "Loans and advances to customers" totalled PLN 104,018.2m, up 0.9% QoQ on account of credit delivery to business customers. SCB Group contributed PLN 13,524.6m to this line (after intercompany and consolidation adjustments), down 2.1% QoQ due to lower value of mortgage loans and business loans.

A noteworthy drop was reported in "Loans and advances to banks" (-25.5% QoQ) as a result of lower placements in current accounts and receivables arising from deposits and loans. "Financial assets available for sale" decreased by 9.6% QoQ on account of the portfolio of NBP bills reaching maturity. SCB Group contributed PLN 2,846.0m to this item, which is a decline of 3.8% QoQ.

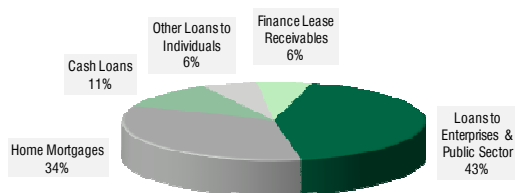
There was also a decrease in the portfolio of debt securities and trading derivatives disclosed in the table above under "Financial assets held for trading and hedging derivatives" (-18.1% QoQ). The balance of "Cash and operations with central banks" declined (-13.1% QoQ) driven by the bank's current account held with the NBP, term deposits and cash.

Credit portfolio of Bank Zachodni WBK Group

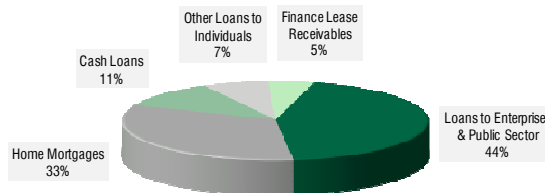
Gross Loans and Advances to Customers of BZ WBK Group	PLN m				
	31.03.2017	31.12.2016	31.03.2016	QoQ Change	YoY Change
Loans and advances to individuals	55 996,6	56 291,4	52 466,3	-0,5%	6,7%
Loans and advances to enterprises and public sector customers ¹⁾	46 450,6	45 375,7	45 393,4	2,4%	2,3%
Finance lease receivables	6 171,3	6 098,5	4 819,5	1,2%	28,0%
Other	215,3	181,8	9,0	18,4%	2292,2%
Total	108 833,8	107 947,4	102 688,2	0,8%	6,0%

- 1) Excluding receivables from buy-sell-back transactions.

Structure of Consolidated Loans & Advances to Customers as at 31.03.2017



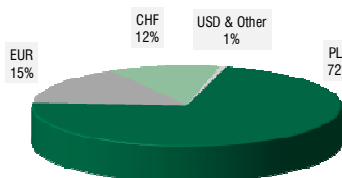
Structure of Consolidated Loans & Advances to Customers as at 31.03.2016



As at 31 March 2017, consolidated “Gross loans and advances to customers” were PLN 108,833.8m and higher by 0.8% YoY. On a constant currency basis, the figure increased by 2.1% YoY.

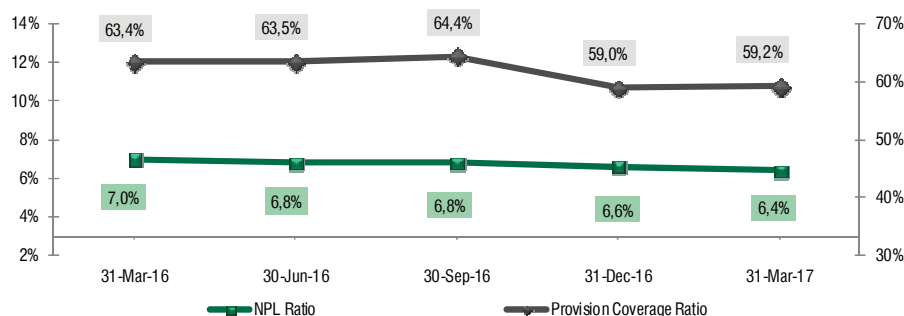
“Loans and advances to individuals” decreased by 0.5% QoQ to PLN 55,996.6m as at the end of March 2017. Home loans, which represent the major portion of loans and advances to individuals, declined slightly by 0.4% QoQ to PLN 36,864.6m. The second significant constituent item, i.e. cash loans, fell by 1.0% QoQ to PLN 12,042.1m.

FX Structure of Consolidated Loans and Advances to Customers as at 31.03.2017



“Loans and advances to enterprises and public sector customers” were PLN 46,450.6m, 2.4% higher QoQ driven by lending to SME and large corporate customers. “Finance lease receivables”, which include the portfolios of BZ WBK Leasing, BZ WBK Lease, Santander Consumer Multirent and PSA Finance Polska, increased by 1.2% YoY to PLN 6,171.3m on account of in the sales of vehicles. Loans granted by BZ WBK leasing companies to finance machines and vehicles for business customers, which totalled PLN 1,688.6m as at 31 March 2017 (vs. PLN 1,642.4m as at 31 December 2016), are disclosed outside the lease portfolio, as loans and advances to enterprises.

Credit Quality Ratios by Quarter in 2016 and 2017



As at 31 March 2017, non-performing (impaired) loans to customers accounted for 6.4% of the gross portfolio of Bank Zachodni WBK Group vs. 6.6% three months before and 7.0% twelve months before. The provision coverage ratio for impaired loans was 59.2% vs. 59.0% as at 31 December 2016 and 63.4% as at 31 March 2016.

Consolidated equity and liabilities

PLN m

Liabilities & Equity of BZ WBK Group S.A. (condensed presentation for analytical purposes)	31.03.2017	Structure 31.03.2017	31.12.2016	Structure 31.12.2016	31.03.2016	Structure 31.03.2016	QoQ Change	YoY Change
	1	2	3	4	5	6	1/3	1/5
Deposits from customers ¹⁾	108 452,4	74,1%	112 522,5	75,0%	102 198,2	74,2%	-3,6%	6,1%
Subordinated liabilities and debt securities in issue	6 315,6	4,3%	5 969,6	4,0%	4 875,9	3,5%	5,8%	29,5%
Financial liabilities held for trading and hedging derivatives	3 127,4	2,1%	3 832,4	2,5%	4 056,7	2,9%	-18,4%	-22,9%
Deposits from banks ¹⁾	2 635,6	1,8%	2 561,3	1,7%	2 280,8	1,7%	2,9%	15,6%
Sell-buy-back transactions	1 529,2	1,1%	1 632,6	1,1%	990,3	0,7%	-6,3%	54,4%
Other liabilities ²⁾	2 626,7	1,8%	2 562,8	1,7%	2 090,1	1,5%	2,5%	25,7%
Total equity	21 691,4	14,8%	21 018,5	14,0%	21 293,8	15,5%	3,2%	1,9%
Total	146 378,3	100,0%	150 099,7	100,0%	137 785,8	100,0%	-2,5%	6,2%

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

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

The key change in the consolidated equity and liabilities of Bank Zachodni WBK Group as at 31 March 2017 was noted in “Financial liabilities held for trading and hedging derivatives”, which fell by 18.4% QoQ under the impact of the latter component. At the same time “Sell-buy-back transactions” decreased by 6.3% QoQ and represented entirely liabilities to banks.

Another significant change was observed in “Subordinated liabilities and debt securities in issue”, which increased by 5.8% during the first three months of 2017. In this period, Bank Zachodni WBK issued two series of certificates of deposit as part of the Issue Programme for the total nominal value of PLN 670m and redeemed one series of bonds of PLN 185m and one series of certificates of deposit totalling PLN 100m. Santander Consumer Bank did not make any redemptions nor issued bonds as part of the debt securities issuance programme guaranteed by Santander Consumer Finance. Pursuant to KNF decision, 10-year bonds of EUR 120,0m issued by Bank Zachodni WBK on 2 December 2016 were reclassified within this aggregate line from debt securities in issue to subordinated liabilities.

“Deposits from customers” went down by 3.6% QoQ, reflecting higher business activity of customers and their use of funds (placed in current and term deposit accounts towards the end of 2016) to meet a variety of current and investment needs.

Deposit base of Bank Zachodni WBK Group

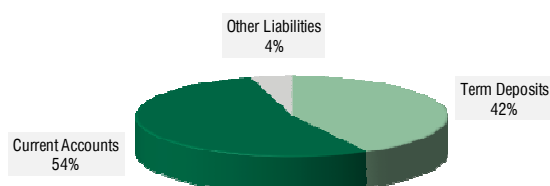
PLN m

Deposits of BZ WBK Group from Customers	31.03.2017	31.12.2016	31.03.2016	QoQ Change	YoY Change
Deposits from individuals	64 290,4	63 547,9	61 004,1	1,2%	5,4%
Deposits from enterprises and public sector customers ¹⁾	44 162,0	48 974,6	41 194,1	-9,8%	7,2%
Total	108 452,4	112 522,5	102 198,2	-3,6%	6,1%

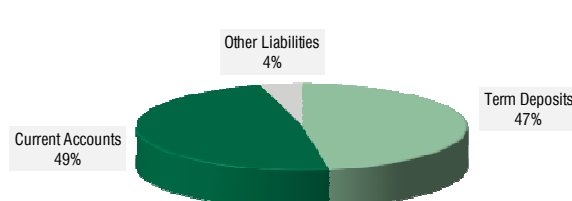
1) Excluding liabilities due to sell-buy-back transactions.

During the first three months of 2017, consolidated “Deposits from customers” decreased by 3.6% QoQ and amounted to PLN 108,452.4m as at 31 March 2017, including PLN 7,766.1m relating to SCB Group after intercompany transactions (vs. PLN 8,224.7m as at the end of December 2016).

Structure of Consolidated Customer Deposits as at 31.03.2017



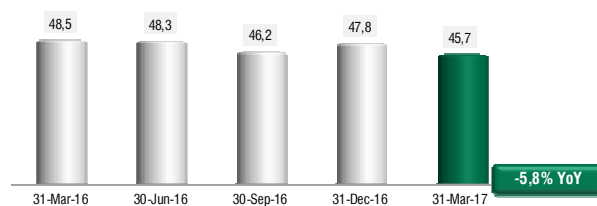
Structure of Consolidated Customer Deposits as at 31.03.2016



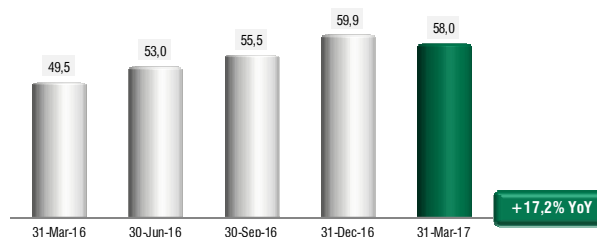
The Group's total term deposits from customers amounted to PLN 45,718.4m and decreased by 4.4% QoQ. Current account balances fell by 3.2% to PLN 57,976.6m, and other liabilities were PLN 4,757.4m, down 1.6% on 31 December 2016. The largest constituent of the last item were "Loans and advances" (PLN 3,891.7m vs. PLN 4,075.9m as at 31 December 2016) reported under "Deposits from enterprises". These included loans granted by international financial organisations (the European Investment Bank, the European Bank for Reconstruction and Development and the Council of Europe Development Bank) to finance the bank's credit delivery and the leasing business of its subsidiary.

The management of deposit products focused on increasing the strength of relationship with deposit customers and optimising business volumes.

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



Current Accounts* at the End of Consecutive Quarters of 2016 and 2017 (PLN bn)



* Including savings accounts

The retail deposit base stood at PLN 64,290.4m, higher by 1.2% QoQ as a result of an increase in term deposits (+1.9% QoQ) and current account balances (+0.7% QoQ), including savings accounts. Until mid-January, new deposit funds were acquired on the back of a 12-month deposit, and starting from March – based on a new edition of Max Savings Account (Konto Max Oszczędnościowe).

During the first three months of 2017, deposits from enterprises and the public sector dropped by 9.8% to PLN 44,162.0m at the end of March 2017. The decline in current account and term deposit balances was attributed to a high base effect resulting from the increase in deposits from enterprises observed at the end of the year.

Selected financial ratios of BZ WBK Group

Selected Financial Ratios of BZ WBK Group	Q1 2017	Q1 2016
Total costs/Total income	46,8%	47,3%
Net interest income/Total income	67,8%	61,5%
Net interest margin ¹⁾	3,7%	3,6%
Net commission income/Total income	25,7%	25,9%
Customer net loans/Customer deposits	95,9%	95,4%
NPL ratio	6,4%	7,0%
NPL coverage ratio	59,2%	63,4%
Credit risk ratio ²⁾	0,73%	0,74%
ROE ³⁾	11,5%	10,8%
ROTE ⁴⁾	13,3%	13,0%
ROA ⁵⁾	1,4%	1,3%
Capital ratio ⁶⁾	15,67%	14,06%
Tier I ratio ⁷⁾	14,70%	13,67%
Book value per share (in PLN)	218,6	214,6
Earnings per share (in PLN) ⁸⁾	4,6	5,6

- 1) Net interest income for four consecutive quarters (excluding interest income from the portfolio of trading securities) to average net interest-bearing assets as at the beginning and end of the reporting period (excluding the trading portfolio).
- 2) Impairment losses (for four consecutive quarters) to average gross loans and advances to customers (as at the beginning and end of the reporting period).
- 3) Profit attributable to the parent's shareholders (for four consecutive quarters) to average equity (as at the beginning and end of the reporting period), net of non-controlling interests, current period profit, dividend pay-out and undistributed portion of the profit.
- 4) Profit attributable to the parent's shareholders (for four consecutive quarters) to average tangible equity (as at the beginning and end of the reporting period) defined as common equity attributable to the parent's shareholders less revaluation reserve, current period profit, dividend, undistributed portion of the profit, intangible assets and goodwill.
- 5) Profit attributable to the parent's shareholders (for four consecutive quarters) to average total assets (as at the beginning and end of the reporting period).
- 6) The capital adequacy ratio was calculated on the basis of own funds and the total capital requirements established for the individual risk types by means of the standardised approach, in line with the CRD IV/CRR package.
- 7) Tier 1 ratio is Tier 1 capital expressed as a percentage of risk weighted assets for credit, market and operational risk.
- 8) Profit for the period attributable to shareholders of the parent entity divided by the number of ordinary shares.

Capital ratios

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

BZ WBK Group	31.03.2017	31.03.2016
I Total capital requirement	8 940,9	8 867,7
II Own funds after reductions	17 514,4	15 580,5
CAD [II/(I*12.5)]	15,67%	14,06%
Tier 1 Ratio	14,70%	13,67%

The table below shows the capital ratio and Tier 1 ratio of Bank Zachodni WBK and Santander Consumer Bank as at 31 March 2017 and 31 March 2016.

BZ WBK Capital Ratios	31.03.2017	31.03.2016
Total Capital Ratio	17,17%	15,26%
Tier I Ratio	16,15%	14,88%

SCB Capital Ratios	31.03.2017	31.03.2016
Total Capital Ratio	16,68%	16,46%
Tier I Ratio	16,68%	16,35%

54. Key factors affecting the profit in the next quarter

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

- Uncertainty about world economic outlook resulting from external risk factors.
- Effect of UK-EU negotiations about the "Brexit"; snap elections in the UK in June.
- Results of elections in other European countries, including France and Germany.
- Fluctuations in commodity prices.
- Acceleration of economic growth in Poland.
- Rise of households' real disposable income due to continued employment growth and wage hikes.
- Stabilisation of inflation rate near 2% YoY.
- Possible rise of labour market tension due to lack of qualified workforce.
- Low financing costs for households and companies, which should support a gradual rise in demand for bank loans. At the same time, low interest on deposits should encourage banks' customers to look for alternative forms of saving / investment.
- Possible changes in the NBP, ECB and Fed monetary policy.
- New capital requirements for FX loans, which may affect the banking sector's lending capacity.
- Assets' funding cost dependent on the pace and scale of changes in the main interest rates and the zloty exchange rate, development of liquidity situation in the banking sector and intensity of price competition for deposit collection between banks.
- Possible increase of financial market volatility in case of disappointment with the pace of global economic revival, rising worries about excessive monetary tightening by the US Fed or the impact of elections in the European countries.
- Further developments in the global stock market and their impact on investors' inclination to purchase investment funds units or keep savings in safe bank deposits as an alternative.



Signatures of the persons representing the entity			
Date	Name	Function	Signature
24.04.2017	Carlos Polaino Izquierdo	Member	
24.04.2017	Wojciech Skalski	Financial Accounting Area Director	