REPORT OF BANK ZACHODNI WBK GROUP FOR QUARTER 3 2017

2017

Bank Zachodni WBK

| | FINANCIAL HIGHLIGHTS | PLN k | | EUR k | |
|------|--|-------------------------|-------------|-------------|-------------|
| | | 01.01.2017- | 01.01.2016- | 01.01.2017- | 01.01.2016- |
| | | 30.09.2017 | 30.09.2016 | 30.09.2017 | 30.09.2016 |
| | Consolidated financial statement | ts of Bank Zachodni WBK | Group | | |
| Ι | Net interest income | 3 897 449 | 3 495 572 | 915 625 | 800 122 |
| | Net fee and commission income | 1 497 740 | 1 430 783 | 351 863 | 327 500 |
| III | Operating profit | 2 773 580 | 2 653 220 | 651 595 | 607 311 |
| IV | Profit before tax | 2 495 302 | 2 411 018 | 586 220 | 551 872 |
| V | Net profit attributable to owners of BZ WBK S.A. | 1 664 063 | 1 705 898 | 390 937 | 390 473 |
| VI | Total net cash flows | (3 303 647) | (6 582 028) | (776 123) | (1 506 599) |
| VII | Profit of the period attributable to non-controlling interests | 230 080 | 168 934 | 54 053 | 38 668 |
| VIII | Profit per share in PLN/EUR | 16,64 | 17,19 | 3,91 | 3,93 |
| IX | Diluted earnings per share in PLN/EUR | 16,63 | 17,17 | 3,91 | 3,93 |
| | Financial statements | s of Bank Zachodni WBK | | | |
| Ι | Net interest income | 2 799 854 | 2 556 537 | 657 768 | 585 181 |
| | Net fee and commission income | 1 278 036 | 1 194 152 | 300 248 | 273 336 |
| III | Operating profit | 2 200 254 | 2 384 555 | 516 904 | 545 815 |
| IV | Profit before tax | 1 909 913 | 2 128 064 | 448 694 | 487 105 |
| ٧ | Profit for the period | 1 466 993 | 1 719 204 | 344 640 | 393 519 |
| VI | Total net cash flows | (3 121 091) | (5 257 791) | (733 236) | (1 203 486) |
| VII | Profit per share in PLN/EUR | 14,67 | 17,32 | 3,45 | 3,96 |
| VIII | Diluted earnings per share in PLN/EUR | 14,66 | 17,30 | 3,44 | 3,96 |

| | FINANCIAL HIGHLIGHTS | PLN I | k | EUR k | |
|------|--|---------------------------|-------------|------------|------------|
| | | 30.09.2017 | 31.12.2016 | 30.09.2017 | 31.12.2016 |
| | Consolidated financial statement | ents of Bank Zachodni WBK | (Group | | |
| - | Total assets | 150 424 368 | 150 099 716 | 34 908 535 | 33 928 507 |
| II | Deposits from banks | 2 730 481 | 2 561 281 | 633 655 | 578 951 |
| III | Deposits from customers | 111 022 779 | 112 522 457 | 25 764 726 | 25 434 552 |
| IV | Total liabilities | 127 768 426 | 129 081 240 | 29 650 838 | 29 177 495 |
| ٧ | Total equity | 22 655 942 | 21 018 476 | 5 257 697 | 4 751 012 |
| VI | Non-controlling interests in equity | 1 361 825 | 1 237 649 | 316 035 | 279 758 |
| VII | Number of shares | 99 333 481 | 99 234 534 | - | - |
| VIII | Net book value per share in PLN/EUR | 228,08 | 211,81 | 52,93 | 47,88 |
| IX | Capital ratio | 16,90% | 15,05% | | |
| Χ | Declared or paid dividend per share in PLN/EUR | 5,40* | - | 1,25* | - |
| | Financial statements | of Bank Zachodni WBK | | | |
| Τ | Total assets | 131 480 872 | 131 417 988 | 30 512 374 | 29 705 693 |
| II | Deposits from banks | 1 322 870 | 1 212 765 | 306 995 | 274 133 |
| III | Deposits from customers | 101 737 670 | 103 381 249 | 23 609 958 | 23 368 275 |
| IV | Total liabilities | 111 157 603 | 112 388 468 | 25 796 014 | 25 404 265 |
| ٧ | Total equity | 20 323 269 | 19 029 520 | 4 716 360 | 4 301 429 |
| VI | Number of shares | 99 333 481 | 99 234 534 | | , |
| VII | Net book value per share in PLN/EUR | 204,60 | 191,76 | 47,48 | 43,35 |
| VIII | Capital ratio | 18,97% | 16,52% | | |
| IX | Declared or paid dividend per share in PLN/EUR | 5,40* | - | 1,25* | - |

^{*} Detailed information are described in Note 40.

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

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

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

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

2017

Bank Zachodni WBK



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Condensed consolidated income statement

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

Condensed consolidated statement of comprehensive income

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



Condensed consolidated statement of financial position

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



Condensed consolidated statement of changes in equity

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

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

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

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

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

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



Condensed consolidated statement of cash flows

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



Condensed income statement of Bank Zachodni WBK

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

Condensed statement of comprehensive income of Bank Zachodni WBK

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



Condensed statement of financial position of Bank Zachodni WBK

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



Condensed statement of changes in equity of Bank Zachodni WBK

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

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

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

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



Condensed statement of cash flows of Bank Zachodni WBK

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



Additional notes to condensed interim consolidated financial statement

1. General information about issuer

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

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

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

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

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



BZ WBK Group consists of the following entities:

Subsidiaries:

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

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

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



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

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

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

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

Associates:

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

2. Basis of preparation of condensed interim consolidated financial statement

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

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

Statement of compliance

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

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

Accounting policies

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

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

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

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

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



Comparability with results of previous periods

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

Changes in judgments and estimates

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

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

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



| Changes relate to the following areas: • Transfer of control – recognition of revenue only when the customer gains control over a good or service. The amendment makes the definition of the transfer of control more precise. Introducing regulations allowing to define the legitimacy of recognising the revenue over time or at a point in time; • Variable consideration - the amendment takes into account variable consideration in prices of goods or services arising, for example, as a result of penalties or performance bonus; • Allocation of the transaction price on the basis of an adequate sales price per unit - introduction of the requirement to allocate the payment for goods or services in the case of sale under a single contract; • Licences - introduction of the requirement for entities to define the time for which a licence is transferred and specifying more precisely the revenue calculation in the case of transferring a licence at a point in time or over time; • Time value of money – the transaction price is adjusted for the time value of money. The entity may choose not to account for the time value of money when the interval between transfer of the promised goods or services and payment by the customer is expected to be less than 12 months; • Costs of obtaining a contract - introducing the conditions which determine if the given costs of obtaining a contract are subject to capitalization and can be amortised parallel to revenue recognition; • Disclosures - introduction of a requirement to disclose qualitative and quantitative information relating to judgements and changes in the judgements related with revenue recognition. | 1 January 2018 | IFRS 15 implementation progress is described below. |
|---|---|---|
| The commentary is a source of additional information and guidance re: the key assumptions of IFRS 15, including the identification of unit-specific commitments, the establishment of the unit's role (agent vs. principal) and the mode of recording revenue generated under the licence. Apart from additional guidance, there are exemptions and simplified rules for first time adopters. | 1 January 2018 | IFRS 15 implementation progress is described below. |
| The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases. All lease transactions results in the lessee's right to use the assets and the obligation to make a payment. Accordingly, the classification of leases into operating lease and finance lease as per IAS 17 no longer applies under IFRS 16, as the new standard introduces a single model for accounting for leases by the lessee. The lessee will be required to present the following: (a) assets and liabilities in respect of all leases executed for more than 12 months, except where an asset is of low quality; and (b) depreciation charge for the leased asset separately from the interest expense on the lease liability in the statement of profit or loss and other comprehensive income. The principles of accounting for leases by the lessee established in IFRS 16 are largely the same as in IAS 17. As a consequence, the lessee continues to use the classification into operating lease and finance lease and accounts for them accordingly. | 1 January 2019 | BZ WBK Group has not completed the analysis of changes. |
| In December 2016, the International Accounting Standards Board published 'Annual Improvements to IFRS Standards 2014-2016 Cycle' which amended 3 standards, i.e. IFRS 12 'Disclosure of Interests in Other Entities', IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 28 'Investments in Associates'. The improvements feature guidelines and amendments re: the scope of applicability, recognition and valuation as well as terminology and editing changes. | 1 January 2018 for improvements to IFRS 1 and IAS 28 | The amendment will not have a significant impact on financial statements. |
| Improvements to IAS 40 specify the requirements for transfers to or from investment property classification. According to the amended standard, a change in management intention to use the property is not evidence of change in the use of the property. The amendment applies to all changes in use that are introduced after the effective date of the amendment and to all investment properties held at that date. | 1 January 2018 | The amendment will not have a significant impact on financial statements. |
| | 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. The commentary is a source of additional information and guidance re: the key assumptions of IFRS 15, including the identification of unit-specific commitments, the establishment of the unit's role (agent vs. principal) and the mode of recording revenue generated under the licence. Apart from additional guidance, there are exemptions and simplified rules for first | 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 chose 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. Time commentary is a source of additional information and guidance re: the key assumptions of IFRS 15, including the identification of unit-specific commitments, the establishment of the unit's role (agent vs. principal) and the mode of recording revenue generated under the licence. Apart from additional guidance, there are exemptions and simplified rules for first |

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

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

IFRS 9 "Financial instruments"

Status

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

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

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

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

Classification and measurement

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

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

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

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

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

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

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

Comparative data

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

Hedge accounting

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

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

Impairment of credit exposures

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

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

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



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

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

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

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

Impact of IFRS 9 on financial standing and own funds

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

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

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

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

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

IFRS 15 Revenue from Contracts with Customers

Description of changes

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

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

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



Status

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

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

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

Impact of IFRS 15 on the financial standing and own funds

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

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

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

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



3. Operating segments reporting

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

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

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

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

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

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

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

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

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

In 2017 introduced the following changes:

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

Comparable data are adjusted accordingly.

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

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



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 topups, foreign payments and Western Union and private-banking services. For small and medium companies, the segment provides, among others, lending and deposit taking services, cash management services, leasing, factoring, letters of credit and guarantees. Furthermore, the Retail Banking segment generates income through offering asset management services within investment funds and private portfolios. It also covers insourcing services provided to retail customers based on mutual agreements with other banks and financial institutions.

Business & Corporate Banking

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

Global Corporate Banking

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

- transactional banking with such products as cash management, deposits, leasing, factoring, letters of credit, quarantees, 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).



Consolidated income statement (by operating segments)

| 01.01.2017-30.09.2017 | Segment Retail Banking * | Segment Business and Corporate Banking | Segment Global Corporate Banking | Segment ALM and Centre | Segment Santander Consumer | Total |
|--|-----------------------------|--|-------------------------------------|---------------------------|-------------------------------|-------------|
| Net interest income | 1 838 990 | 392 621 | 148 640 | 520 298 | 996 900 | 3 897 449 |
| incl. internal transactions | (80 103) | (39 926) | 747 | 118 804 | 478 | - |
| Net fee and commission income | 1 033 866 | 193 141 | 173 127 | (4 994) | 102 600 | 1 497 740 |
| incl. internal transactions | 71 784 | 34 383 | (113 977) | 9 137 | (1327) | - |
| Other income | 58 290 | 41 084 | 58 018 | 87 852 | 36 290 | 281 534 |
| incl. internal transactions | 6 330 | 26 976 | (30 082) | (28 884) | 25 660 | - |
| Dividend income | <u> </u> | - | 545 | 76 075 | 16 | 76 636 |
| Operating costs | (1 433 152) | (214 359) | (146 170) | (75 090) | (399 201) | (2 267 972) |
| incl. internal transactions | (6 053) | (1 069) | (5) | 9 718 | (2 591) | - |
| Depreciation/amortisation | (159 432) | (17 098) | (13 987) | (19 622) | (24 137) | (234 276) |
| Impairment losses on loans and advances | (339 028) | (62 695) | (2 744) | (4 198) | (68 866) | (477 531) |
| Share in net profits (loss) of entities accounted for by the equity method | <u> </u> | - | - | 38 546 | | 38 546 |
| Tax on financial institutions | | - | - | (290 341) | (26 483) | (316 824) |
| Profit before tax | 999 534 | 332 694 | 217 429 | 328 526 | 617 119 | 2 495 302 |
| Corporate income tax | | | | _ | | (601 159) |
| Consolidated profit for the period | | | | | | 1 894 143 |
| of which: | • | - | • | - | | |
| attributable to owners of BZ WBK S.A. | | | | | | 1 664 063 |
| attributable to non-controlling interests | | • | | • | | 230 080 |

^{*} Includes individual customers and small and medium companies

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

Consolidated statement of financial position (by operating segments)

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

^{*} Includes individual customers and small and medium companies

Consolidated income statement (by operating segments)

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

^{*} Includes individual customers and small and medium companies

| 01.07.2016-30.09.2016 | Segment Retail Banking * | Segment Business and Corporate Banking | Segment Global Corporate Banking | Segment ALM and Centre | Segment Santander Consumer | Total |
|--|-----------------------------|--|-------------------------------------|---------------------------|-------------------------------|------------|
| Net interest income | 579 962 | 141 467 | 54 307 | 152 907 | 289 737 | 1 218 380 |
| incl. internal transactions | (24 519) | (11 837) | 83 | 36 052 | 221 | - |
| Net fee and commission income | 334 177 | 51 959 | 70 932 | (843) | 30 998 | 487 223 |
| incl. internal transactions | 23 049 | 7 444 | (32 872) | 2 823 | (444) | - |
| Other income | 18 338 | 18 747 | 26 353 | 29 541 | 2 674 | 95 653 |
| incl. internal transactions | 4 334 | 8 048 | (7606) | (13 039) | 8 263 | - |
| Dividend income | - | - | 426 | 1 304 | - | 1 730 |
| Operating costs | (487 989) | (78 348) | (49 153) | (21 526) | (116 758) | (753 774) |
| incl. internal transactions | (4 944) | (524) | (1) | 6 009 | (540) | - |
| Depreciation/amortisation | (43 607) | (5 059) | (5 141) | (7 600) | (6 943) | (68 350) |
| Impairment losses on loans and advances | (151 923) | (37 995) | 5 839 | 782 | (70 822) | (254 119) |
| Share in net profits (loss) of entities accounted for by the equity method | - | - | - | 15 443 | - | 15 443 |
| Tax on financial institutions | - | - | - | (96 902) | (8 195) | (105 097) |
| Profit before tax | 248 958 | 90 771 | 103 563 | 73 106 | 120 691 | 637 089 |
| Corporate income tax | | | | | | (156 985) |
| Consolidated profit for the period | · · | | | | | 480 104 |
| of which: | . | | | | | |
| attributable to owners of BZ WBK S.A. | | | | | | 425 933 |
| attributable to non-controlling interests | - | | <u>.</u> | _ | , | 54 171 |

Consolidated statement of financial position (by operating segments)

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

^{*} Includes individual customers and small and medium companies

4. Net interest income

| Interest income | 01.07.2017- 30.09.2017 | 01.01.2017- 30.09.2017 | 01.07.2016- 30.09.2016 | 01.01.2016- 30.09.2016 |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| Loans and advances to enterprises | 426 511 | 1 248 741 | 410 252 | 1 221 092 |
| Loans and advances to individuals, of which: | 920 251 | 2 661 512 | 814 496 | 2 359 421 |
| Home mortgage loans | 273 039 | 786 116 | 238 755 | 682 164 |
| Debt securities incl.: | 169 278 | 493 016 | 158 035 | 454 995 |
| Investment portfolio available for sale | 155 538 | 466 984 | 143 098 | 429 551 |
| Trading portfolio | 13 740 | 26 032 | 14 937 | 25 444 |
| Leasing agreements | 65 850 | 190 891 | 47 103 | 134 361 |
| Loans and advances to banks | 16 367 | 47 741 | 15 202 | 46 810 |
| Public sector | 1 445 | 4 673 | 1 591 | 5 298 |
| Reverse repo transactions | 9 178 | 18 353 | 2 287 | 4 522 |
| Interest recorded on hedging IRS | 54 928 | 179 651 | 78 664 | 242 134 |
| Total | 1 663 808 | 4 844 578 | 1 527 630 | 4 468 633 |
| | 01.07.2017- | 01.01.2017- | 01.07.2016- | 01.01.2016- |
| Interest expenses | 30.09.2017 | 30.09.2017 | 30.09.2016 | 30.09.2016 |
| Deposits from individuals | (142 184) | (428 593) | (142 232) | (487 167) |
| Deposits from enterprises | (85 502) | (258 154) | (96 592) | (284 458) |
| Repo transactions | (19 250) | (40 757) | (8848) | (28 203) |
| Deposits from public sector | (14 428) | (39 967) | (12 811) | (36 483) |
| Deposits from banks | (10 384) | (34 896) | (9 245) | (28 132) |
| Subordinated liabilities and issue of securities | (51 094) | (144 762) | (39 522) | (108 618) |
| Total | (322 842) | (947 129) | (309 250) | (973 061) |
| Net interest income | 1 340 966 | 3 897 449 | 1 218 380 | 3 495 572 |

5. Net fee and commission income

| | 01.07.2017- | 01.01.2017- | 01.07.2016- | 01.01.2016- |
|---|-------------|-------------|-------------|-------------|
| Fee and commission income | 30.09.2017 | 30.09.2017 | 30.09.2016 | 30.09.2016 |
| eBusiness & payments | 175 388 | 459 391 | 147 384 | 426 037 |
| Current accounts and money transfer | 83 848 | 252 727 | 86 699 | 250 371 |
| Asset management fees | 79 928 | 223 893 | 65 052 | 189 751 |
| Foreign exchange commissions | 91 823 | 254 861 | 82 944 | 235 044 |
| Credit commissions | 82 910 | 232 948 | 67 073 | 201 940 |
| Insurance commissions | 54 544 | 162 681 | 60 118 | 207 415 |
| Brokerage activities | 26 344 | 71 083 | 20 529 | 51 984 |
| Credit cards | 42 806 | 124 995 | 42 464 | 119 600 |
| Off-balance sheet guarantee commissions | 16 345 | 40 964 | 23 822 | 49 473 |
| Finance lease commissions | 3 720 | 11 811 | 3 549 | 11 025 |
| Issue arrangement fees | 3 951 | 12 755 | 9 941 | 14 181 |
| Distribution fees | 1 626 | 8 524 | 1 642 | 4 680 |
| Other commissions | 4 224 | 14 224 | 2 693 | 5 608 |
| Total | 667 457 | 1 870 857 | 613 910 | 1 767 109 |
| | 01.07.2017- | 01.01.2017- | 01.07.2016- | 01.01.2016- |
| Fee and commission expenses | 30.09.2017 | 30.09.2017 | 30.09.2016 | 30.09.2016 |
| eBusiness & payments | (74 777) | (164 133) | (47 678) | (145 578) |
| Distribution fees | (5 811) | (17 448) | (5 878) | (17 896) |
| Brokerage activities | (2 616) | (8 527) | (3 098) | (7 579) |
| Credit cards | (5 523) | (24 069) | (11 187) | (28 111) |
| Credit commissions paid | (20 120) | (70 524) | (19 691) | (36 957) |
| Insurance commissions | (7111) | (12 949) | (9 544) | (28 931) |
| Finance lease commissions | (6 769) | (19 744) | (6 513) | (18 795) |
| Asset management fees and other costs | (1 618) | (4 868) | (1385) | (4 597) |
| Other | (16 207) | (50 855) | (21 713) | (47 882) |
| Total | (140 552) | (373 117) | (126 687) | (336 326) |
| Net fee and commission income | 526 905 | 1 497 740 | 487 223 | 1 430 783 |

6. Net trading income and revaluation

| | 01.07.2017- | 01.01.2017- | 01.07.2016- | 01.01.2016- |
|--|-------------|-------------|-------------|-------------|
| Net trading income and revaluation | 30.09.2017 | 30.09.2017 | 30.09.2016 | 30.09.2016 |
| Derivative instruments and interbank fx transactions | 44 648 | 113 459 | 50 600 | 204 628 |
| Other FX related income | 9 243 | 32 238 | 11 682 | 20 907 |
| Profit on equity instruments | 2 583 | 6 636 | (606) | (4139) |
| Profit on debt instruments | (907) | (4 680) | (5 653) | 7 486 |
| Total | 55 567 | 147 653 | 56 023 | 228 882 |

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

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

7. Gains (losses) from other financial securities

| Gains (losses) from other financial securities | 01.07.2017- 30.09.2017 | 01.01.2017- 30.09.2017 | 01.07.2016- 30.09.2016 | 01.01.2016- 30.09.2016 |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| Profit on sale of equity shares available for sale | 1 866 | 12 641 | (207) | 317 827 |
| Profit on sale of debt securities available for sale | 3 503 | 18 708 | 4 159 | 84 033 |
| Charge due to impairment losses | (461) | (461) | - | (7 533) |
| Total profit (losses) on financial instruments | 4 908 | 30 888 | 3 952 | 394 327 |
| Change in fair value of hedging instruments | 10 806 | 16 493 | 21 883 | 4 631 |
| Change in fair value of underlying hedged positions | (11 752) | (15 472) | (18 386) | (3845) |
| Total profit (losses) on hedging and hedged instruments | (946) | 1 021 | 3 497 | 786 |
| Total | 3 962 | 31 909 | 7 449 | 395 113 |

8. Other operating income

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

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

9. Impairment losses on loans and advances

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

10. Employee costs

| Employee costs | 01.07.2017- 30.09.2017 | | 01.07.2016- 30.09.2016 | 01.01.2016- 30.09.2016 |
|--|---------------------------|-------------|---------------------------|---------------------------|
| Salaries and bonuses | (325 457) | (956 499) | (316 089) | (926 392) |
| Salary related costs | (53 343) | (167 166) | (51 022) | (161 003) |
| Staff benefits costs | (8782) | (27 077) | (8 701) | (25 312) |
| Professional trainings | (2 827) | (10 329) | (4 289) | (11 784) |
| Retirement fund, holiday provisions and other employee costs | (625) | (1869) | (596) | (1786) |
| Total | (391 034) | (1 162 940) | (380 697) | (1 126 277) |

11. General and administrative expenses

| General and administrative expenses | 01.07.2017- 30.09.2017 | 01.01.2017- 30.09.2017 | 01.07.2016- 30.09.2016 | 01.01.2016- 30.09.2016 |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| Maintenance and rentals of premises | (81 112) | (255 075) | (92 997) | (277 184) |
| Marketing and representation | (25 584) | (88 238) | (36 534) | (108 488) |
| IT systems costs | (54 775) | (163 158) | (51 611) | (148 339) |
| Bank Guarantee Fund, Polish Financial Supervision Authority and National Depository for Securities | (24 541) | (199 846) | (64 346) | (215 084) |
| Postal and telecommunication costs | (14 672) | (39 296) | (11 793) | (39 863) |
| Consulting fees | (13 908) | (38 600) | (20 898) | (43 626) |
| Cars, transport expenses, carriage of cash | (16 052) | (49 184) | (17 875) | (51 343) |
| Other external services | (23 224) | (64 276) | (22 330) | (75 907) |
| Stationery, cards, cheques etc. | (6 904) | (18 841) | (7 452) | (22 146) |
| Sundry taxes | (7509) | (23 766) | (8014) | (25 743) |
| Data transmission | (3764) | (11 094) | (4 221) | (12 527) |
| KIR, SWIFT settlements | (6 667) | (20 454) | (6 789) | (20 444) |
| Security costs | (7 602) | (21 465) | (7 172) | (19 838) |
| Costs of repairs | (3 900) | (10 574) | (3 577) | (10 552) |
| Other | (5 118) | (17 356) | (6 010) | (17 667) |
| Total | (295 332) | (1 021 223) | (361 619) | (1 088 751) |

12. Corporate income tax

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

| Corporate total tax charge information | 01.07.2017- 30.09.2017 | 01.01.2017- 30.09.2017 | 01.07.2016- 30.09.2016 | 01.01.2016- 30.09.2016 |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| Profit before tax | 821 278 | 2 495 303 | 637 089 | 2 411 018 |
| Tax rate | 19% | 19% | 19% | 19% |
| Tax calculated at the tax rate | (156 043) | (474 108) | (121 046) | (458 093) |
| Non-tax-deductible expenses, incl. the fee to the Bank Guarantee Fund | (7716) | (44 887) | (6 354) | (43 978) |
| Tax on financial institutions | (20 120) | (60 197) | (19 969) | (52 885) |
| Sale of receivables | (2 001) | (37 238) | (2 600) | (14 592) |
| Non-taxable income (dividends) | 93 | 14 423 | 103 | 18 114 |
| Non-tax deductible bad debt provisions | (2 776) | (5 912) | (4 131) | (2 981) |
| Adjustment of prior year tax | - | 570 | - | 8 385 |
| Tax effect of consolidation adjustments | (1722) | 6 737 | (1297) | 12 898 |
| Other | 1 675 | (547) | (1691) | (3 054) |
| Total income tax expense | (188 610) | (601 159) | (156 985) | (536 186) |

| Deferred tax recognised directly in equity | 30.09.2017 | 31.12.2016 |
|--|------------|------------|
| Relating to equity securities available-for-sale | (129 964) | (122 523) |
| Relating to debt securities available-for-sale | (36 369) | 35 033 |
| Relating to cash flow hedging activity | 15 802 | 25 251 |
| Relating to valuation of defined benefit plans | (1912) | (1913) |
| Total | (152 443) | (64 152) |

13. Cash and balances with central banks

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

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

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

14. Loans and advances to banks

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

15. Financial assets and liabilities held for trading

| | 30.09.2 | 2017 | 31.12.2 | 2016 |
|---|-----------|-------------|-----------|-------------|
| nancial assets and liabilities held for trading | Assets | Liabilities | Assets | Liabilities |
| Trading derivatives | 1 644 383 | 1 487 405 | 1 859 361 | 1 728 931 |
| Interest rate operations | 801 463 | 745 857 | 970 357 | 898 100 |
| Transactions on equity instruments | 8 268 | 8 268 | 12 032 | 12 032 |
| FX operations | 834 652 | 733 280 | 876 972 | 818 799 |
| Debt and equity securities | 715 419 | - | 1 321 624 | |
| Debt securities | 654 351 | - | 1 312 589 | - |
| Government securities: | 652 584 | - | 612 233 | - |
| - bonds | 652 584 | - | 612 233 | - |
| Central Bank securities: | - | - | 699 883 | - |
| - bills | - | - | 699 883 | - |
| Commercial securities: | 1 767 | - | 473 | - |
| - bonds | 1 767 | - | 473 | - |
| Equity securities | 61 068 | - | 9 035 | - |
| Short sale | - | - | - | 80 129 |
| Total financial assets/liabilities | 2 359 802 | 1 487 405 | 3 180 985 | 1 809 060 |

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

16. Loans and advances to customers

| Loans and advances to customers | 30.09.2017 | 31.12.2016 |
|---|-------------|-------------|
| Loans and advances to enterprises | 46 798 848 | 45 179 803 |
| Loans and advances to individuals, of which: | 57 516 933 | 56 291 404 |
| Home mortgage loans | 37 462 870 | 37 008 380 |
| Finance lease receivables | 6 626 082 | 6 098 499 |
| Loans and advances to public sector | 169 182 | 195 900 |
| Other | 265 450 | 181 813 |
| Gross receivables | 111 376 495 | 107 947 419 |
| Allowance for impairment | (4 901 066) | (4 878 881) |
| Total | 106 475 429 | 103 068 538 |
| | | |
| Movements on impairment losses on loans and advances to customers | 30.09.2017 | 31.12.2016 |
| Individual and collective impairment | | |
| As at the beginning of the period | (4 187 798) | (4 471 467) |
| Individual and collective impairment acquired in a business combination | - | (11 548) |
| Charge/write back of current period | (475 795) | (828 170) |
| Write off/Sale of receivables | 482 248 | 1 110 443 |
| Transfer | (12 978) | 26 631 |
| F/X differences | 15 626 | (13 687) |
| Balance at the end of the period | (4 178 697) | (4 187 798) |
| IBNR | | |
| As at the beginning of the period | (691 083) | (659 596) |
| IBNR acquired in a business combination | - | (1947) |
| Charge/write back of current period | (43 691) | (27 015) |
| Sale of receivables | 3 246 | 3 182 |
| Transfer | 920 | 558 |
| F/X differences | 8 239 | (6 265) |
| Balance at the end of the period | (722 369) | (691 083) |
| Allowance for impairment | (4 901 066) | (4 878 881) |

17. Financial assets available for sale

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

18. Investments in associates

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

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

19. Deposits from banks

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

20. Deposits from customers

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

21. Subordinated liabilities

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

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

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

22. Debt securities in issue

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

| lebt securities in issue | Nominal value | Currency | Redemption date | 31.12.2016 |
|--|---------------|----------|-----------------|------------|
| Series C bank securities | 100 000 | PLN | 17.02.2017 | |
| Series D | 185 000 | PLN | 26.02.2017 | |
| Series B | 475 000 | PLN | 17.07.2017 | |
| SCB00006 | 100 000 | PLN | 07.08.2017 | |
| SCB00008 | 110 000 | PLN | 30.08.2017 | |
| SCB00010 | 20 000 | PLN | 30.08.2017 | |
| SCB00012 | 215 000 | PLN | 04.10.2017 | |
| SCB00019 | 220 000 | PLN | 30.10.2017 | |
| SCB00022 | 100 000 | PLN | 16.02.2018 | |
| SCB00031 | 40 000 | PLN | 23.02.2018 | |
| SCB00017 | 50 000 | PLN | 18.06.2018 | |
| Series C | 485 000 | PLN | 25.06.2018 | |
| SCB00018 | 170 000 | PLN | 12.08.2019 | |
| SCB00032 | 20 000 | PLN | 26.08.2019 | |
| SCB00037 | 40 000 | PLN | 02.12.2019 | |
| SCB00033 | 50 000 | PLN | 26.02.2020 | |
| SCB00034 | 140 000 | PLN | 05.05.2020 | |
| SCB00035 | 82 000 | PLN | 29.05.2020 | |
| SCB00036 | 100 000 | PLN | 10.08.2020 | |
| Securitized bonds Float sale | 1 051 125 | PLN | 19.08.2025 | |
| Securitized bonds Float sale | 1 225 000 | PLN | 16.09.2026 | |
| Series E | 120 000 | EUR | 03.12.2026 | |
| Debt securities in issue - as at the end of the period | 120 000 | LON | 03.12.2020 | 5 5 |

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

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

23. Provisions

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

| Change in provisions 30.09.2017 | Provisions for legal claims | Provisions for off balance sheet credit facilities | Provisions for restructuring | Total |
|-----------------------------------|--------------------------------|--|------------------------------|-----------|
| As at the beginning of the period | 74 396 | 50 746 | 4 986 | 130 128 |
| Provision charge | 44 817 | 56 439 | 5 199 | 106 455 |
| Utilization | (11 773) | (247) | - | (12 020) |
| Write back | (3 668) | (57 343) | (2797) | (63 808) |
| Other changes | - | = | - | - |
| Balance at the end of the period | 103 772 | 49 595 | 7 388 | 160 755 |
| Short-term | 103 772 | 41 818 | 7 388 | 152 978 |
| Long-term | | 7 777 | | 7 777 |

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

24. Other liabilities

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

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

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

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

25. Fair value

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

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

| | 30.09.2 | 017 | 31.12.2016 | |
|--|-------------|-------------|-------------|-------------|
| ssets | Book Value | Fair Value | Book Value | Fair Value |
| Cash and balances with central banks | 5 117 186 | 5 117 186 | 4 775 660 | 4 775 660 |
| Loans and advances to banks | 2 179 043 | 2 179 043 | 3 513 278 | 3 513 278 |
| Financial assets held for trading | 2 359 802 | 2 359 802 | 3 180 985 | 3 180 985 |
| Hedging derivatives | 115 143 | 115 143 | 67 645 | 67 645 |
| Loans and advances to customers | 106 475 429 | 107 027 863 | 103 068 538 | 102 882 533 |
| Financial assets available for sale | 27 586 847 | 27 586 847 | 29 307 878 | 29 307 878 |
| Investments in associates | 868 482 | 868 482 | 871 491 | 871 491 |
| Liabilities | | | | |
| Deposits from banks | 2 730 481 | 2 730 481 | 2 561 281 | 2 561 281 |
| Hedging derivatives | 992 306 | 992 306 | 2 023 344 | 2 023 344 |
| Financial liabilities held for trading | 1 487 405 | 1 487 405 | 1 809 060 | 1 809 060 |
| Subordinated liabilities | 951 054 | 954 754 | 440 457 | 564 402 |
| Deposits from customers | 111 022 779 | 111 036 465 | 112 522 457 | 112 548 047 |

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

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

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

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

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



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

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

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

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

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

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

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

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

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

Valuation of major capital investments classified to Level III:

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

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

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

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

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

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

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

| Level III | Fin | Financial liabilities | | |
|--------------------------------|--------------------------------------|---|---|---|
| 30.09.2017 | Financial assets held for trading | Financial assets available for sale - debt securities | Financial assets available for sale - equity securities | Financial liabilities held for trading |
| Beginning of the period | 251 | 38 240 | 849 578 | - |
| Profits or losses | (18) | - ' | 42 094 | - |
| recognised in income statement | (18) | - | - '' | - |
| recognised in equity | | = | 42 094 | - |
| Purchase | 882 | - | 936 | - |
| Sale | (747) | (3774) | - ' | - |
| Other | - | - | - '' | - |
| At the period end | 368 | 34 466 | 892 608 | - |

| Level III | Financial assets | | | |
|--------------------------------|--------------------------------------|---|---|---|
| 31.12.2016 | Financial assets held for trading | Financial assets available for sale - debt securities | Financial assets available for sale - equity securities | Financial liabilities held for trading |
| Beginning of the period | 1 839 | | 1 115 212 | - |
| Profits or losses | 81 | - | 3 920 | _ |
| recognised in income statement | 81 | - | 63 651 | - |
| recognised in equity | - | - | (59 731) | - |
| Purchase | 340 | - | 9 900 | - |
| Sale | (2009) | - | (279 454) | _ |
| Other | - | 38 240 | - | - |
| At the period end | 251 | 38 240 | 849 578 | - |

26. Contingent liabilities

Significant court proceedings

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

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



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

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

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

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

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

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

As at 31.12.2016 the amount of significant court proceedings which had been completed amounted to PLN 451.697 k.

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

Off-balance sheet liabilities

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

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

27. Shareholders with min. 5% voting power

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

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

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

28. Related parties

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

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

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

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

29. Acquisitions and disposals of investments in subsidiaries and associates

Acquisitions and disposals of investments in subsidiaries and associates in 1-30 2017

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

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

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

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

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

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

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

Description of the transaction

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

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

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

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

Cancellation of shares in PSA Finance Polska

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

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

Assets and liabilities recognised at the merger date

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

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



| | PSA Finance Pols as at 30.09.2017 | ka PSA Consumer Finance Polska |
|---------------------------------------|--------------------------------------|-----------------------------------|
| ASSETS | | |
| Cash and balances with central bank | | 1 5 |
| Loans and advances to banks | 31 | 33 |
| Loans and advances to customers | 735 48 | 32 141 |
| Intangible assets | (| 3 |
| Property, plant and equipment | 2 02 | - |
| Net deferred tax assets | 35 38 | 36 1 |
| Other assets | 11 82 | 28 13 |
| Total assets | 785 10 | 196 |
| LIABILITIES | | |
| Deposits from banks | (476 86 | - |
| Deposits from customers | (96.73 | |
| Current income tax liabilities | (6 00 | - (00) |
| Other liabilities | (87 94 | - |
| Total liabilities | (667 60 | - |
| Fair value of identifiable net assets | 117 50 | 196 |

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

Non-controlling interests

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

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

Goodwill calculation

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

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

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

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

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



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

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

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

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

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

In the reporting period no such changes were made.

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

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

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

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

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

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

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

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

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

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

40. Dividend per share

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

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

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



42. Macroeconomic Situation in Q3 2017

Economic Growth

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

Labour Market

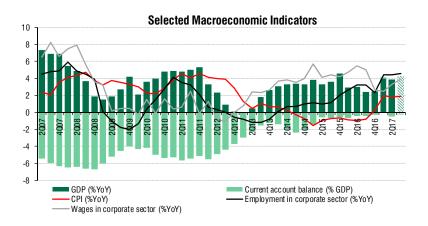
Labour market remained strong in Q3 2017. Average employment in the corporate sector increased by approx. 4.5% YoY in this period. The unemployment rate continued to fall reaching its lowest levels since the 1990s, both as regards registered unemployment (7.0% in August) and Labour Force Survey (LFS)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

Inflation

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

Monetary Policy

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



Credit and Deposit Markets

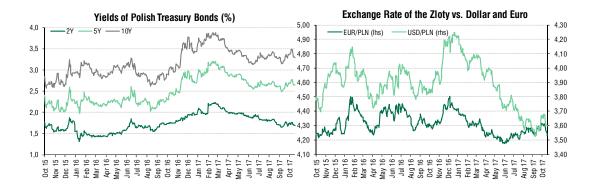
Rather slow growth of deposits observed in Q2 continued into Q3, but downward tendencies did not strengthen with household and business deposits rising by 5.0% YoY. Demand deposits grew by 12.9% YoY, while term deposits shrank by 5.0% YoY. Record-low interest rates continue to discourage deposit holders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

Financial Market Situation

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

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

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





43. Activities of Bank Zachodni WBK Group in Q3 2017

Retail Banking Division

Personal accounts and bundled products

New Account As I Want It

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

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

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

Payrolls offer bundled with the Account As I Want It

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

Sales of the Account As I Want It

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

Personal account portfolio of Bank Zachodni WBK

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

Payment cards

Initiatives to promote and grow credit card sales and transaction volumes

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

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



Improvement of credit card services

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

Credit and debit card portfolio

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

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

Mortgage loans

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

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

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

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

Retail loans

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

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

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

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

Savings and investment products

Deposits

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

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



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

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

Structured deposits

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

Mutual Funds

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

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

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

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

Insurance

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

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

Small and Medium Enterprise Banking Division

Customer Segmentation

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



Initiatives to improve service quality

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

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

Multidimensional customer relationship

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

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

Poland's best SME bank

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

Business development

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

Fixed asset financing

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

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



Business and Corporate Banking Division

Business and Corporate Banking Transformation Programme

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

Development of products and services

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

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

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

Business development

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

Global Corporate Banking Division

Growth of customer base

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

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

Main directions

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

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

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

Performance of selected areas

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

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

Business development

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

The largest deals made in Q3 2017 include:

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

Factoring business

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

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



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

Transformation of distribution model

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

Other strategic projects

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

Selected digitalisation projects

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

Santander Consumer Bank Group

Development directions

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



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

Core business portfolios

Loans to customers

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

Deposits from customers

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

Distribution network of Bank Zachodni WBK Group

BZ WBK mobile and internet banking

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

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

BZ WBK Multichannel Communication Centre

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

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

Increased activity in remote channels

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

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

Integration of BZ WBK distribution channels

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



Development of SCB distribution channels

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

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

| Basic Distribution Channels of BZ WBK | | | | |
|--|----------------------|------------|--|--|
| Bank Zachodni WBK | 30.09.2017 | 30.09.2016 | | |
| Branches (location) | 592 | 658 | | |
| Partner Outlets | 109 | 110 | | |
| Business and Corporate Banking Centres | 12 | 12 | | |
| ATMs | 948 | 1 100 | | |
| CDMs | 13 | 87 | | |
| Dual Function Machines | 765 | 548 | | |
| BZWBK24 - registered users (in thousand) 1) | 3 314 | 3 180 | | |
| iBiznes24 - companies (in thousand) ²⁾ | 15 | 15 | | |
| Basic Distribution (| Channels of SCB S.A. | | | |
| Santander Consumer Bank | 30.09.2017 | 30.09.2016 | | |
| Branches | 160 | 163 | | |
| Partner Outlets | 153 | 144 | | |
| Registered Electronic Banking Users (in thousand) 3) | 61 | - | | |

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

Other information

Share capital increase

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

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

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

Funding provided by international financial institutions

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

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

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

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

Own issues of securities

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

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

Redemption of securities

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

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

Euromoney Awards for Excellence

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

Fitch ratings for Bank Zachodni WBK affirmed

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

- Long-term IDR: BBB+, Outlook Stable
- Short-term IDR: F2Viability Rating: bbb+
- Support Rating: 2
- National Long-term rating: AA (pol), Outlook Stable
- Senior unsecured debt: AA(pol).

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

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

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

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

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

In relation to the launch of the 6th Incentive Programme for the years 2017-2019, approved by the Annual General Meeting of Shareholders held on 17 May 2017, the Management Board members – as obligatory participants – were awarded conditional rights to buy 34,670 performance shares out of the maximum number of 250k shares.

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

Performance of Bank Zachodni WBK Group in Q1-3 2017

| | Key financial and business highlights of Bank Zachodni WBK Group for the three quarters of 2017 |
|--------------------------------|--|
| Total income | The total income generated by Bank Zachodni WBK Group for the three quarters of 2017 was PLN 5,753.3m and remained stable YoY. Excluding the remuneration arising last year from the settlement of the acquisition of Visa Europe Int. by Visa Inc., the underlying total income increased by 6.0% YoY. |
| Total costs | Total costs declined by 1% YoY to PLN 2,502.2m, including a YoY decrease of 6.2% in general and administrative expenses. |
| Profit | Profit before tax amounted to PLN 2,495.3m, up 3.5% YoY. Adjusting income as above, the underlying profit before tax increased by 19.1% YoY. Profit attributable to the shareholders of Bank Zachodni WBK was PLN 1,664.1m and 2.5% lower YoY (14.8% YoY higher on a comparable basis). |
| Capital ratio | • Capital ratio stood at 16.90% (15.05% as at 31 December 2016 and 15.30% as at 30 September 2016), ensuring security of operations and a stable growth. |
| ROE | • Return on Equity (ROE) was 11.7% (12.8% as at 31 December 2016 and 11.6% as at 30 September 2016). |
| Costs/Income | Cost to income ratio (C/I) was 43.5% (46.5% for the three quarters of 2016). |
| Net impairment losses | Net impairment losses on loans and advances amounted to PLN 477.5m compared with PLN 565.3m for the three quarters of 2016. |
| Credit quality | • NPL ratio was 6.0% (6.6% as at 31 December 2016 and 6.8% as at 30 September 2016), while the ratio of impairment losses to the average gross credit volumes was 0.64% (0.75% as at 31 December 2016 and 0.80% as at 30 September 2016). |
| Loans to customers | • Gross loans to customers increased by 4.5% YoY to PLN 111,376.5m due to the growth of 4.5% YoY in personal loans and 1,9% YoY in loans to enterprises and the public sector to PLN 57,516.9m and PLN 46,968.0m, respectively. |
| Deposits from customers | Deposits from customers increased by 4.1% YoY to PLN 111,022.8m due to the expansion of 5.1% YoY in personal deposits to PLN 64,467.6m and the growth of 2.8% YoY in deposits from enterprises and the public sector to PLN 46,555.1m. |
| Loans/Deposits | • Net customer loans to deposits ratio was 95.9% as at 30 September 2017 compared with 91.6% as at 31 December 2016 and 94.8% as at 30 September 2016. |
| Net assets under management | Net value of assets in mutual funds and portfolios managed by BZ WBK TFI totalled PLN 16.0bn, up 16% YoY and 16.2% Ytd. |
| Electronic banking | The number of customers using BZWBK24 electronic banking services totalled 3.3m (+4.2% YoY), including over 1m customers with access to mobile services (+25.4% YoY). The BZ WBK Group payment card base (excluding pre-paid cards) included 3.5m debit cards (+4.5% YoY) and nearly 1.3m credit cards of BZ WBK and SCB (+4.7% YoY). |
| Customer base | The total customer base was more than 6.4m customers, including 4.4m BZ WBK customers. |

Impact of macroeconomic developments

| | Key macroeconomic factors impacting financial and business performance of the Group in the third quarter of 2017 |
|----------------------------|--|
| Economic growth | Acceleration of economic growth in Poland and abroad. |
| Labour market | Good situation in the labour market – increase in employment, declining unemployment and moderately fast wage growth, supporting private consumption. |
| Monetary policy | NBP official rates at the lowest level ever. |
| Credit & deposit market | Stabilization of credit growth in the banking sector. Decline of term deposits, fast growth of current deposits. |
| Financial markets | Changes of moods in international financial markets under influence of expectations for future policy of main central banks (Fed, ECB), incoming macroeconomic data, worries about geopolitical situation, including the Brexit negotiations and election results in Europe (e.g in Germany). Strengthening of the Polish zloty versus foreign currencies, changes of domestic bond yields. |

Income Statement of Bank Zachodni WBK Group

Structure of Bank Zachodni WBK Group profit before tax

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

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.

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

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

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

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

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

Comparability of periods

| Key income statement items | Comparability of periods in the income statement of BZ WBK Group for the three quarters of 2017 | | | | |
|---|---|--|--|--|--|
| | 9 months of 2017 | 9 months of 2016 | | | |
| Gains on available-for-sale equity instruments | PLN 12.6m, including PLN 10.8m on account of the sale of all shares of Polimex-Mostostal from the bank's portfolio of equity investments | PLN 317.8m, including remuneration of PLN 316.1m for BZ WBK and SCB in respect of the settlement of the acquisition of Visa Europe Ltd. by Visa Inc. on 21 June 2016 | | | |
| Tax on financial institutions introduced on 1 February 2016 | PLN 316.8m for nine months of 2017 | PLN 278.3m for eight months of 2016 | | | |
| Dividend income | PLN 76.6m, including a dividend of PLN 68.6m paid by Aviva Group companies from BZ WBK portfolio of equity investments | PLN 96.5m, including a dividend of PLN 88.6m paid by Aviva Group companies from BZ WBK portfolio of equity investments | | | |



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

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

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

- 1) As at 30 September 2017, SCB Group comprised Santander Consumer Bank and the following entities: Santander Consumer Multirent, Santander Consumer Finanse, SC Poland Consumer 15-1 and SC Poland Consumer Finance 16-1, PSA Finance Polska and PSA Consumer Finance Polska. AKB Marketing Services has been liquidated and is about to be removed from the court register. As at 30 September 2016, SCB Group did not include PSA companies, which have been controlled by SCB since Q4 2016. The amounts provided above represent profit before tax (after intercompany and consolidation adjustments) of SCB Group for the periods indicated.
- On 31 March 2016, BZ WBK TFI merged with BZ WBK AM by taking over its assets in return for merger shares issued to the co-owners, i.e. to Bank Zachodni WBK and Banco Santander.
- 3) On 28 February 2017, BZ WBK leasing companies merged. BZ WBK Leasing, an acquiring company, assumed all rights and obligations of BZ WBK Lease, an acquired company, which was removed from the court register.
- Other subsidiaries, i.e. BZ WBK Inwestycje, BZ WBK Nieruchomości and Gieldokracja in liquidation disclosed a total loss of PLN 0.5m for the nine months of 2017 and PLN 6.2m for the nine months of 2016.

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

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

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

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

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



Subsidiaries

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

SCB Group

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

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

Other subsidiaries

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

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

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

Structure of Bank Zachodni WBK Group profit before tax

Total income

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



Net interest income

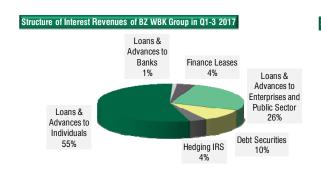
After the three quarters of 2017, net interest income amounted to PLN 3,897.4m and increased by 11.5% YoY.

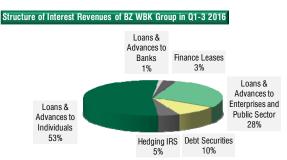


The Group reported increased interest income (up 8.4% YoY to PLN 4,844.6m) alongside a decline in interest expense (down 2.7% YoY to PLN 947.1m).

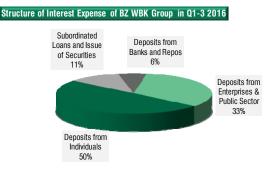
The growth rate of interest income was fueled by loans to retail customers, lease receivables and securities available for sale but slowed down by CIRS/IRS transactions hedging cash flows.

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



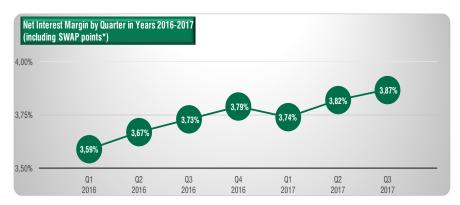






The cumulated net interest margin of Bank Zachodni WBK Group (annualised on a year-to-date basis) went up from 3.65% for the three quarters of 2016 to 3.81% for the three quarters of 2017. The margin growth was supported by a slight increase in average market interest rates in 2017. It was also aided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

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



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

Net fee and commission income

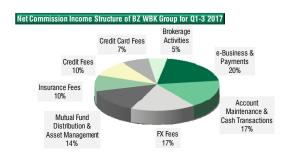
After the three quarters of 2017, net interest income amounted to PLN 1,497.7m and increased by 4.7% YoY.

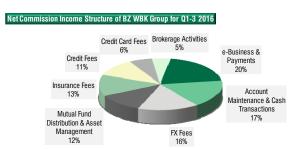
PLN m

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

- Fees for foreign and mass payments, Western Union transfers, trade finance, debit cards, services for third party institutions as well as other electronic and telecommunications services.
- 2) Fee income from account maintenance and cash transactions has been reduced by the corresponding expenses which in Note 5 of the "Condensed consolidated financial statements for the period of nine months ended 30 September 2017" are included in the line item "Other" (PLN 0.5m for the three quarters of 2017 vs. PLN 2.3m for the three quarters of 2016).
- 3) Fee and commission income from lending, factoring and leasing activities which is not amortised to interest income. This line item includes inter alia the cost of credit agency fees.
- Pursuant to the Act of 11 September 2015 on insurance and reinsurance activity (effective as of 1 April 2016) banks acting as insurance parties must not collect insurance fees in relation to group insurance plans (e.g. linked with payment cards).
- 5) Fees on guarantees, issue arrangement and other.







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

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

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

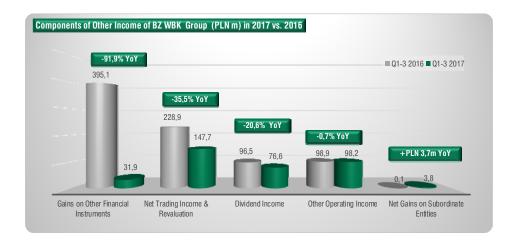
An improvement in FX fee income (+8.5% YoY) is attributed to higher turnover driven by the Group's comprehensive measures taken to support foreign trade and develop e-FX services in iBiznes24.

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

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

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

Other income of the Group



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

Net trading income and revaluation ("Net trading income")

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

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

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

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

Gains on other financial instruments

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

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

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

Gains on subordinate entities

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

Dividends

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



Other operating income

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

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

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

Impairment charges

PLN m

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

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

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

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

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

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

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

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

Total costs

PI N m

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

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

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

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

Staff expenses

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

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

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

General and administrative expenses

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

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

In the period until September 2017, the consolidated fees payable by BZ WBK Group to market regulators went down by 7,1% YoY to PLN 199.8m, as the Group was no longer required to make contributions to the Borrowers Support Fund in 2017. The YoY movement also reflects the revised method for collecting bank supervision fees by KNF. The contributions made by the Group to the bank guarantee fund and the bank resolution fund totalled PLN 190m for nine months of 2017 and were stable YoY.

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

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

Tax on financial institutions

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

Effective tax rate

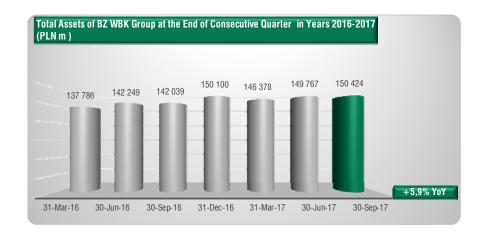
The effective tax rate for the three quarters of 2017 was 24.1% vs. 22.2% in the corresponding period of 2016 due to higher loss on credit debt sales and higher charge on account of banking tax – items which are not tax deductible.



Statement of Financial Position of Bank Zachodni WBK Group

Consolidated assets

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



Structure of consolidated assets condensed for analytical purposes

| Ρ | LN | lr | n |
|---|----|----|---|
| | | | |

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

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

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

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



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

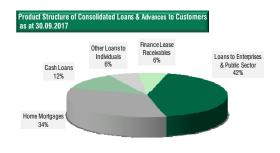
³⁾ Other assets include the following items of the full version of financial statements: receivables from repo transactions, investments in associates, net deferred tax assets, assets classified as held for sale and other assets.

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

Credit portfolio of Bank Zachodni WBK Group

PLN m

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

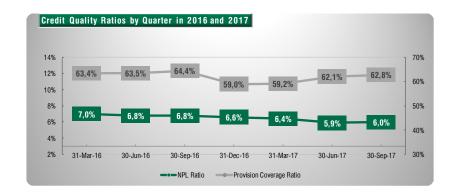




As at 30 September 2017, consolidated gross loans and advances to customers were PLN 111,376.5m, and higher by 3.2% Ytd. On a constant currency basis, the growth rate was 4.7%.

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

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



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

Structure of consolidated equity and liabilities condensed for analytical purposes

PI N m

| Liabilities & Equity of BZ WBK Group S.A. (condensed presentation for analytical purposes) | 30.09.2017 | Structure 30.09.2017 | 31.12.2016 | Structure 31.12.2016 | 30.09.2016 | Structure 30.09.2016 | Ytd Change | YoY Change |
|---|------------|-------------------------|------------|-------------------------|------------|-------------------------|------------|------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 1/3 | 1/5 |
| Deposits from customers 1) | 111 022,8 | 73,8% | 112 522,5 | 75,0% | 106 650,7 | 75,1% | -1,3% | 4,1% |
| Subordinated liabilities and debt securities in issue | 6 846,5 | 4,6% | 5 969,6 | 4,0% | 5 764,5 | 4,1% | 14,7% | 18,8% |
| Deposits from banks ¹⁾ | 2 730,5 | 1,8% | 2 561,3 | 1,7% | 1 574,1 | 1,1% | 6,6% | 73,5% |
| Financial liabilities held for trading and hedging derivatives | 2 479,7 | 1,6% | 3 832,4 | 2,5% | 4 041,1 | 2,8% | -35,3% | -38,6% |
| Sell-buy-back transactions | 1 861,6 | 1,2% | 1 632,6 | 1,1% | 1 238,3 | 0,9% | 14,0% | 50,3% |
| Other liabilities ²⁾ | 2 827,4 | 1,9% | 2 562,8 | 1,7% | 1 996,2 | 1,4% | 10,3% | 41,6% |
| Total equity | 22 655,9 | 15,1% | 21 018,5 | 14,0% | 20 774,0 | 14,6% | 7,8% | 9,1% |
| Total | 150 424,4 | 100,0% | 150 099,7 | 100,0% | 142 038,9 | 100,0% | 0,2% | 5,9% |

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

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

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

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

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

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

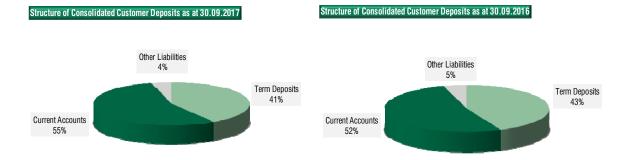
²⁾ Other liabilities include current income tax, provisions and other liabilities.

Deposit base of Bank Zachodni WBK Group

PLN m

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

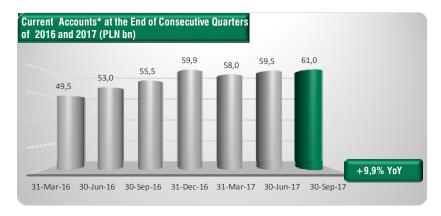
During the first nine months of 2017, consolidated deposits from customers decreased by 1.3% and amounted to PLN 111,022.8m as at 30 September 2017, including PLN 7,993.0m of SCB Group's potfolio after intercompany transactions (vs. PLN 8,224.7m as at the end of December 2016).



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

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





Including savings accounts

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

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

Selected ratios for Bank Zachodni WBK Group

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

- The calculations of the following ratios for 2016 use the Group's total income or profit (as the case may be) after adjustment for one-off gains on equity transactions: cost/income, net interest income/total income, net fee and commission income/total income and earnings per share.
- 2) Net interest income for four consecutive quarters (excluding interest income from the portfolio of trading securities) to average net interest-bearing assets as at the beginning and end of the reporting period (excluding the trading portfolio).
- Impairment losses (for four consecutive quarters) to average gross loans and advances to customers (as at the beginning and end of the reporting period).
- 4) Profit attributable to the parent's shareholders (for four consecutive quarters) to average equity (as at the beginning and end of the reporting period), net of non-controlling interests, current period profit and the undistributed portion of the profit.
- 5) Profit attributable to the parent's shareholders (for four consecutive quarters) to average tangible equity (as at the beginning and end of the reporting period) defined as common equity attributable to the parent's shareholders less revaluation reserve, current period profit, undistributed portion of the profit, intangible assets and goodwill.
- 6) Profit attributable to the parent's shareholders (for four consecutive quarters) to average total assets (as at the beginning and end of the reporting period).
- 7) The capital adequacy ratio was calculated on the basis of own funds and the total capital requirements established for the individual risk types by means of the standardised approach, in line with the CRD IV/CRR package.
- 8) Tier 1 ratio is Tier 1 capital expressed as a percentage of risk weighted assets for credit, market and operational risk.
- 9) Net profit for the period attributable to shareholders of BZ WBK divided by the number of ordinary shares.



Capital ratios

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

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

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

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

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

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

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

| Signatures of the persons representing the entity | | | | |
|---|--------------------------|------------------------------------|-----------|--|
| Date | Name | Function | Signature | |
| 24.10.2017 | Carlos Polaino Izquierdo | Member of the Management Board | | |
| 24.10.2017 | Wojciech Skalski | Financial Accounting Area Director | | |