REPORT OF BANK ZACHODNI WBK GROUP FOR QUARTER 3 2016

2016

Bank Zachodni WBK

Grupa Santander

	FINANCIAL HIGHLIGHTS	PLN k		EUR k	
	for reporting period ended:	30.09.2016	30.09.2015	30.09.2016	30.09.2015
	Consolidated financial statements of Bank Zachodni WBK Group				
I	Net interest income	3 495 572	3 172 870	800 122	762 984
II	Net fee and commission income	1 430 783	1 443 870	327 500	347 209
III	Operating profit	2 653 220	2 759 878	607 311	663 672
IV	Profit before tax	2 411 018	2 773 711	551 872	666 998
V	Net profit attributable to owners of BZ WBK S.A.	1 705 898	2 050 131	390 473	492 998
VI	Total net cash flow	(6 582 028)	(3 139 399)	(1 506 599)	(754 935)
VII	Total assets	142 038 919	135 062 349	32 940 380	31 864 849
VIII	Deposits from banks	1 574 087	1 970 432	365 048	464 878
IX	Deposits from customers	106 650 707	95 206 378	24 733 466	22 461 751
X	Total liabilities	121 264 952	115 148 461	28 122 670	27 166 626
XI	Total equity	20 773 967	19 913 888	4 817 710	4 698 223
XII	Non-controlling interests in equity	1 115 963	1 141 642	258 804	269 344
XIII	Profit of the period attributable to non-controlling interests	168 934	179 463	38 668	43 156
XIV	Number of shares	99 234 534	99 234 534		
XV	Net book value per share in PLN/EUR	209,34	200,67	48,55	47,34
XVI	Capital ratio	15,30%	13,93%		
XVII	Profit per share in PLN/EUR	17,19	20,66	3,93	4,97
XVIII	Diluted earnings per share in PLN/EUR	17,17	20,63	3,93	4,96
XIX	Declared or paid dividend per share in PLN/EUR*	13,00	-	3,01	-
	Stand alone financial statements of Bank Zachodni WBK S.A.				
I	Net interest income	2 556 537	2 308 183	585 181	555 052
II	Net fee and commission income	1 194 152	1 192 010	273 336	286 644
III	Operating profit	2 384 555	1 891 565	545 815	454 867
IV	Profit before tax	2 128 064	1 891 565	487 105	454 867
V	Profit for the period	1 719 204	1 545 779	393 519	371 716
VI	Total net cash flow	(5 257 791)	(2 703 847)	(1203 486)	(650 198)
VII	Total assets	126 075 756	121 313 572	29 238 348	28 621 142
VIII	Deposits from banks	1 141 997	1 224 436	264 842	288 877
IX	Deposits from customers	97 877 385	88 649 784	22 698 837	20 914 874
X	Total liabilities	107 076 138	103 146 271	24 832 128	24 334 986
XI	Total equity	18 999 618	18 167 301	4 406 219	4 286 156
XII	Number of shares	99 234 534	99 234 534		
XIII	Net book value per share in PLN/EUR	191,46	183,07	44,40	43,19
XIV	Capital ratio	16,79%	14,85%		
XV	Profit per share in PLN/EUR	17,32	15,58	3,96	3,75
XVI	Diluted earnings per share in PLN/EUR	17,30	15,56	3,96	3,74
XVII	Declared or paid dividend per share in PLN/EUR*	13,00	-	3,01	-

	FINANCIAL HIGHLIGHTS for the period ended 31.12.2015	Consolidated statement of financial position		Statement of financial position	
		PLN k	EUR k	PLN k	EUR k
I	Total assets	139 708 700	32 783 926	125 477 589	29 444 465
II	Deposits from banks	1 066 763	250 326	548 558	128 724
III	Deposits from customers	101 245 186	23 758 110	94 021 282	22 062 955
IV	Total liabilities	119 140 570	27 957 426	106 768 460	25 054 197
V	Total equity	20 568 130	4 826 500	18 709 129	4 390 268
VI	Non-controlling interests in equity	1 176 101	275 983	-	-

* Detailed information are described in Note 45.

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

- for balance sheet items – 4.3120 PLN rate to EUR as at 30.09.2016 stated by National Bank of Poland (NBP), 4.2615 PLN rate to EUR as at 31.12.2015; 4.2386 PLN rate to EUR as at 30.09.2015
- for profit and loss items – as at 30.09.2016: 4.3688 (an average PLN mid-rate to EUR in NBP on the last day of each month in 2016), as at 30.09.2015: 4.1585 (an average PLN mid-rate to EUR in NBP on the last day of each month in 2015)

As at 30.09.2016, FX denominated balance sheet positions were converted into PLN in line with the NBP FX table no. 190/A/NBP/2016 dd. 30.09.2016.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF BANK ZACHODNI WBK GROUP FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2016

2016

Bank Zachodni WBK

Grupa Santander

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Consolidated income statement

for reporting period:		01.07.2016 30.09.2016	01.01.2016 30.09.2016	01.07.2015 30.09.2015	01.01.2015 30.09.2015
Interest income		1 527 630	4 468 633	1 412 765	4 250 212
Interest expense		(309 250)	(973 061)	(322 606)	(1 077 342)
Net interest income	Note 6	**1 218 380**	**3 495 572**	**1 090 159**	**3 172 870**
Fee and commission income		613 910	1 767 109	588 070	1 739 382
Fee and commission expense		(126 687)	(336 326)	(105 374)	(295 512)
Net fee and commission income	Note 7	**487 223**	**1 430 783**	**482 696**	**1 443 870**
Dividend income		1 730	96 524	832	90 739
Net gains/(losses) on subordinated entities	Note 39	-	100	-	522 995
Net trading income and revaluation	Note 8	56 023	228 882	38 972	167 581
Gains (losses) from other financial securities	Note 9	7 449	395 113	36 015	264 247
Other operating income	Note 10	32 181	98 908	27 519	135 137
Impairment losses on loans and advances	Note 11	(254 119)	(565 252)	(201 101)	(554 287)
Operating expenses incl.:		(822 124)	(2 527 410)	(813 740)	(2 483 274)
Bank's staff, operating expenses and management costs	*Notes 12, 13*	*(742 316)*	*(2 215 028)*	*(737 715)*	*(2 226 633)*
Depreciation/amortisation		*(68 350)*	*(202 510)*	*(61 651)*	*(190 412)*
Other operating expenses	*Note 14*	*(11 458)*	*(109 872)*	*(14 374)*	*(66 229)*
Operating profit		**726 743**	**2 653 220**	**661 352**	**2 759 878**
Share in net profits (loss) of entities accounted for by the equity method		15 443	36 139	8 471	13 833
Tax on financial institutions		(105 097)	(278 341)	-	-
Profit before tax		**637 089**	**2 411 018**	**669 823**	**2 773 711**
Corporate income tax	Note 15	(156 985)	(536 186)	(140 594)	(544 117)
Consolidated profit for the period		**480 104**	**1 874 832**	**529 229**	**2 229 594**
of which:				-	-
attributable to owners of BZ WBK S.A.		*425 933*	*1 705 898*	*472 721*	*2 050 131*
attributable to non-controlling interests		*54 171*	*168 934*	*56 508*	*179 463*
Net earnings per share (PLN/share)					
Basic earnings per share		4,29	17,19	4,76	20,66
Diluted earnings per share		4,29	17,17	4,76	20,63

Consolidated statement of comprehensive income

for reporting period:	01.07.2016 30.09.2016	01.01.2016 30.09.2016	01.07.2015 30.09.2015	01.01.2015 30.09.2015
Consolidated profit for the period	**480 104**	**1 874 832**	**529 229**	**2 229 594**
Other comprehensive income which can be transferred to the profit and loss account:	**10 406**	**(165 467)**	**(111 798)**	**(514 080)**
Available-for sale financial assets valuation	(20 990)	(331 600)	80 483	(374 016)
including deferred tax	*3 988*	*63 004*	*(15 292)*	*71 063*
Cash flow hedges valuation	33 837	127 320	(218 506)	(260 651)
including deferred tax	*(6 429)*	*(24 191)*	*41 517*	*49 524*
Other comprehensive income which can't be transferred to the profit and loss account:	*431*	*431*	-	-
Provision for retirement allowances – actuarial gains/losses	*532*	*532*	-	-
including deferred tax	*(101)*	*(101)*	-	-
Other comprehensive income for the period, net of income tax	**10 837**	**(165 036)**	**(111 798)**	**(514 080)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**490 941**	**1 709 796**	**417 431**	**1 715 514**
Attributable to:				
owners of BZ WBK S.A.	*436 577*	*1 543 909*	*363 745*	*1 537 224*
non-controlling interests	*54 364*	*165 887*	*53 686*	*178 290*

Notes presented on pages 15 – 55 constitute an integral part of these Financial Statements.

In thousands of PLN

Consolidated statement of financial position

as at:		30.09.2016	31.12.2015	30.09.2015
Assets				
Cash and balances with central banks	Note 14	3 259 318	6 229 853	3 480 147
Loans and advances to banks	Note 15	2 836 355	3 580 957	3 094 696
Financial assets held for trading	Note 16	3 254 695	4 165 511	4 621 166
Hedging derivatives		121 004	164 777	153 198
Loans and advances to customers	Note 17	101 154 367	94 913 884	91 902 093
Buy-sell-back transactions	Note 18	-	289 260	305 330
Financial assets available for sale	Note 19	25 479 557	24 622 078	25 827 142
Investments in associates	Note 20	856 454	831 142	817 264
Intangible assets		433 359	465 687	409 115
Goodwill		1 688 516	1 688 516	1 688 516
Property, plant and equipment		813 694	830 493	732 416
Net deferred tax assets	Note 21	1 412 828	1 251 808	1 332 314
Assets classified as held for sale	Note 22	782	1 569	983
Other assets	Note 23	727 990	673 165	697 969
Total assets		**142 038 919**	**139 708 700**	**135 062 349**
Liabilities				
Deposits from banks	Note 24	1 574 087	1 066 763	1 970 432
Hedging derivatives		1 893 371	2 079 805	2 208 813
Financial liabilities held for trading	Note 16	2 147 713	2 535 684	2 194 603
Deposits from customers	Note 25	106 650 707	101 245 186	95 206 378
Sell-buy-back transactions	Note 26	1 238 351	5 258 031	6 411 343
Subordinated liabilities	Note 27	529 976	526 634	524 885
Debt securities in issue	Note 28	5 234 569	4 320 891	4 388 201
Current income tax liabilities		83 485	228 488	250 827
Other liabilities	Note 29	1 912 693	1 879 088	1 992 979
Total liabilities		**121 264 952**	**119 140 570**	**115 148 461**
Equity				
Equity attributable to owners of BZ WBK S.A.		**19 658 004**	**19 392 029**	**18 772 246**
Share capital		992 345	992 345	992 345
Other reserve funds		15 788 383	14 685 919	14 681 553
Revaluation reserve		614 864	776 914	438 639
Retained earnings		556 514	609 578	609 578
Profit of the current period		1 705 898	2 327 273	2 050 131
Non-controlling interests in equity		**1 115 963**	**1 176 101**	**1 141 642**
Total equity		**20 773 967**	**20 568 130**	**19 913 888**
Total equity and liabilities		**142 038 919**	**139 708 700**	**135 062 349**

Notes presented on pages 15 – 55 constitute an integral part of these Financial Statements.

In thousands of PLN

Consolidated statement of changes in equity

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

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

Consolidated statement of changes in equity	Equity attributable to equity holders of BZ WBK SA					Non-controlling interests in equity	Total equity
	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Total		
Opening balance as at 31.12.2014	**992 345**	**12 309 424**	**951 546**	**2 277 580**	**16 530 895**	**1 520 799**	**18 051 694**
Total comprehensive income	-	-	(174 632)	2 327 273	2 152 641	212 749	2 365 390
Consolidated profit for the period	-	-	-	*2 327 273*	*2 327 273*	*207 278*	*2 534 551*
Other comprehensive income	-	-	*(174 632)*	-	*(174 632)*	*5 471*	*(169 161)*
Equity adjustment due to loss of control over BZ WBK-Aviva insurance companies	-	1 032 206	-	(342 467)	689 739	(540 854)	148 885
Distributions of profits and losses	-	1 329 746	-	(1 329 746)	-	-	-
Share scheme charge	-	18 754	-	-	18 754	-	18 754
Dividends	-	-	-	-	-	(16 593)	(16 593)
Other	-	(4 211)	-	4 211	-	-	-
As at 31.12.2015	**992 345**	**14 685 919**	**776 914**	**2 936 851**	**19 392 029**	**1 176 101**	**20 568 130**

As at the end of the period revaluation reserve in the amount of PLN 776,914 k comprises of debt securities and equity shares classified as available for sale of PLN 183,416 k and PLN 786,398 k respectively and additionally cash flow hedge activities of PLN (195,500) k and accumulated actuarial gains -provision for retirement allowances of PLN 2,600 k.

Notes presented on pages 15 – 55 constitute an integral part of these Financial Statements.

In thousands of PLN

Consolidated statement of changes in equity	Equity attributable to equity holders of BZ WBK SA						
	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Total	Non-controlling interests in equity	Total equity
Opening balance as at 31.12.2014	**992 345**	**12 309 424**	**951 546**	**2 277 580**	**16 530 895**	**1 520 799**	**18 051 694**
Total comprehensive income	-	-	(512 907)	2 050 131	1 537 224	178 290	1 715 514
Consolidated profit for the period	-	-	-	*2 050 131*	*2 050 131*	*179 463*	*2 229 594*
Other comprehensive income	-	-	*(512 907)*	-	*(512 907)*	*(1 173)*	*(514 080)*
Equity adjustment due to loss of control over BZ WBK-Aviva insurance companies	-	1 032 206	-	(342 467)	689 739	(540 854)	148 885
Distributions of profits and losses	-	1 329 746	-	(1 329 746)	-	-	-
Share scheme charge	-	14 388	-	-	14 388	-	14 388
Dividends	-	-	-	-		(16 593)	(16 593)
Other	-	(4 211)	-	4 211	-	-	-
As at 30.09.2015	**992 345**	**14 681 553**	**438 639**	**2 659 709**	**18 772 246**	**1 141 642**	**19 913 888**

As at the end of the period revaluation reserve in the amount of PLN 438,639 k comprises of debt securities and equity shares classified as available for sale of PLN 188,942 k and PLN 574,481 k respectively and additionally cash flow hedge activities of PLN (319,329) k and accumulated actuarial losses -provision for retirement allowances of PLN (5,455) k.

Notes presented on pages 15 – 55 constitute an integral part of these Financial Statements.

In thousands of PLN

Consolidated statement of cash flows

for the period	01.01.2016-30.09.2016	01.01.2015-30.09.2015
Profit before tax	**2 411 018**	**2 773 711**
Total adjustments:		
Share in net profits (losses) of entities accounted for by the equity method	(36 139)	(13 833)
Depreciation/amortisation	202 510	190 412
Impairment losses	7 533	1 733
(Profit) loss from investing activities	(403 681)	(812 246)
	2 181 241	**2 139 777**
Changes:		
Provisions	(52 124)	(1 103 794)
Trading portfolio financial instruments	522 845	30 498
Hedging derivatives	(142 661)	1 036 280
Loans and advances to banks	4 652	(266 281)
Loans and advances to customers	(6 240 483)	(6 081 522)
Deposits from banks	(158 442)	614 493
Deposits from customers	4 454 014	882 141
Buy-sell/ Sell-buy-back transactions	(4 002 720)	(805 058)
Other assets and liabilities	117 413	965 599
	(5 497 506)	**(4 727 644)**
Interest accrued excluded from operating activities	(298 413)	(326 382)
Dividend	(96 040)	(89 399)
Paid income tax	(803 497)	(947 467)
Net cash flow from operating activities	**(4 514 215)**	**(3 951 115)**
Inflows	**4 803 600**	**5 688 834**
Sale of subordinated entities	100	244 316
Sale/maturity of financial assets available for sale	4 330 571	4 910 848
Sale of intangible assets and property, plant and equipment	15 869	41 805
Dividend received	94 854	95 095
Interest received	362 206	396 770
Outflows	**(7 758 111)**	**(4 557 347)**
Purchase of financial assets available for sale	(7 609 519)	(4 433 537)
Purchase of intangible assets and property, plant and equipment	(148 592)	(123 810)
Net cash flow from investing activities	**(2 954 511)**	**1 131 487**
Inflows	**4 340 428**	**2 135 694**
Debt securities in issue	1 967 000	1 951 125
Drawing of loans	2 373 428	184 569
Outflows	**(3 453 730)**	**(2 455 465)**
Debt securities buy out	(1 054 700)	(522 200)
Repayment of loans	(757 327)	(1 781 863)
Dividends and other payments to shareholders	(1 516 074)	(16 593)
Interest paid	(125 629)	(134 809)
Net cash flow from financing activities	**886 698**	**(319 771)**
Total net cash flow	**(6 582 028)**	**(3 139 399)**
Cash at the beginning of the accounting period	**12 677 692**	**13 530 975**
Cash at the end of the accounting period	**6 095 664**	**10 391 576**

Notes presented on pages 15 – 55 constitute an integral part of these Financial Statements.

In thousands of PLN

Income statement of Bank Zachodni WBK

for reporting period:	01.07.2016-30.09.2016	01.01.2016-30.09.2016	01.07.2015-30.09.2015	01.01.2015-30.09.2015
Interest income	1 128 275	3 311 048	1 049 267	3 167 002
Interest expense	(233 361)	(754 511)	(253 486)	(858 819)
Net interest income	**894 914**	**2 556 537**	**795 781**	**2 308 183**
Fee and commission income	495 715	1 409 049	468 320	1 388 988
Fee and commission expense	(73 238)	(214 897)	(72 295)	(196 978)
Net fee and commission income	**422 477**	**1 194 152**	**396 025**	**1 192 010**
Dividend income	677	439 241	5 975	141 826
Net gains/(losses) on subordinated entities	-	-	-	234 391
Net trading income and revaluation	53 620	215 254	39 097	140 215
Gains (losses) from other financial securities	7 655	391 625	32 752	260 614
Other operating income	28 342	86 550	23 822	97 652
Impairment losses on loans and advances	(177 292)	(441 251)	(160 777)	(483 159)
Operating expenses incl.:	(673 506)	(2 057 553)	(657 719)	(2 000 167)
Bank's staff, operating expenses and management costs	*(603 926)*	*(1 794 778)*	*(594 818)*	*(1 800 204)*
Depreciation/amortisation	*(58 770)*	*(171 877)*	*(50 779)*	*(150 659)*
Other operating expenses	*(10 810)*	*(90 898)*	*(12 122)*	*(49 304)*
Operating profit	**556 887**	**2 384 555**	**474 956**	**1 891 565**
Tax on financial institutions	(96 902)	(256 491)	-	-
Profit before tax	**459 985**	**2 128 064**	**474 956**	**1 891 565**
Corporate income tax	(117 808)	(408 860)	(99 696)	(345 786)
Profit for the period	**342 177**	**1 719 204**	**375 260**	**1 545 779**
Net earnings per share (PLN/share)				
Basic earnings per share	3,45	17,32	3,78	15,58
Diluted earnings per share	3,44	17,30	3,78	15,56

Statement of comprehensive income of Bank Zachodni WBK

for reporting period:	01.07.2016-30.09.2016	01.01.2016-30.09.2016	01.07.2015-30.09.2015	01.01.2015-30.09.2015
Profit for the period	**342 177**	**1 719 204**	**375 260**	**1 545 779**
Other comprehensive income which can be transferred to the profit and loss account:	**10 968**	**(150 781)**	**(102 194)**	**(504 879)**
Available-for sale financial assets valuation	(19 534)	(313 790)	87 944	(364 774)
including deferred tax	3 711	59 620	(16 709)	69 307
Cash flow hedges valuation	33 075	127 641	(214 109)	(258 533)
including deferred tax	(6 284)	(24 252)	40 680	49 121
Other comprehensive income for the period, net of income tax	**10 968**	**(150 781)**	**(102 194)**	**(504 879)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**353 145**	**1 568 423**	**273 066**	**1 040 900**

Notes presented on pages 15 – 55 constitute an integral part of these Financial Statements.

In thousands of PLN

Statement of financial position of Bank Zachodni WBK

	30.09.2016	31.12.2015	30.09.2015
Assets			
Cash and balances with central banks	3 226 167	6 129 543	3 420 067
Loans and advances to banks	3 246 339	4 484 202	4 197 959
Financial assets held for trading	3 263 854	4 174 634	4 629 485
Hedging derivatives	112 431	162 823	153 199
Loans and advances to customers	87 119 352	81 125 350	78 770 617
Buy-sell-back transactions	-	289 260	305 330
Financial assets available for sale	22 497 803	22 576 246	23 300 579
Investments in subsidiaries and associates	2 377 325	2 377 325	2 377 325
Intangible assets	413 410	443 603	375 405
Goodwill	1 688 516	1 688 516	1 688 516
Property, plant and equipment	723 903	742 245	656 234
Net deferred tax assets	906 903	842 763	945 848
Assets classified as held for sale	637	637	637
Other assets	499 116	440 442	492 371
Total assets	**126 075 756**	**125 477 589**	**121 313 572**
Liabilities			
Deposits from banks	1 141 997	548 558	1 224 436
Hedging derivatives	1 859 188	2 024 012	2 125 234
Financial liabilities held for trading	2 147 839	2 535 708	2 194 749
Deposits from customers	97 877 385	94 021 282	88 649 784
Sell-buy-back transactions	457 919	4 007 525	5 106 650
Subordinated liabilities	429 215	426 507	424 124
Debt securities in issue	1 754 030	1 698 619	1 701 320
Current income tax liabilities	22 705	165 537	192 340
Other liabilities	1 385 860	1 340 712	1 527 634
Total liabilities	**107 076 138**	**106 768 460**	**103 146 271**
Equity			
Share capital	992 345	992 345	992 345
Other reserve funds	15 128 895	14 238 675	14 234 309
Revaluation reserve	618 466	769 247	442 216
Retained earnings	540 708	952 652	952 652
Profit of the current period	1 719 204	1 756 210	1 545 779
Total equity	**18 999 618**	**18 709 129**	**18 167 301**
Total equity and liabilities	**126 075 756**	**125 477 589**	**121 313 572**

Notes presented on pages 15 – 55 constitute an integral part of these Financial Statements.

In thousands of PLN

Statement of changes in equity of Bank Zachodni WBK

Statement of changes in equity	Share capital	Other reserve funds	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**
Other 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.

Statement of changes in equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Total
Opening balance as at 31.12.2014	**992 345**	**13 177 940**	**947 095**	**1 994 632**	**17 112 012**
Other comprehensive income	-	-	(177 848)	1 756 210	1 570 320
Profit for the period				1 756 210	1 756 210
Other comprehensive income			(177 848)	-	(177 848)
Distribution of profits and losses	-	1 041 980	-	(1 041 980)	-
Share scheme charge	-	18 755	-	-	18 755
As at 31.12.2015	**992 345**	**14 238 675**	**769 247**	**2 708 862**	**18 709 129**

As at the end of the period revaluation reserve in the amount of PLN 769,247 k comprises of debt securities and equity shares classified as available for sale of PLN 181,310 k and PLN 781,761 k respectively and additionally cash flow hedge activities of PLN (196,442) k and accumulated actuarial gains - provision for retirement allowances of PLN 2,618 k.

Statement of changes in equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Total
Opening balance as at 31.12.2014	**992 345**	**13 177 940**	**947 095**	**1 994 632**	**17 112 012**
Other comprehensive income	-	-	(504 879)	1 545 779	1 040 900
Profit for the period				1 545 779	1 545 779
Other comprehensive income			(504 879)		(504 879)
Distribution of profits and losses	-	1 041 980	-	(1 041 980)	-
Share scheme charge	-	9 670	-	-	9 670
As at 30.09.2015	**992 345**	**14 229 590**	**442 216**	**2 498 431**	**18 162 582**

As at the end of the period revaluation reserve in the amount of PLN 442,216 k comprises of debt securities and equity shares classified as available for sale of PLN 188,794 k and PLN 575,292 k respectively and additionally cash flow hedge activities of PLN (316,445) k and accumulated actuarial losses - provision for retirement allowances of PLN (5,425) k.

Notes presented on pages 15 – 55 constitute an integral part of these Financial Statements.

In thousands of PLN

Statement of cash flows of Bank Zachodni WBK

for reporting period:	01.01.2016-30.09.2016	01.01.2015-30.09.2015
Profit before tax	**2 128 064**	**1 891 565**
Total adjustments:		
Depreciation/amortisation	171 877	150 659
(Profit) loss from investing activities	(393 436)	(519 731)
Impairment losses	447	322
	1 906 952	**1 522 815**
Changes in:		
Provisions	(55 501)	(33 552)
Trading portfolio financial instruments	522 911	4 612
Hedging derivatives	(114 432)	976 998
Loans and advances to banks	1 005 209	327 133
Loans and advances to customers	(5 994 002)	(4 124 737)
Deposits from banks	(55 670)	533 095
Deposits from customers	3 571 536	(868 404)
Buy-sell/ Sell-buy-back transactions	(3 532 646)	(728 958)
Other assets and liabilities	120 755	454 334
	(4 531 840)	**(3 459 479)**
Interest accrued excluded from operating activities	(356 973)	(362 947)
Dividend	(438 757)	(140 486)
Paid income tax	(580 464)	(662 221)
Net cash flow from operating activities	**(4 001 082)**	**(3 102 318)**
Inflows	**4 986 699**	**5 461 130**
Sale of investments in subsidiaries	-	244 316
Sale/maturity of financial assets available for sale	4 181 397	4 646 270
Sale of intangible assets and property, plant and equipment	11 757	69 017
Dividend received	438 571	140 461
Interest received	354 974	361 066
Outflows	**(5 886 948)**	**(4 279 968)**
Purchase of financial assets available for sale	(5 770 865)	(4 179 109)
Purchase of intangible assets and property, plant and equipment	(116 083)	(100 859)
Net cash flow from investing activities	**(900 249)**	**1 181 162**
Inflows	**1 923 620**	**899 569**
Debt securities in issue	535 000	715 000
Drawing of loans	1 388 620	184 569
Outflows	**(2 280 080)**	**(1 682 260)**
Debt securities buy out	(480 000)	-
Repayment of loans	(455 945)	(1 611 785)
Dividends and other payments to shareholders	(1 290 049)	-
Interest paid	(54 086)	(70 475)
Net cash flow from financing activities	**(356 460)**	**(782 691)**
Total net cash flow	**(5 257 791)**	**(2 703 847)**
Cash at the beginning of the accounting period	**11 729 903**	**12 113 526**
Cash at the end of the accounting period	**6 472 112**	**9 409 679**

Notes presented on pages 15 – 55 constitute an integral part of these Financial Statements.

Additional notes to consolidated financial statements

1. Basis of preparation of interim financial statements

In comparison with annual financial statements content of an interim financial report is condensed, therefore it should be read in conjunction with the financial statements of Bank Zachodni WBK Group for the year 2015.

The consolidated financial statements of the Group for the year 2015 are available at the Bank's official website: www.bzwbk.pl.

Statement of compliance

Condensed interim consolidated financial statements of Bank Zachodni WBK Group for the period from 1 January 2016 to 30 September 2016 were prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union and other applicable regulations.

In accordance with Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2014 of 28.01.2014, No 133 as amended), the Bank is required to publish the financial results for the nine months ended 30 September 2016 which is deemed to be the current interim financial reporting period.

Accounting policies

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

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

The accounting policies have been applied consistently by Group entities.

The Group has used the same accounting principles as those used in preparation of the Group's consolidated financial statements for 2015, except for the income tax charge, which was calculated in accordance with IAS 34.30c and the new standards described later in the section.

Comparability with results of previous periods

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

During the current reporting period, in its Consolidated statement of financial position, the Bank separated the 'Buy-sell-back transactions/ Sell-buy-back transactions,' which were previously presented in the 'Loans and advances to customers,' 'Loans and advances to banks' and 'Deposits from banks' and 'Deposits from customers' lines.

The tax imposed under the act on tax on certain financial institutions that became effective on 1 February 2016 was disclosed in a separate item in the income statement as "Tax on financial institutions".

Changes in judgments and estimates

Compared with the consolidated financial statements for 2015, in Q3 2016 there were no material changes in Bank Zachodni WBK Group's accounting estimates or judgments.

In thousands of PLN

Standards and interpretations or changes to existing standards or interpretations which were applied for the first time in 2016

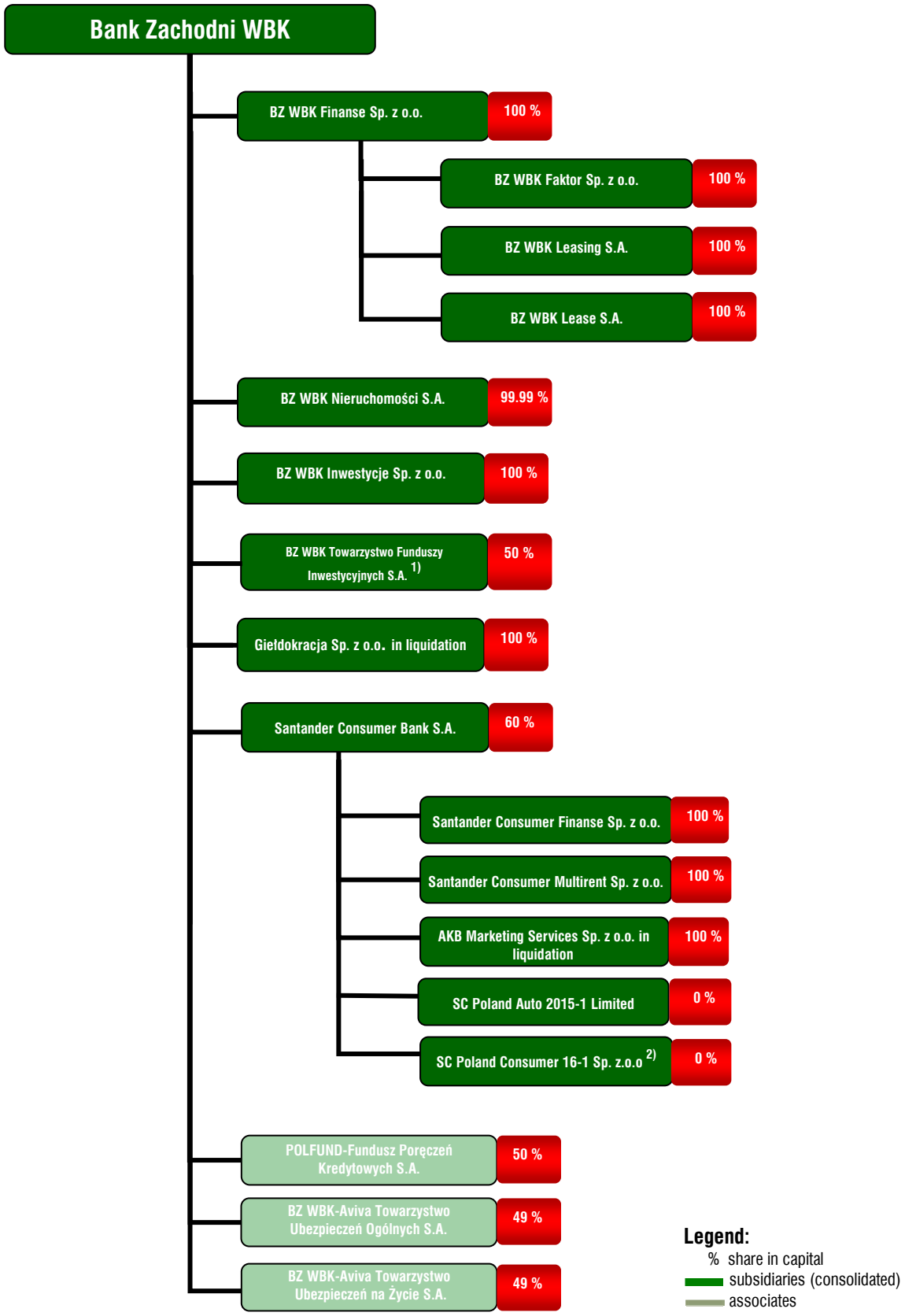
IFRS	Nature of changes	Effective in the European Union	Influence on BZ WBK Group
IFRS 14 Regulatory Deferral Accounts	The standard permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to recognize amounts related to rate regulation in accordance with their previous accounting rules. To improve the comparability with entities that have already adopted IFRS and do not recognise such amounts, in line with the published IFRS 14 amounts from the rate-regulated activities are presented separately in the statement of financial position and income statement and statement of other comprehensive income.	1 January 2016	The change had no significant effect on financial statement.
IAS 19 "Employee benefits"	Change in determining the discount rate - it is applicable to post-employment obligations, in the currency of the obligation rather than the country of origin of the obligation.	1 February 2016	The change had no significant effect on financial statement.
Annual improvements to IFRS cycle 2010-2012	Improvements concern: • IFRS 2 definition of "vesting condition"; • IFRS 3 Contingent consideration in a business combination; • IFRS 8 Aggregation of operating segments, reconciliation of the total of the reportable segments' assets to the entity's assets; • IFRS 13 Short-term receivables and payables; • IAS16/IAS 38 Restatement – proportionate method; • IAS 24 Key management personnel.	1 February 2015	The change had no significant effect on financial statement.
Amendment to IAS 27 Equity method in separate financial statements	Change in accounting for investments in subsidiaries in an entity's separate financial statements. • At purchase price; • In line with IFRS 9; • In line with IAS 28 (ownership rights); Refinement of the definition of separate financial statements.	1 January 2016	The change had no significant effect on financial statement.
Annual improvements to IFRS cycle 2012-2014	Improvements relate to: • IFRS 5 Changes of disposal method; • IFRS 7 Servicing contracts; • IAS 19 Discount rate: regional market issue; • IAS 34 Disclosure of information "elsewhere in the interim financial report."	1 January 2016	The change had no significant effect on financial statement.
Amendments to IFRS 11 Joint arrangements	During acquisition of an interest in a joint operation by an investor (in line with the IFRS3: "an investment") the requirement for the investor to apply the accounting rules for joint operations and to perform a number of actions: • to remeasure the identifiable assets and liabilities to fair value, • to relate the acquisition cost to the financial results, • to recognised deferred income tax, • to recognise residual value as an entity's value.	1 January 2016	The change had no significant effect on financial statement.
Amendment to IAS 16 and IAS 38	In line with the amendment to IAS 16, the method of depreciation of tangible assets based on revenues under this measure is not considered to be appropriate. In line with the amendment to IAS 38, the method of amortization and depreciation of intangible assets based on revenues under this measure is not considered to be appropriate.	1 January 2016	The change had no significant effect on financial statement.
Amendments to IAS 1	The change regards the presentation of the financial statements, taking into consideration their materiality and disaggregation. The amendment introduces changes on drafting notes to the financial statements, disclosing accounting standards and grouping of items presented in other comprehensive income from the investment.	1 January 2016	The change had no significant effect on financial statement.
Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation	The amendments confirm that the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value according to IFRS 10. An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.	26 September 2016	The change had no significant effect on financial statement

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

IFRS	Nature of changes	Effective in the European Union	Influence on BZ WBK Group
Amendments to IAS 7 Statement of Cash Flows	The amendment requiring disclosure that enables to evaluate changes in liabilities, including both changes arising from cash flows and non-cash changes.	1 January 2017	The Group has not completed the analysis of changes.
Amendment to IAS 12 Income Taxes	The amendment clarifies the application of the standard for the recognition of a deferred tax asset in the case of losses on measurement of financial instruments classified as available for sale, e.g. debt instruments.	1 January 2017	The Group has not completed the analysis of changes.
Amendment to IFRS 15 - Revenue from Contracts with Customers	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 on a systematic basis that is consistent with recognizing revenues; • Disclosures - introduction of a requirement to disclose qualitative and quantitative information relating to judgements and changes in the judgements related with revenue recognition.	1 January 2018	The Group has not completed the analysis of changes.
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): loss allowance 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 – introduction 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 - including the time value of options purchased and implementing non-derivative financial 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	The Group has not completed the analysis of changes.
Amendments to IFRS 16 Leases	Changes relate to the following areas: • Introduction of a new definition of lease as an agreement or part of an agreement; • Recognition by lessee - the change will influence balance-sheet measurements; • Recognition by lessor - in the case of book recognition of sales and leaseback and additional disclosures.	1 January 2019	The Group has not completed the analysis of changes
Amendments to IFRS 2: Classification and measurement share-based payment transactions	Changes relate to the following areas: • Effects of vesting conditions on the measurement of a cash-settled share-based payment; • Accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled; • Accounting for employees tax liabilities relating to share-based payment transactions.	1 January 2018	The amendment will not have a significant impact on financial statement.

2. Description of organization of Bank Zachodni WBK Group

Graphical representation of the Group's organization structure and information about types of connection within the Group as at 30.09.2016:



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

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

As at 30.09.2016, 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.

[2] 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.

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 and Corporate Banking, Global Corporate Banking (In 3rd quarter of 2015 the name of Global Banking & Markets business segment was changed to Global Corporate Banking, the criteria of customers assignment to this business segment was maintained unchanged), ALM (Assets and Liabilities Management) and Centre, and Santander Consumer. They were identified based on customers and product types.

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.

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.

In 2016 introduced the following changes:

- change of the methodology of capital and income from capital allocation between business segments;
- 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;
- share in net profits of entities accounted for by the equity method is presented in ALM and Centre segment;
- change in presentation of receivables and liabilities due to Repurchase Agreements. So far Repurchase Agreements were presented as Customers Receivables/ Customers Liabilities or if it concerned Financial Institutions, in Other Assets / Other Liabilities. Since second quarter of 2016, all receivables and liabilities from Repurchase Agreements have been presented in Other Assets / Other Liabilities;

- split of Other Income by two categories – Net fee and commission income and Other income since second quarter of 2016.

In all cases 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.

Result on the sale by the Bank of a 17% equity stake in BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. oraz BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. to AVIVA International Insurance Limited is presented in comparable figures for 2015 in ALM and Centre segment.

The total result achieved by Bank Zachodni WBK SA from the transaction of acquisition of Visa Europe Limited by Visa Inc. (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, GSM phones top-ups, foreign payments and Western Union and private-banking services. For small and medium companies, the segment provides, among others, lending and deposit taking services, cash management services, leasing, factoring, letters of credit and guarantees. Furthermore, the Retail Banking segment generates income through offering asset management services within investment funds and private portfolios. It also covers insourcing services provided to retail customers based on mutual agreements with other banks and financial institutions.

Business and Corporate Banking

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

Global Corporate Banking

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

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

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

ALM and Centre

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

Santander Consumer

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

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

In thousands of PLN

Consolidated income statement (by operating segments)

01.01.2016-30.09.2016	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Global Corporate Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	**1 631 028**	**438 595**	**105 012**	**481 373**	**839 564**	**3 495 572**
incl. internal transactions	(73 612)	(29 448)	3 997	95 767	3 296	-
Net fee and commission income	**976 940**	**161 047**	**164 272**	**(9 381)**	**137 905**	**1 430 783**
incl. internal transactions	51 983	24 536	(79 765)	4 572	(1 326)	-
Other income	**55 092**	**70 340**	**98 774**	**472 216**	**26 581**	**723 003**
incl. internal transactions	12 871	38 793	(44 602)	(7 073)	11	-
Dividend income	**-**	**-**	**1 537**	**94 987**	**-**	**96 524**
Operating costs	**(1 424 824)**	**(244 118)**	**(151 937)**	**(134 153)**	**(369 868)**	**(2 324 900)**
incl. internal transactions	(13 993)	(1 287)	(4)	17 023	(1 739)	-
Depreciation/amortisation	**(125 391)**	**(14 006)**	**(16 258)**	**(22 572)**	**(24 283)**	**(202 510)**
Impairment losses on loans and advances	**(389 554)**	**(67 796)**	**1 129**	**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	**723 291**	**344 062**	**202 529**	**662 173**	**478 963**	**2 411 018**
Corporate income tax						(536 186)
Non-controlling interests						(168 934)
Profit for the period						**1 705 898**

* Includes individual customers and small and medium companies

In thousands of PLN

01.07.2016-30.09.2016	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Global Corporate Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	**577 744**	**148 715**	**43 843**	**158 341**	**289 737**	**1 218 380**
incl. internal transactions	(26 897)	(11 837)	2 145	36 368	221	-
Net fee and commission income	**330 115**	**55 757**	**72 898**	**(2 545)**	**30 998**	**487 223**
incl. internal transactions	18 106	7 421	(26 544)	1 461	(444)	-
Other income	**18 334**	**19 760**	**25 573**	**29 312**	**2 674**	**95 653**
incl. internal transactions	4 242	8 265	(7 502)	532	(5 537)	-
Dividend income	**-**	**-**	**1 479**	**251**	**-**	**1 730**
Operating costs	**(475 006)**	**(83 468)**	**(51 161)**	**(27 381)**	**(116 758)**	**(753 774)**
incl. internal transactions	(4 944)	(524)	(1)	6 009	(540)	-
Depreciation/amortisation	**(43 246)**	**(5 007)**	**(5 519)**	**(7 635)**	**(6 943)**	**(68 350)**
Impairment losses on loans and advances	**(152 062)**	**(38 425)**	**5 759**	**1 431**	**(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	**255 879**	**97 332**	**92 872**	**70 315**	**120 691**	**637 089**
Corporate income tax						(156 985)
Non-controlling interests						(54 171)
Profit for the period						**425 933**

Consolidated statement of financial position (by operating segments)

30.09.2016	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Global Corporate Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Loans and advances to customers	53 551 714	26 101 738	8 455 016	199 055	12 846 844	101 154 367
Investments in associates	-	-	-	856 454	-	856 454
Other assets	4 678 784	945 049	3 641 479	26 926 062	3 836 724	40 028 098
Total assets	**58 230 498**	**27 046 787**	**12 096 495**	**27 981 571**	**16 683 568**	**142 038 919**
Deposits from customers	67 609 947	19 088 757	7 937 592	4 163 921	7 850 490	106 650 707
Other liabilities and equity	4 641 425	3 329 474	3 658 588	14 925 647	8 833 078	35 388 212
Total equity and liabilities	**72 251 372**	**22 418 231**	**11 596 180**	**19 089 568**	**16 683 568**	**142 038 919**

* Includes individual customers and small and medium companies

In thousands of PLN

Consolidated income statement (by operating segments)

01.01.2015-30.09.2015	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Global Corporate Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	**1 449 207**	**399 351**	**105 620**	**443 139**	**775 553**	**3 172 870**
incl. internal transactions	(66 391)	(25 593)	4 612	93 966	(6 594)	-
Net fee and commission income	**996 738**	**157 856**	**142 812**	**(6 520)**	**152 984**	**1 443 870**
incl. internal transactions	45 692	28 763	(80 920)	4 715	1 750	-
Other income	**56 652**	**60 263**	**77 139**	**883 282**	**12 624**	**1 089 960**
incl. internal transactions	(587)	30 047	(16 302)	38 359	(51 517)	-
Dividend income	**-**	**-**	**1 472**	**89 261**	**6**	**90 739**
Operating costs	**(1 418 368)**	**(230 213)**	**(169 801)**	**(106 558)**	**(367 922)**	**(2 292 862)**
incl. internal transactions	(8 825)	(797)	(4)	11 210	(1 584)	-
Depreciation/amortisation	**(83 548)**	**(11 029)**	**(12 064)**	**(54 838)**	**(28 933)**	**(190 412)**
Impairment losses on loans and advances	**(410 229)**	**(93 730)**	**5 465**	**(4 478)**	**(51 315)**	**(554 287)**
Share in net profits (loss) of entities accounted for by the equity method	**-**	**-**	**-**	**13 833**	**-**	**13 833**
Profit before tax	**590 452**	**282 498**	**150 643**	**1 257 121**	**492 997**	**2 773 711**
Corporate income tax						(544 117)
Non-controlling interests						(179 463)
Profit for the period						**2 050 131**

* Includes individual customers and small and medium companies

In thousands of PLN

01.07.2015-30.09.2015	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Global Corporate Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	**491 657**	**136 250**	**31 287**	**162 942**	**268 023**	**1 090 159**
incl. internal transactions	(23 257)	(8 486)	1 482	35 645	(5 384)	-
Net fee and commission income	**337 730**	**54 063**	**45 125**	**(4 148)**	**49 926**	**482 696**
incl. internal transactions	15 601	10 721	(28 314)	2 068	(76)	-
Other income	**10 498**	**11 894**	**39 547**	**35 510**	**5 057**	**102 506**
incl. internal transactions	64	9 639	(3 738)	(27 744)	21 779	-
Dividend income	**-**	**-**	**289**	**543**	**-**	**832**
Operating costs	**(467 043)**	**(76 576)**	**(55 762)**	**(28 795)**	**(123 913)**	**(752 089)**
incl. internal transactions	(3 001)	(212)	(1)	4 062	(848)	-
Depreciation/amortisation	**(27 436)**	**(3 707)**	**(4 066)**	**(17 186)**	**(9 256)**	**(61 651)**
Impairment losses on loans and advances	**(117 855)**	**(36 790)**	**(735)**	**(7 860)**	**(37 861)**	**(201 101)**
Share in net profits (loss) of entities accounted for by the equity method	**-**	**-**	**-**	**8 471**	**-**	**8 471**
Profit before tax	**227 551**	**85 134**	**55 685**	**149 477**	**151 976**	**669 823**
Corporate income tax						(140 594)
Non-controlling interests						(56 508)
Profit for the period						**472 721**

Consolidated statement of financial position (by operating segments)

30.09.2015	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	48 389 871	24 015 714	6 864 042	88 468	12 543 998	91 902 093
Investments in associates	-	-	-	817 264	-	817 264
Other assets	4 855 924	981 393	6 110 151	27 005 956	3 389 568	42 342 992
Total assets	**53 245 795**	**24 997 107**	**12 974 193**	**27 911 688**	**15 933 566**	**135 062 349**
Deposits from customers	61 984 385	17 722 002	6 858 191	1 240 686	7 401 114	95 206 378
Other liabilities and equity	4 303 806	2 890 124	5 007 998	15 717 472	11 936 571	39 855 971
Total equity and liabilities	**66 288 191**	**20 612 126**	**11 866 189**	**16 958 158**	**19 337 685**	**135 062 349**

* Includes individual customers and small and medium companies

4. Net interest income

Interest income	01.07.2016-30.09.2016	01.01.2016-30.09.2016	01.07.2015-30.09.2015	01.01.2015-30.09.2015
Loans and advances to enterprises	410 252	1 221 092	381 014	1 174 086
Loans and advances to individuals, of which:	814 496	2 359 421	739 077	2 191 899
Home mortgage loans	*238 755*	*682 164*	*202 950*	*627 225*
Debt securities incl.:	158 035	454 995	153 404	480 363
Investment portfolio available for sale	*143 098*	*429 551*	*146 280*	*454 190*
Trading portfolio	*14 937*	*25 444*	*7 124*	*26 173*
Leasing agreements	47 103	134 361	41 075	123 106
Loans and advances to banks	15 202	46 810	15 029	47 729
Public sector	1 591	5 298	1 853	5 934
Reverse repo transactions	2 287	4 522	1 691	7 567
Interest recorded on hedging IRS	78 664	242 134	79 622	219 528
Total	**1 527 630**	**4 468 633**	**1 412 765**	**4 250 212**
Interest expenses	**01.07.2016-30.09.2016**	**01.01.2016-30.09.2016**	**01.07.2015-30.09.2015**	**01.01.2015-30.09.2015**
Deposits from individuals	(142 232)	(487 167)	(174 880)	(576 733)
Deposits from enterprises	(96 592)	(284 458)	(80 701)	(271 779)
Repo transactions	(8 848)	(28 203)	(15 312)	(46 659)
Deposits from public sector	(12 811)	(36 483)	(14 384)	(44 074)
Deposits from banks	(9 245)	(28 132)	(7 178)	(22 492)
Subordinated liabilities and issue of securities	(39 522)	(108 618)	(30 151)	(115 605)
Total	**(309 250)**	**(973 061)**	**(322 606)**	**(1 077 342)**
Net interest income	**1 218 380**	**3 495 572**	**1 090 159**	**3 172 870**

In thousands of PLN

5. Net fee and commission income

Fee and commission income	01.07.2016-30.09.2016	01.01.2016-30.09.2016	01.07.2015-30.09.2015	01.01.2015-30.09.2015
eBusiness & payments	147 384	426 037	140 013	399 658
Current accounts and money transfer	86 699	250 371	81 694	255 474
Asset management fees	65 052	189 751	70 078	211 573
Foreign exchange commissions	82 944	235 044	79 860	230 034
Credit commissions	67 073	201 940	68 106	206 130
Insurance commissions	60 118	207 415	74 501	214 291
Brokerage commissions	20 529	51 984	17 314	50 995
Credit cards	42 464	119 600	37 830	108 351
Off-balance sheet guarantee commissions	23 822	49 473	9 349	30 486
Finance lease commissions	3 549	11 025	3 270	9 544
Issue arrangement fees	9 941	14 181	1 817	11 280
Distribution fees	1 642	4 680	1 803	5 832
Other commissions	2 693	5 608	2 435	5 734
Total	**613 910**	**1 767 109**	**588 070**	**1 739 382**
Fee and commission expenses	**01.07.2016-30.09.2016**	**01.01.2016-30.09.2016**	**01.07.2015-30.09.2015**	**01.01.2015-30.09.2015**
eBusiness & payments	(47 678)	(145 578)	(44 362)	(124 153)
Distribution fees	(5 878)	(17 896)	(7 013)	(21 646)
Brokerage commissions	(3 098)	(7 579)	(2 873)	(8 967)
Credit cards	(11 187)	(28 111)	(11 189)	(30 509)
Credit commissions paid	(19 691)	(36 957)	(13 838)	(33 846)
Insurance commissions	(9 544)	(28 931)	(4 519)	(13 652)
Finance lease commissions	(6 513)	(18 795)	(6 307)	(19 086)
Asset management fees and other costs	(1 385)	(4 597)	(1 540)	(5 440)
Other	(21 713)	(47 882)	(13 733)	(38 213)
Total	**(126 687)**	**(336 326)**	**(105 374)**	**(295 512)**
Net fee and commission income	**487 223**	**1 430 783**	**482 696**	**1 443 870**

6. Net trading income and revaluation

Net trading income and revaluation	01.07.2016-30.09.2016	01.01.2016-30.09.2016	01.07.2015-30.09.2015	01.01.2015-30.09.2015
Derivative instruments and interbank fx transactions	50 600	204 628	31 487	174 001
Other FX related income	11 682	20 907	8 829	13 609
Profit on equity instruments	(606)	(4 139)	(843)	(5 148)
Profit on debt instruments	(5 653)	7 486	(501)	(14 881)
Total	**56 023**	**228 882**	**38 972**	**167 581**

Net trading income and revaluation includes value of adjustments of derivatives resulting from counterparty risk in the amount of PLN (5,743) k for 1-3Q 2016, PLN (4,772) k for 3Q 2016 and the write-back of adjustments of derivatives resulting from counterparty risk in the amount of PLN 9,488 k for 1-3Q 2015, PLN 20,676 k for 3Q 2015.

7. Gains (losses) from other financial securities

Gains (losses) from other financial securities	01.07.2016-30.09.2016	01.01.2016-30.09.2016	01.07.2015-30.09.2015	01.01.2015-30.09.2015
Profit on sale of equity shares	(207)	317 827	9 337	10 951
Profit on sale of debt securities	4 159	84 033	31 993	260 646
Charge due to impairment losses	-	(7 533)	(3)	(1 734)
Total profit (losses) on financial instruments	**3 952**	**394 327**	**41 327**	**269 863**
Change in fair value of hedging instruments	21 883	4 631	(63 659)	46 188
Change in fair value of underlying hedged positions	(18 386)	(3 845)	58 347	(51 804)
Total profit (losses) on hedging and hedged instruments	**3 497**	**786**	**(5 312)**	**(5 616)**
Total	**7 449**	**395 113**	**36 015**	**264 247**

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

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

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

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

8. Other operating income

Other operating income	01.07.2016-30.09.2016	01.01.2016-30.09.2016	01.07.2015-30.09.2015	01.01.2015-30.09.2015
Income on sale of services	4 377	11 696	3 017	8 587
Reimbursements of BGF charges	13 517	38 614	2 203	39 630
Release of provision for legal cases and other assets	2 032	11 994	4 228	13 367
Settlements of leasing agreements	1 171	3 641	753	1 992
Recovery of other receivables	1 474	5 837	2 005	4 430
Income on sales or liquidation of fixed assets, intangible assets and assets for disposal	1 376	1 725	8 317	17 654
Income from net insurance activities	-	-	-	26 296
Other	8 234	25 401	6 996	23 181
Total	**32 181**	**98 908**	**27 519**	**135 137**

9. Impairment losses on loans and advances

Impairment losses on loans and advances	01.07.2016-30.09.2016	01.01.2016-30.09.2016	01.07.2015-30.09.2015	01.01.2015-30.09.2015
Collective and individual impairment charge	(229 929)	(608 337)	(201 846)	(581 970)
Incurred but not reported losses charge	(27 321)	(28 233)	(6 106)	(58 504)
Recoveries of loans previously written off	524	51 913	3 064	74 014
Off-balance sheet credit related facilities	2 607	19 405	3 787	12 173
Total	**(254 119)**	**(565 252)**	**(201 101)**	**(554 287)**

10. Employee costs

Employee costs	01.07.2016-30.09.2016	01.01.2016-30.09.2016	01.07.2015-30.09.2015	01.01.2015-30.09.2015
Salaries and bonuses	(316 089)	(926 392)	(313 646)	(945 283)
Salary related costs	(51 022)	(161 003)	(50 615)	(162 852)
Staff benefits costs	(8 701)	(25 312)	(8 402)	(24 983)
Professional trainings	(4 289)	(11 784)	(3 884)	(11 722)
Retirement fund, holiday provisions and other employee costs	(596)	(1 786)	(2 597)	(3 769)
Integration costs	-	-	(99)	(459)
Total	**(380 697)**	**(1 126 277)**	**(379 243)**	**(1 149 068)**

11. General and administrative expenses

General and administrative expenses	01.07.2016-30.09.2016	01.01.2016-30.09.2016	01.07.2015-30.09.2015	01.01.2015-30.09.2015
Maintenance and rentals of premises	(92 997)	(277 184)	(93 438)	(273 012)
Marketing and representation	(36 534)	(108 488)	(48 457)	(129 444)
IT systems costs	(51 611)	(148 339)	(48 022)	(140 184)
Bank Guarantee Fund, Polish Financial Supervision Authority and National Depository for Securities	(64 346)	(215 084)	(55 588)	(186 210)
Postal and telecommunication costs	(11 793)	(39 863)	(13 301)	(44 907)
Consulting fees	(20 898)	(43 626)	(10 419)	(33 723)
Cars, transport expenses, carriage of cash	(17 875)	(51 343)	(18 217)	(55 954)
Other external services	(22 330)	(75 907)	(22 998)	(73 130)
Stationery, cards, cheques etc.	(7 452)	(22 146)	(8 267)	(24 108)
Sundry taxes	(8 014)	(25 743)	(8 954)	(24 748)
Data transmission	(4 221)	(12 527)	(5 536)	(16 187)
KIR, SWIFT settlements	(6 789)	(20 444)	(6 808)	(19 046)
Security costs	(7 172)	(19 838)	(5 245)	(14 846)
Costs of repairs	(3 577)	(10 552)	(2 247)	(5 812)
Integration costs	-	-	(5 008)	(17 967)
Other	(6 010)	(17 667)	(5 967)	(18 287)
Total	**(361 619)**	**(1 088 751)**	**(358 472)**	**(1 077 565)**

12. Other operating expenses

Other operating expenses	01.07.2016-30.09.2016	01.01.2016-30.09.2016	01.07.2015-30.09.2015	01.01.2015-30.09.2015
Charge of provisions for legal cases and other assets	(647)	(86 367)	(8 016)	(42 673)
Costs of purchased services	(2 044)	(2 478)	(305)	(1 120)
Other memebership fees	(217)	(680)	(160)	(750)
Paid compensations, penalties and fines	(1 518)	(2 810)	(500)	(3 334)
Donation paid	(2 770)	(4 273)	(1 833)	(5 174)
Other	(4 262)	(13 264)	(3 560)	(13 178)
Total	**(11 458)**	**(109 872)**	**(14 374)**	**(66 229)**

In thousands of PLN

13. Corporate income tax

Corporate income tax	01.07.2016-30.09.2016	01.01.2016-30.09.2016	01.07.2015-30.09.2015	01.01.2015-30.09.2015
Current tax charge	(141 818)	(658 493)	(78 979)	(574 234)
Deferred tax	(15 167)	122 307	(61 615)	30 117
Total	**(156 985)**	**(536 186)**	**(140 594)**	**(544 117)**

Corporate total tax charge information	01.07.2016-30.09.2016	01.01.2016-30.09.2016	01.07.2015-30.09.2015	01.01.2015-30.09.2015
Profit before tax	637 089	2 411 018	669 823	2 773 711
Tax rate	19%	19%	19%	19%
Tax calculated at the tax rate	(121 046)	(458 093)	(127 266)	(527 005)
Permanent differences	(6 354)	(43 978)	(2 890)	(16 814)
Tax on financial institutions	(19 969)	(52 885)	-	-
Sale of receivables	(2 600)	(14 592)	(5 915)	(13 540)
Non-tax income	103	18 114	273	18 210
Non-tax deductible bad debt provisions	(4 131)	(2 981)	(1 849)	(2 763)
Adjustment of prior year tax	-	8 385	-	10 431
Consolidation adjustments	(1 297)	12 898	(2 644)	(12 712)
Other	(1 691)	(3 054)	(303)	76
Total income tax expense	**(156 985)**	**(536 186)**	**(140 594)**	**(544 117)**

Deferred tax recognised directly in equity	30.09.2016	31.12.2015	30.09.2015
Relating to equity securities available-for-sale	(133 139)	(184 416)	(134 707)
Relating to debt securities available-for-sale	(32 014)	(43 023)	(44 319)
Relating to cash flow hedging activity	21 643	45 858	74 904
Relating to valuation of defined benefit plans	(670)	(610)	1 279
Total	**(144 180)**	**(182 191)**	**(102 843)**

14. Cash and balances with central banks

Cash and balances with central banks	30.09.2016	31.12.2015	30.09.2015
Cash	1 911 328	2 026 206	1 798 751
Current accounts in central banks	1 347 990	4 203 647	1 681 396
Total	**3 259 318**	**6 229 853**	**3 480 147**

Bank Zachodni WBK and Santander Consumer Bank hold an obligatory reserve in a current account in the National Bank of Poland.The figure is calculated at a fixed percentage of the monthly average balance of the customers' deposits, which in all the covered periods was 3.5%.
In accordance with the applicable regulations, the amount of the calculated provision is reduced by the equivalent of EUR 500 k.

In thousands of PLN

15. Loans and advances to banks

Loans and advances to banks	30.09.2016	31.12.2015	30.09.2015
Loans and advances	349 956	603 360	126 512
Current accounts	2 486 399	2 977 598	2 968 214
Gross receivables	**2 836 355**	**3 580 958**	**3 094 726**
Impairment write down	-	(1)	(30)
Total	**2 836 355**	**3 580 957**	**3 094 696**

16. Financial assets and liabilities held for trading

	30.09.2016		31.12.2015		30.09.2015	
Financial assets and liabilities held for trading	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Trading derivatives	**1 636 068**	**1 548 832**	**2 065 688**	**2 011 486**	**1 853 560**	**1 904 434**
Interest rate operations	**1 064 928**	**1 013 639**	**1 296 009**	**1 261 947**	**1 279 865**	**1 274 587**
Forward	19	10	-	-	-	-
Options	6 808	6 807	9 638	9 639	8 017	8 017
IRS	1 047 289	999 375	1 282 734	1 247 065	1 267 163	1 259 613
FRA	10 812	7 447	3 637	5 243	4 685	6 957
Transactions on equity instruments	**10 315**	**10 315**	**13 099**	**13 099**	**10 346**	**10 346**
Options	10 315	10 315	13 099	13 099	10 346	10 346
FX operations	**560 825**	**524 878**	**756 580**	**736 440**	**563 349**	**619 501**
CIRS	140 069	135 194	117 879	171 575	97 783	166 429
Forward	27 463	50 084	35 472	36 408	33 450	32 964
FX Swap	259 351	214 906	392 673	324 068	283 096	276 772
Spot	1 025	540	1 913	1 704	3 179	3 121
Options	123 831	123 831	202 503	202 503	140 215	140 215
Other	9 086	323	6 140	182	5 626	-
Debt and equity securities	**1 618 627**	**-**	**2 099 823**	**-**	**2 767 606**	**-**
Debt securities	**1 595 988**	**-**	**2 074 899**	**-**	**2 747 442**	**-**
Government securities:	1 595 164	-	2 073 995	-	2 746 807	-
- bonds	1 595 164	-	2 073 995	-	2 746 807	-
Commercial securities:	824	-	904	-	635	-
- bonds	824	-	904	-	635	-
Equity securities:	**22 639**	**-**	**24 924**	**-**	**20 164**	**-**
- listed	22 639	-	24 924	-	20 164	-
Short sale	**-**	**598 881**	**-**	**524 198**	**-**	**290 169**
Total financial assets/liabilities	**3 254 695**	**2 147 713**	**4 165 511**	**2 535 684**	**4 621 166**	**2 194 603**

Financial assets and liabilities held for trading - trading derivatives include value adjustments resulting from counterparty risk in the amount of PLN 9,536 k as at 30.09.2016, PLN 14,214 k as at 31.12.2015, PLN 16,067 k as at 30.09.2015.

17. Loans and advances to customers

Loans and advances to customers	30.09.2016	31.12.2015	30.09.2015
Loans and advances to enterprises	45 902 244	43 307 122	42 033 147
Loans and advances to individuals, of which:	55 026 367	51 950 070	50 774 216
Home mortgage loans	*35 952 954*	*33 720 581*	*33 039 306*
Finance lease receivables	5 343 822	4 545 711	4 258 705
Loans and advances to public sector	178 630	235 177	245 576
Other	83 314	6 867	7 937
Gross receivables	**106 534 377**	**100 044 947**	**97 319 581**
Impairment write down	(5 380 010)	(5 131 063)	(5 417 488)
Total	**101 154 367**	**94 913 884**	**91 902 093**

In thousands of PLN

Movements on impairment losses on loans and advances to customers	01.01.2016-30.09.2016	01.01.2015-31.12.2015	01.01.2015-30.09.2015
Individual and collective impairment			
As at the beginning of the period	(4 471 467)	(4 446 507)	(4 446 507)
Charge/write back of current period	(608 338)	(926 317)	(581 971)
Write off/Sale of receivables	391 143	873 273	330 504
Transfer	(1 253)	36 393	25 007
F/X differences	(2 514)	(8 309)	(5 773)
Balance at the end of the period	**(4 692 429)**	**(4 471 467)**	**(4 678 740)**
IBNR			
As at the beginning of the period	(659 596)	(679 903)	(679 903)
Charge/write back of current period	(28 233)	22 761	(58 526)
Sale of receivables	1 497	-	-
Transfer	436	193	217
F/X differences	(1 685)	(2 647)	(536)
Balance at the end of the period	**(687 581)**	**(659 596)**	**(738 748)**
Allowance for impairment	**(5 380 010)**	**(5 131 063)**	**(5 417 488)**

In August 2016, Santander Consumer Bank completed the securitisation of a cash loans portfolio. The transaction was executed as a traditional and revolving securitisation scheme involving transfer of securitised receivables to SC Poland Consumer 2016-1 sp. z o.o. (SPV3), a special purpose vehicle registered in Poland.

Based on the securitised assets, SPV3 issued bonds of PLN 1,225,000 k in total secured by a registered pledge on SPV3 assets. Interest on bonds consists of 1M WIBOR plus margin. As a result of securitisation, SCB raised funding in exchange for transfer of future cash flows from the securitised credit portfolio. The bonds are planned to be redeemed in full by 16 September 2026, however, SCB expects that it will take place no later than 3 years after the date of transaction.

The transaction was financed from a loan of PLN 37,388 k granted by SCB to SPV3, which is subordinated to senior secured bonds. Interest on the loan is fixed and paid from SPV3 funds, while the principal will be repaid upon the full redemption of bonds.

In September 2015, Santander Consumer Bank completed the securitisation of a hire purchase loan portfolio. The transaction was executed as a traditional and revolving securitisation scheme involving transfer of securitised receivables to SC Poland Consumer 2015-1 sp. z o.o. (SPV2), a special purpose vehicle registered in Poland.

Based on the securitised assets, SPV2 issued bonds of PLN 1,051,125 k in total secured by a registered pledge on SPV2 assets. Interest on bonds consists of 1M WIBOR plus margin. As a result of securitisation, SCB raised funding in exchange for transfer of future cash flows from the securitised credit portfolio. The bonds are planned to be redeemed in full by 19 August 2025, however, SCB expects that it will take place no later than 2 years after the date of transaction.

The transaction was financed from a loan of PLN 239,413 k granted by SCB to SPV2, which is subordinated to senior secured bonds. Interest on the loan is fixed and paid from SPV2 funds, while the principal will be repaid upon the full redemption of bonds.

The contractual terms of securitisation do not satisfy the criteria for derecognition of securitised assets from SCB financial statements pursuant to IAS 39. Consequently, as at 30.09.2016, SCB recognised the securitised assets of PLN 2,116,552 k net under Loans and advances to customers, and liability of PLN 2,330,010 k under Deposits from customers in respect of cash flows on account of securitisation.

In May 2016, Santander Consumer Bank closed the securitisation of a car and hire purchase loan portfolio which was completed in 2014. The transaction was executed as a traditional securitisation scheme involving transfer of securitised receivables to SC Poland Auto 2014-1 Limited (SPV1), a special purpose vehicle registered in Ireland. The net value of the securitisation portfolio at the repurchase date was PLN 391,684 k.

The impact of the National Swiss Bank decision on the FX mortgage loans

Pursuant to the decision of the Swiss National Bank as a result of the decision of the Swiss National Bank to abandon the cap on the franc's value against the euro, in January 2015, there occurred a material depreciation of the zloty against the Swiss franc. The official NBP PLN/CHF exchange rate as at 30 September 2016 was 3.9802, as at 31 December 2015 was 3.9394, as at 30 September 2015 was 3.8785.
The exchange rate movement have affected the value and the risk profile of assets, liabilities and off-balance sheet financial instruments denominated in the currency under review from 1 Q 2015 onwards.

The table below presents the PLN equivalent of the mortgage loan-book value of Bank Zachodni WBK Group as at 30 September 2016, 31 December 2015, 30 September 2015.

Gross mortgage loans by currency	30.09.2016	31.12.2015	30.09.2015
CHF denominated mortgage loans, of which:	13 248 780	13 853 060	13 889 061
Bank Zachodni WBK	*10 342 336*	*10 809 116*	*10 836 912*
Santander Consumer Bank	*2 906 444*	*3 043 944*	*3 052 149*
Mortgage loans denominated in other currencies, of which:	22 704 174	19 867 521	19 150 245
in PLN	*20 461 268*	*17 536 095*	*16 791 895*
Total	**35 952 954**	**33 720 581**	**33 039 306**

Bank Zachodni WBK Group actively manages the CHF position using derivative instruments (swaps) and direct financing including loans and repo transactions. As at the end of September 2016, the volume of the above instruments added up to CHF 3.05 bn and CHF 0.28 bn, respectively.

Risk profile of CHF-indexed/denominated loans

CHF gross mortgage loans as at 30.09.2016	Gross amount	Impairment losses	Coverage ratio
Performing loans	13 052 628	87 268	0,67%
Non-performing loans	196 152	90 057	45,91%
Total	**13 248 780**	**177 325**	

Average LTV ratio and NPL ratio amounted to 116% and 1.5%, respectively. As at 30 September 2016, 99% of CHF loans were sanctioned before 2009.

18. Buy-sell-back transactions

Buy-sell-back transactions	30.09.2016	31.12.2015	30.09.2015
Buy-sell-back transactions to banks	-	272 300	291 550
Buy-sell-back transactions to customers	-	16 960	13 780
Razem	**-**	**289 260**	**305 330**

19. Financial assets available for sale

Financial assets available for sale	30.09.2016	31.12.2015	30.09.2015
Available for sale investments - measured at fair value			
Debt securities	**24 536 087**	**23 463 634**	**24 925 251**
Government securities:	22 254 536	18 621 755	19 047 659
- bonds	22 254 536	18 621 755	19 047 659
Central Bank securities:	-	2 599 243	3 549 852
- bills	-	2 599 243	3 549 852
Commercial securities:	2 281 551	2 242 636	2 327 740
-bonds	2 281 551	2 242 636	2 327 740
Equity securities	**943 470**	**1 149 147**	**884 193**
- listed	36 524	43 232	43 725
- unlisted	906 946	1 105 915	840 468
Investment certificates	**-**	**9 297**	**17 698**
Total	**25 479 557**	**24 622 078**	**25 827 142**

20. Investments in associates

Movements on investments in associates	30.09.2016	31.12.2015	30.09.2015
Balance as at 1 January	**831 142**	**42 792**	**42 792**
Share of profits/(losses)	36 139	27 711	13 833
Dividends	(10 827)	(5 721)	(5 721)
Reclassification *	-	766 360	766 360
Balance at the end of the period	**856 454**	**831 142**	**817 264**

Balance sheet value of associates	30.09.2016	31.12.2015	30.09.2015
Polfund - Fundusz Poręczeń Kredytowych S.A.	43 022	42 803	42 950
BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.and BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A. *	813 432	788 339	774 314
Total	**856 454**	**831 142**	**817 264**

* On 27 February 2015, Bank Zachodni WBK S.A. lost control over insurance entities BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. („TUnŻ S.A.") and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogolnych S.A. („TUO S.A.") following the exercise of a call option by Aviva International Insurance Limited ("Aviva Ltd.").

21. Net deferred tax assets

Deferred tax assets	30.09.2016	Changes to equity	Changes to financial result	Changes in temporary differences	31.12.2015
Provisions for loans	661 723	-	52 990	52 990	608 733
Unrealized liabilities due to derivatives	668 004	-	(99 840)	(99 840)	767 844
Cash flow hedges valuation	21 698	(24 191)	-	(24 191)	45 889
Other provisions which are not taxable costs	151 673	-	8 748	8 748	142 925
Deferred income	478 573	-	71 846	71 846	406 727
Difference between balance sheet and taxable value of leasing portfolio	245 264	-	54 343	54 343	190 921
Unrealised interest expense on loans, deposits and securities	62 647	-	(27 250)	(27 250)	89 897
Other	10 986	-	(4 421)	(4 421)	15 407
Total	**2 300 568**	**(24 191)**	**56 416**	**32 225**	**2 268 343**

Deferred tax liabilities	30.09.2016	Changes to equity	Changes to financial result	Changes in temporary differences	31.12.2015
Revaluation of financial instruments available for sale	(165 480)	62 903	-	62 903	(228 383)
Unrealised receivables on derivatives	(332 333)	-	91 275	91 275	(423 608)
Unrealised interest income on loans, securities and interbank deposits	(209 497)	-	(26 835)	(26 835)	(182 662)
Provision due to application of investment relief	(2 116)	-	87	87	(2 203)
Difference between balance sheet and taxable value of unfinancial value assets	4 178	-	2 003	2 003	2 175
Unrealised FX translation differences from b/s valuation of receivables and liabilities	(9 261)	-	(769)	(769)	(8 492)
Valuation of shares / interests in subsidiaries	(146 514)	-	6 150	6 150	(152 664)
Other	(26 717)	-	(6 019)	(6 019)	(20 698)
Total	**(887 740)**	**62 903**	**65 892**	**128 795**	**(1 016 535)**
Net deferred tax assets	**1 412 828**	**38 712**	**122 308**	**161 020**	**1 251 808**

As at 30.09.2016 the calculation of deferred tax assets did not include gross purchased receivables of PLN 8,516 k and gross loans that will not be realised of PLN 58,947 k.

In thousands of PLN

Deferred tax assets	31.12.2015	Changes to equity	Changes to financial result	Changes in temporary differences	30.09.2015
Provisions for loans	608 733	-	(48 266)	(48 266)	656 999
Unrealized liabilities due to derivatives	767 844	-	36 599	36 599	731 245
Cash flow hedges valuation	45 889	(28 339)	-	(28 339)	74 228
Other provisions which are not taxable costs	142 925	-	7 855	7 855	135 070
Deferred income	406 727	-	11 336	11 336	395 391
Difference between balance sheet and taxable value of leasing portfolio	190 921	-	15 701	15 701	175 220
Unrealised interest expense on loans, deposits and securities	89 897	-	11 728	11 728	78 169
Other	15 407	-	(383)	(383)	15 790
Total	**2 268 343**	**(28 339)**	**34 570**	**6 231**	**2 262 112**

Deferred tax liabilities	31.12.2015	Changes to equity	Changes to financial result	Changes in temporary differences	30.09.2015
Revaluation of financial instruments available for sale	(228 383)	(51 957)	-	(51 957)	(176 426)
Unrealised receivables on derivatives	(423 608)	-	(42 941)	(42 941)	(380 667)
Unrealised interest income on loans, securities and interbank deposits	(182 662)	-	3 977	3 977	(186 639)
Provision due to application of investment relief	(2 203)	-	29	29	(2 232)
Difference between balance sheet and taxable value of unfinancial value assets	2 175	-	929	929	1 246
Unrealised FX translation differences from b/s valuation of receivables and liabilities	(8 492)	-	(193)	(193)	(8 299)
Valuation of investments in subsidiaries	(152 664)	-	(1 418)	(1 418)	(151 246)
Other	(20 698)	-	4 837	4 837	(25 535)
Total	**(1 016 535)**	**(51 957)**	**(34 780)**	**(86 737)**	**(929 798)**
Net deferred tax assets	**1 251 808**	**(80 296)**	**(210)**	**(80 506)**	**1 332 314**

As at 31.12.2015 the calculation of deferred tax assets did not include gross purchased receivables of PLN 10,684 k and gross loans that will not be realised of PLN 61,866 k.

Deferred tax assets	30.09.2015	Changes to equity	Changes to financial result	Changes in temporary differences	31.12.2014
Provisions for loans	656 999	-	24 579	24 579	632 420
Unrealized liabilities due to derivatives	731 245	-	50 039	50 039	681 206
Cash flow hedges valuation	74 228	48 487	-	48 487	25 741
Other provisions which are not taxable costs	135 070	-	30 620	30 620	104 450
Deferred income	395 391	-	38 069	38 069	357 322
Difference between balance sheet and taxable value of leasing portfolio	175 220	-	26 560	26 560	148 660
Unrealised interest expense on loans, deposits and securities	78 169	-	(108 833)	(108 833)	187 002
Other	15 790	-	(3 104)	(3 104)	18 894
Total	**2 262 112**	**48 487**	**57 930**	**106 417**	**2 155 695**

Deferred tax liabilities	30.09.2015	Changes to equity	Changes to financial result	Changes in temporary differences	31.12.2014
Revaluation of financial instruments available for sale	(176 426)	72 100	-	72 100	(248 526)
Unrealised receivables on derivatives	(380 667)	-	31 208	31 208	(411 875)
Unrealised interest income on loans, securities and interbank deposits	(186 639)	-	15 348	15 348	(201 987)
Provision due to application of investment relief	(2 232)	-	995	995	(3 227)
Difference between balance sheet and taxable value of unfinancial value assets	1 246	-	2 193	2 193	(947)
Unrealised FX translation differences from b/s valuation of receivables and liabilities	(8 299)	-	(2 071)	(2 071)	(6 228)
Valuation of investments in subsidiaries	(151 246)	-	(66 566)	(66 566)	(84 680)
Other	(25 535)	-	(8 920)	(8 920)	(16 615)
Total	**(929 798)**	**72 100**	**(27 813)**	**44 287**	**(974 085)**
Net deferred tax assets	**1 332 314**	**120 587**	**30 117**	**150 704**	**1 181 610**

As at 30.09.2015 the calculation of deferred tax assets did not include gross purchased receivables of PLN 11,918 k and gross loans that will not be realised of PLN 67,584 k.

22. Assets classified as held for sale

Assets classified as held for sale	30.09.2016	31.12.2015	30.09.2015
Land and buildings	637	638	638
Other fixed assets	145	931	345
Total	**782**	**1 569**	**983**

23. Other assets

Other assets	30.09.2016	31.12.2015	30.09.2015
Interbank and interbranch settlements	160 958	120 024	109 559
Sundry debtors	386 486	353 994	326 440
Prepayments *	124 172	133 667	192 857
Repossessed assets	33 198	37 364	37 364
Settlements of stock exchange transactions	19 722	23 508	28 992
Other	3 454	4 608	2 757
Total	**727 990**	**673 165**	**697 969**

* Due to changes in the Act on Bank Guarantee Fund (Journal of Laws of 2016), in March 2016, the mandatory and prudential BGF fee started to be calculated on an annual rather than quarterly basis.

Accordingly, at the end of March 2016, the Bank paid the fee for Q1 2016 and now no BGF payments are posted under "Prepayments".

Due to the above amendment to the Act, the basis for calculation of the fee will also change in the following quarters. In Q2, the fee will be calculated on the basis of the total risk exposure estimated as at 31.03.2016.

In the corresponding period, "Prepayments" included the fees to the Bank Guarantee Fund that are settled over time. As at 30.09.2015 they amounted to PLN 50,214 k for the bank and PLN 7,518 k for Santander Consumer Bank.

In 2015, BGF payments were accounted for on an accrual basis in accordance with the opinion of the KNF and the Finance Ministry.

24. Deposits from banks

Deposits from banks	30.09.2016	31.12.2015	30.09.2015
Term deposits	84 578	179 260	1 011 827
Loans from other banks	1 234 942	574 693	595 406
Current accounts	254 567	312 810	363 199
Total	**1 574 087**	**1 066 763**	**1 970 432**

25. Deposits from customers

Deposits from customers	30.09.2016	31.12.2015	30.09.2015
Deposits from individuals	**61 361 999**	**59 200 715**	**56 389 260**
Term deposits	23 131 275	26 967 411	25 904 883
Current accounts	38 063 901	32 087 123	30 338 905
Other	166 823	146 181	145 472
Deposits from enterprises	**41 181 108**	**38 787 658**	**33 790 069**
Term deposits	20 613 589	20 119 828	17 143 778
Current accounts	15 810 061	14 957 442	13 612 771
Loans	3 986 977	3 002 047	2 255 996
Other	770 481	708 341	777 524
Deposits from public sector	**4 107 600**	**3 256 813**	**5 027 049**
Term deposits	2 440 487	1 476 264	3 287 733
Current accounts	1 655 826	1 668 272	1 739 103
Other	11 287	112 277	213
Total	**106 650 707**	**101 245 186**	**95 206 378**

26. Sell-buy-back transactions

Sell-buy-back transactions	30.09.2016	31.12.2015	30.09.2015
Sell-buy-back transactions from banks	1 238 351	4 637 841	6 015 573
Sell-buy-back transactions from customers	-	620 190	395 770
Razem	**1 238 351**	**5 258 031**	**6 411 343**

27. Subordinated liabilities

Subordinated liabilities	Redemption date	Currency	Nominal value
Tranche 1	05.08.2025	EUR	100 000
Tranche 2 *	14.12.2016	PLN	100 000

* Concerns Santander Consumer Bank

Movements in subordinated liabilities	30.09.2016	31.12.2015	30.09.2015
As at the beginning of the period	**526 634**	**1 539 967**	**1 539 967**
Increase (due to):	**16 341**	**168 913**	**161 795**
- interest on subordinated loan	13 480	45 260	39 015
- FX differences	2 861	123 653	122 780
Decrease (due to):	**(12 999)**	**(1 182 246)**	**(1 176 877)**
- subordinated loans repayment	-	(1 138 338)	(1 138 338)
- interest repayment	(12 999)	(43 908)	(38 539)
Subordinated liabilities - as at the end of the period	**529 976**	**526 634**	**524 885**
Short-term	102 497	2 285	2 939
Long-term (over 1 year)	427 479	524 349	521 946

Subordinated loans in the amount of PLN 1,138,338 k were repaid to KBC in June 2015 as they no longer qualified to be treated as Tier II capital under CRD IV/CRR rules.

In thousands of PLN

28. Debt securities in issue

Debt securities in issue	ISIN	Nominal value	Currency	Redemption date	30.09.2016
Series A	PLBZ00000150	500 000	PLN	19.12.2016	
Series C bank securities	PLBZ00000218	100 000	PLN	17.02.2017	
Series D	PLBZ00000200	185 000	PLN	26.02.2017	
Series B	PLBZ00000168	475 000	PLN	17.07.2017	
SCB00006	PLSNTND00034	100 000	PLN	07.08.2017	
SCB00008	not quoted	110 000	PLN	30.08.2017	
SCB00010	not quoted	20 000	PLN	30.08.2017	
SCB00012	PLSNTND00042	215 000	PLN	04.10.2017	
SCB00019	PLSNTND00083	220 000	PLN	30.10.2017	
SCB00022	PLSNTND00091	100 000	PLN	16.02.2018	
SCB00031	not quoted	40 000	PLN	23.02.2018	
SCB00017	PLSNTND00059	50 000	PLN	18.06.2018	
Series C	PLBZ00000176	485 000	PLN	25.06.2018	
SCB00018	PLSNTND00067	170 000	PLN	12.08.2019	
SCB00032	not quoted	20 000	PLN	26.08.2019	
SCB00033	not quoted	50 000	PLN	26.02.2020	
SCB00034	not quoted	140 000	PLN	05.05.2020	
SCB00035	not quoted	82 000	PLN	29.05.2020	
SCB00036	not quoted	100 000	PLN	10.08.2020	
Securitized bonds Float sale	XS1275288295	1 051 125	PLN	19.08.2025	
Securitized bonds Float sale	not quoted	1 000 000	PLN	16.09.2026	
Debt securities in issue					**5 234 569**

Debt securities in issue	ISIN	Nominal value	Currency	Redemption date	31.12.2015
SCB00013	not quoted	25 000	PLN	27.01.2016	
SCBP00330500	not quoted	50 000	PLN	29.01.2016	
SCBP00310038	not quoted	38 000	PLN	29.01.2016	
SCB00014	not quoted	10 000	PLN	03.02.2016	
SCBP00360217	not quoted	21 700	PLN	12.02.2016	
SCBP00340050	not quoted	50 000	PLN	12.02.2016	
Series A bank securities	PLBZ00000184	230 000	PLN	17.02.2016	
SCB00016	not quoted	50 000	PLN	24.02.2016	
SCB00030	not quoted	40 000	PLN	24.03.2016	
SCB00001	not quoted	60 000	PLN	29.04.2016	
SCB00002	not quoted	10 000	PLN	29.04.2016	
SCB00027	not quoted	50 000	PLN	29.04.2016	
SCB00028	not quoted	20 000	PLN	29.04.2016	
SCB00029	not quoted	50 000	PLN	13.05.2016	
SCB00005	PLSNTND00026	100 000	PLN	08.08.2016	
Series A	PLBZ00000150	500 000	PLN	19.12.2016	
Series B	PLBZ00000168	475 000	PLN	17.07.2017	
SCB00006	PLSNTND00034	100 000	PLN	07.08.2017	
SCB00008	not quoted	110 000	PLN	30.08.2017	
SCB00010	not quoted	20 000	PLN	30.08.2017	
SCB00012	PLSNTND00042	215 000	PLN	04.10.2017	
SCB00019	PLSNTND00083	220 000	PLN	30.10.2017	
SCB00022	PLSNTND00091	100 000	PLN	16.02.2018	
SCB00017	PLSNTND00059	50 000	PLN	18.06.2018	
Series C	PLBZ00000176	485 000	PLN	25.06.2018	
SCB00018	PLSNTND00067	170 000	PLN	12.08.2019	
Securitized bonds Float sale	XS1275288295	1 051 125	PLN	19.08.2025	
Debt securities in issue - as at the end of the period					**4 320 891**

In thousands of PLN

Debt securities in issue	ISIN	Nominal value	Currency	Redemption date	30.09.2015
SCB00024	not quoted	40 000	PLN	30.10.2015	
SCB00025	not quoted	20 000	PLN	30.10.2015	
SCBP00300111	not quoted	106 000	PLN	15.12.2015	
SCB00021	not quoted	40 000	PLN	24.12.2015	
SCB00013	not quoted	25 000	PLN	27.01.2016	
SCBP00330500	not quoted	50 000	PLN	29.01.2016	
SCBP00310038	not quoted	38 000	PLN	29.01.2016	
SCB00014	not quoted	10 000	PLN	03.02.2016	
SCBP00360217	not quoted	21 700	PLN	12.02.2016	
SCBP00340050	not quoted	50 000	PLN	12.02.2016	
Series A bank securities	PLBZ00000184	230 000	PLN	17.02.2016	
SCB00016	not quoted	50 000	PLN	24.02.2016	
SCB00001	not quoted	60 000	PLN	29.04.2016	
SCB00002	not quoted	10 000	PLN	29.04.2016	
SCB00005	PLSNTND00026	100 000	PLN	08.08.2016	
Series A	PLBZ00000150	500 000	PLN	19.12.2016	
Series B	PLBZ00000168	475 000	PLN	17.07.2017	
SCB00006	PLSNTND00034	100 000	PLN	07.08.2017	
SCB00008	not quoted	110 000	PLN	30.08.2017	
SCB00010	not quoted	20 000	PLN	30.08.2017	
SCB00012	PLSNTND00042	215 000	PLN	04.10.2017	
SCB00019	PLSNTND00083	220 000	PLN	30.10.2017	
SCB00022	PLSNTND00091	100 000	PLN	16.02.2018	
SCB00017	PLSNTND00059	50 000	PLN	18.06.2018	
Series C	PLBZ00000176	485 000	PLN	25.06.2018	
SCB00018	PLSNTND00067	170 000	PLN	12.08.2019	
Securitized bonds Float A	XS1070423931	17 717	PLN	20.06.2025	
Securitized bonds Float sale	XS1275288295	1 051 125	PLN	19.08.2025	
Debt securities in issue - as at the end of the period					**4 388 201**

Movements in debt securities in issue	30.09.2016	31.12.2015	30.09.2015
As at the beginning of the period	**4 320 891**	**3 373 374**	**3 373 374**
Increase (due to:)	**2 062 494**	**2 217 617**	**2 026 168**
- debt securities in issue	1 967 000	2 111 125	1 951 125
- interest on debt securities in issue	95 494	106 492	75 043
Decrease (due to):	**(1 148 816)**	**(1 270 100)**	**(1 011 341)**
- debt securities redemption	(1 059 010)	(1 159 567)	(935 020)
- interest repayment	(89 806)	(110 533)	(76 321)
As at the end of the period	**5 234 569**	**4 320 891**	**4 388 201**

In thousands of PLN

29. Other liabilities

Other liabilities	30.09.2016	31.12.2015	30.09.2015
Settlements of stock exchange transactions	27 938	25 376	21 122
Interbank and interbranch settlements	274 396	202 317	475 799
Provisions:	464 476	516 600	487 776
Employee provisions	*341 052*	*380 724*	*341 525*
Provisions for legal claims	*58 288*	*48 582*	*59 198*
Provisions for off-balance sheet credit facilities	*56 486*	*75 340*	*75 440*
*Provisions for restructuring **	*5 350*	*8 648*	*8 313*
Other	*3 300*	*3 306*	*3 300*
Sundry creditors	259 380	342 341	296 043
Other deferred and suspended income	257 089	232 127	221 195
Public and law settlements	84 735	52 119	53 703
Accrued liabilities	483 747	429 113	395 499
Finance lease related settlements	60 703	78 866	41 531
Other	229	229	311
Total	**1 912 693**	**1 879 088**	**1 992 979**

* Provision acquired as a result of the acquisition of control over Santander Consumer Bank on July 1, 2014 in the amount of PLN 15,547 k (as at 30.09.2016 in the amount of PLN 5,350 k) referred to:

- restructuring of employment in the bank PLN 3,323 k (as at 30.09.2016 in the amount of PLN 1,959 k),
- liquidation of branches PLN 12,224 k. (as at 30.06.2016 in the amount of PLN 3,391 k).

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

It is expected that most of cash flows related to the raised restructuring provision will materialise in the years 2016-2018.

Change in provisions 30.09.2016	Employee provisions	Provisions for legal claims	Provisions for off balance sheet credit facilities	Other*	Total
As at the beginning of the period	**380 724**	**48 582**	**75 340**	**11 954**	**516 600**
Provision charge	249 182	76 673	75 336	34	401 225
Utilization	(244 847)	(66 118)	550	(6)	(310 421)
Write back	(44 267)	(849)	(94 740)	(3 294)	(143 150)
Other changes	260	-	-	(38)	222
Balance at the end of the period	**341 052**	**58 288**	**56 486**	**8 650**	**464 476**
Short-term	278 264	58 288	46 252	8 650	391 454
Long-term	62 788	-	10 233	-	73 021

* Position Other provisions include, among others, provisions for restructuring provision of PLN 5,350 k.

In thousands of PLN

Change in provisions 31.12.2015	Employee provisions	Provisions for legal claims	Provisions for off balance sheet credit facilities	Other*	Total
As at the beginning of the period	**365 083**	**53 128**	**87 517**	**1 089 466**	**1 595 194**
Provision charge	297 134	12 320	115 734	1 811	426 999
Utilization	(236 171)	(7 628)	252	-	(243 547)
Write back	(45 639)	(9 238)	(128 163)	(1 079 323) **	(1 262 363)
Other changes	317	-	-	-	317
Balance at the end of the period	**380 724**	**48 582**	**75 340**	**11 954**	**516 600**
Short-term	321 264	48 582	60 944	11 954	442 744
Long-term	59 460	-	14 396	-	73 856

* Position Other provisions include, among others, provisions for restructuring provision of PLN 8,648 k.

**On 27 February 2015, Bank Zachodni WBK S.A. lost control over insurance entities BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. („TUnŻ S.A.") and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogolnych S.A. („TUO S.A.") following the exercise of a call option by Aviva International Insurance Limited ("Aviva Ltd.").

Change in provisions 30.09.2015	Employee provisions	Provisions for legal claims	Provisions for off balance sheet credit facilities	Other*	Total
As at the beginning of the period	**365 083**	**53 128**	**87 517**	**1 089 466**	**1 595 194**
Provision charge	217 286	11 349	87 745	257	316 637
Utilization	(206 051)	(3 215)	95	-	(209 171)
Write back	(35 109)	(2 064)	(99 917)	(1 078 110) **	(1 215 200)
Other changes	316	-	-	-	316
Balance at the end of the period	**341 525**	**59 198**	**75 440**	**11 613**	**487 776**
Short-term	272 243	59 198	62 972	11 613	406 026
Long-term	69 282	-	12 468	-	81 750

* Position Other provisions include, among others, provisions for restructuring provision of PLN 8,313 k.

**On 27 February 2015, Bank Zachodni WBK S.A. lost control over insurance entities BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. („TUnŻ S.A.") and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogolnych S.A. („TUO S.A.") following the exercise of a call option by Aviva International Insurance Limited ("Aviva Ltd.").

In thousands of PLN

30. 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.

	30.09.2016		31.12.2015		30.09.2015	
Assets	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
Cash and balances with central banks	3 259 318	3 259 318	6 229 853	6 229 853	3 480 147	3 480 147
Loans and advances to banks	2 836 355	2 836 355	3 580 957	3 580 957	3 386 246	3 386 246
Financial assets held for trading	3 254 695	3 254 695	4 165 511	4 165 511	4 621 166	4 621 166
Hedging derivatives	121 004	121 004	164 777	164 777	153 198	153 198
Loans and advances to customers	101 154 367	100 803 943	94 913 884	95 598 939	91 915 873	92 300 625
Financial assets available for sale	25 479 557	25 479 557	24 622 078	24 622 078	25 827 142	25 827 142
Investments in associates	856 454	856 454	831 142	831 142	817 264	817 264
Liabilities						
Deposits from banks	1 574 087	1 574 087	1 066 763	1 066 763	7 986 005	7 986 005
Hedging derivatives	1 893 371	1 893 371	2 079 805	2 079 805	2 208 813	2 208 813
Financial liabilities held for trading	2 147 713	2 147 713	2 535 684	2 535 684	2 194 603	2 194 603
Subordinated liabilities	529 976	554 846	526 634	603 709	524 885	504 863
Deposits from customers	106 650 707	106 689 968	101 245 186	101 270 892	95 602 148	95 643 559

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.

Loans and advances to customers: Carried at net value after impairment charges. Fair value is calculated as the discounted value of the expected future cash flows in respect of principal and interest payments. It is assumed that loans and advances will be repaid at their contractual maturity date. The estimated fair value of the loans and advances reflects changes in the credit risk from the moment of sanction (margins) and changes in interest rates.

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

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

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

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

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

As at 30.09.2016 and in the comparable periods the Group made the following classification of its financial instruments measured at fair value in the statement of financial position:

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

Level II (the measurement methods based on market-derived parameters): This level includes derivative instruments. Level II also classifies variable-rate State Treasury bonds. These bonds were measured using discounted cash flow models based on the discount curve derived from the market of fixed-rate treasury bonds. Derivative instruments are measured using discounted cash flow models based on the discount curve derived from the inter-bank market.

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

The objective of using a valuation technique is to determine the fair value, i.e., prices, which were obtained by the sale of an asset in 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 Category III are made semi-annually by specialized units of the Bank using income methods based on discounted cash flows and comparative methods based on market multiples of comparable transactions multiples or stock quotes.

The final valuation is approved jointly by representatives of the Risk Management Division and the Financial Accounting and Control Division, who assess it taking into account in particular:

a) which valuation technique requires the least subjective / expert changes to the input data (ie. to maximize the use of appropriate, observable parameters and minimizes the use of unobservable data),

b) span ranges of valuation and the convergence of the results indicated by valuation techniques,

c) the differences in the values indicated by the different valuation techniques.

The most significant capital investments included within this category are AVIVA Group companies:

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).

In the current reporting period, the valuations remained unchanged.

As at 30.09.2016 and in the comparable periods the Group classified its financial instruments to the following fair value levels:

30.09.2016	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	1 251 158	2 003 281	256	3 254 695
Hedging derivatives	-	121 004	-	121 004
Financial assets available for sale - debt securities	15 085 926	9 450 161	-	24 536 087
Financial assets available for sale- equity securities	36 524	-	906 946	943 470
Total	**16 373 608**	**11 574 446**	**907 202**	**28 855 256**
Financial liabilities				
Financial liabilities held for trading	598 881	1 548 832	-	2 147 713
Hedging derivatives	-	1 893 371	-	1 893 371
Total	**598 881**	**3 442 203**	**-**	**4 041 084**

In thousands of PLN

31.12.2015	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	1 743 074	2 420 598	1 839	4 165 511
Hedging derivatives	-	164 777	-	164 777
Financial assets available for sale - debt securities	15 299 779	8 163 855	-	23 463 634
Financial assets available for sale- equity securities	43 232	-	1 115 212	1 158 444
Total	**17 086 085**	**10 749 230**	**1 117 051**	**28 952 366**
Financial liabilities				
Financial liabilities held for trading	524 198	2 011 486	-	2 535 684
Hedging derivatives	-	2 079 805	-	2 079 805
Total	**524 198**	**4 091 291**	**-**	**4 615 489**

30.09.2015	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	1 787 604	2 832 320	1 242	4 621 166
Hedging derivatives	-	153 198	-	153 198
Financial assets available for sale - debt securities	16 024 602	8 900 649	-	24 925 251
Financial assets available for sale- equity securities	43 725	-	858 166	901 891
Total	**17 855 931**	**11 886 167**	**859 408**	**30 601 506**
Financial liabilities				
Financial liabilities held for trading	290 169	1 904 434	-	2 194 603
Hedging derivatives	-	2 208 813	-	2 208 813
Total	**290 169**	**4 113 247**	**-**	**4 403 416**

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

Level III	Financial assets			Financial liabilities
30.09.2016	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	62	-	61 287	-
recognised in income statement (unrealised)	*62*	-	*63 651*	-
recognised in equity	-	-	*(2 364)*	-
Purchase	312	-	9 900	-
Sale	(1 957)	-	(279 454)	-
Transfer between levels	-	-	-	-
At the period end	**256**	**-**	**906 945**	**-**

Level III	Financial assets			Financial liabilities
31.12.2015	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	**1 390**	**-**	**850 757**	**-**
Profits or losses	23	-	270 526	-
recognised in income statement (unrealised)	*23*	-	-	-
recognised in equity	-	-	*270 526*	-
Purchase	1 278	-	6 597	-
Sale	(852)	-	(15 820)	-
Transfer between levels	-	-	3 152	-
At the period end	**1 839**	**-**	**1 115 212**	**-**

In thousands of PLN

Level III	Financial assets			Financial liabilities
30.09.2015	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	**1 390**	**-**	**850 757**	**-**
Profits or losses	72	-	1 986	-
recognised in income statement (unrealised)	*72*	-	-	-
recognised in equity	-	-	*1 986*	-
Purchase	176	-	6 774	-
Sale	(396)	-	(4 503)	-
Transfer between levels	-	-	3 152	-
At the period end	**1 242**	**-**	**858 166**	**-**

31. Contingent liabilities

Significant court proceedings

As at 30.09.2016 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 623,786 k, which is ca 3.00% of the Group's equity. This amount includes PLN 420,561 k claimed by the Group, PLN 182,486 k in claims against the Group and PLN 20,739 k of the Group's receivables due to bankruptcy or arrangement cases.

As at 30.09.2016 the amount of significant court proceedings which had been completed amounted to PLN 365,213 k.

As at 30.09.2016, the value of provisions for legal risks, for court cases against the Bank was PLN 25,790 k. In 8 cases against the Bank, where the claim value was high, a provision of PLN 23,278 k was raised. The remaining amount of PLN 2,512 k covers 162 cases.

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

As at 31.12.2015 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 483,466 k, which is ca 2.35% of the Group's equity. This amount includes PLN 256,443 k claimed by the Group, PLN 211,811 k in claims against the Group and PLN 15,212 k of the Group's receivables due to bankruptcy or arrangement cases.

As at 31.12.2015 the amount of significant court proceedings which had been completed amounted to PLN 80,040 k.

As at 31.12.2015, the value of provisions for legal risks, for court cases against the Bank was PLN 27,373 k. In eight cases against the Bank, where the claim value was high, a provision of PLN 25,000 k was raised. The remaining amount of PLN 2,373 k covers 58 cases.

As at 30.09.2015 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 amounted to PLN 385,145 k, which is ca 1.93% of the Group's equity. This amount includes PLN 165,460 k claimed by the Group, PLN 204,899 k in claims against the Group and PLN 14,786 k of the Group's receivables due to bankruptcy or arrangement cases.

As at 30.09.2015 the amount of significant court proceedings which had been completed amounted to PLN 79,179 k.

As at 30.09.2015, the value of provisions for legal risks, for court cases against the Bank was PLN 38,105 k. In 6 cases against the Bank, where the claim value was high, a provision of PLN 31,396 k was raised. The remaining amount of PLN 6,709 k covers 137 cases.

Off-balance sheet liabilities

The value of contingent liabilities and off-balance sheet transactions by categories is presented below. The value of guarantees and letters of credit, as presented in the table below, reflects the maximum possible loss which would have been disclosed at the balance sheet date without taking into account the collateral held by the Bank if the customers failed to meet their commitments towards third parties in full.

Contingent liabilities - sanctioned	30.09.2016	31.12.2015	30.09.2015
Liabilities sanctioned			
- financial	**22 522 429**	**21 870 729**	**20 880 023**
- credit lines	18 495 662	18 462 963	17 639 670
- credit cards debits	3 352 284	2 966 977	2 876 732
- import letters of credit	589 766	437 988	353 655
- term deposits with future commencement term	84 717	2 801	9 966
- guarantees	**4 306 710**	**4 397 631**	**4 561 226**
Total	**26 829 139**	**26 268 360**	**25 441 249**

32. The nominal value of derivatives

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

	Derivatives' nominal values	30.09.2016	31.12.2015	30.09.2015
1.	**Term derivatives (hedging)**	**34 659 642**	**37 200 049**	**38 591 242**
a)	Single-currency interest rate swap	2 531 120	2 115 615	3 315 386
b)	Macro cash flow hedge -purchased (IRS)	2 362 000	3 498 747	2 221 024
c)	Macro cash flow hedge -purchased (CIRS)	13 470 773	15 012 938	15 786 968
d)	Macro cash flow hedge -sold (CIRS)	14 932 540	16 572 749	17 267 864
e)	FX Swap cash flow hedge -purchased (FX)	686 575	-	-
f)	FX Swap cash flow hedge-sold (FX)	676 634	-	-
2.	**Term derivatives (trading)**	**292 723 082**	**250 073 754**	**222 137 200**
a)	Interest rate operations	175 603 792	147 668 316	135 644 209
	Single-currency interest rate swap	145 799 396	130 621 773	114 030 821
	FRA - purchased amounts	23 980 000	13 375 000	18 220 000
	Options	5 804 496	3 671 543	3 393 388
	Forward- sold amounts	19 900	-	-
b)	FX operations	117 119 290	102 405 438	86 492 991
	FX swap – purchased amounts	28 874 131	22 949 839	20 012 995
	FX swap – sold amounts	28 806 956	22 881 247	20 003 998
	Forward- purchased amounts	4 866 805	4 872 628	3 595 496
	Forward- sold amounts	4 924 225	4 899 101	3 615 690
	Cross-currency interest rate swap – purchased amounts	13 310 721	9 061 073	7 884 133
	Cross-currency interest rate swap – sold amounts	13 320 368	9 118 586	7 948 881
	FX options -purchased CALL	5 609 763	6 972 190	5 727 782
	FX options -purchased PUT	5 898 279	7 339 292	5 988 117
	FX options -sold CALL	5 609 763	6 972 190	5 727 782
	FX options -sold PUT	5 898 279	7 339 292	5 988 117
3.	**Currency transactions- spot**	**1 415 087**	**3 022 127**	**8 657 553**
	Spot-purchased	707 799	1 511 171	4 329 084
	Spot-sold	707 288	1 510 956	4 328 469
4.	**Transactions on equity financial instruments**	**1 281 612**	**1 485 063**	**1 219 121**
	Derivatives contract - purchased	630 457	731 883	601 097
	Derivatives contract - sold	651 155	753 180	618 024
	Total	**330 079 423**	**291 780 993**	**270 605 116**

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

33. Basis of FX conversion

As at 30.09.2016, FX denominated balance sheet positions were converted into PLN in line with the NBP FX table no. 190/A/NBP/2016 dd. 30.09.2016.

34. Shareholders with min. 5% voting power

According to the information held by the Bank's Management Board, the shareholders with a min. 5% of the total number of votes at the Bank Zachodni WBK General Meeting as at the publication date of the condensed interim consolidated report for Q3 2016 /26.10.2016/ are Banco Santander S.A. and Nationale Nederlanden OFE.

In thousands of PLN

Shareholder	Number of shares held		% in the share capital		Number of votes at AGM		Voting power at AGM	
	26.10.2016	27.07.2016	26.10.2016	27.07.2016	26.10.2016	27.07.2016	26.10.2016	27.07.2016
Banco Santander S.A.	68 880 774	68 880 774	69,41%	69,41%	68 880 774	68 880 774	69,41%	69,41%
Nationale Nederlanden OFE	5 110 586	5 110 586	5,15%	5,15%	5 110 586	5 110 586	5,15%	5,15%
Other	25 243 174	25 243 174	25,44%	25,44%	25 243 174	25 243 174	25,44%	25,44%
Total	**99 234 534**	**99 234 534**	**100,00%**	**100,00%**	**99 234 534**	**99 234 534**	**100,00%**	**100,00%**

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

No. of Bank Zachodni WBK shares held and rights to them	As at 26.10.2016	As at 27.07.2016	Change
Members of the Supervisory Board	-	-	-
Members of the Management Board	24 279	30 941	(6 662)

Management Board members	26.10.2016		27.07.2016	
	shares	Rights	shares	Rights
Andrzej Burliga	3 000	2 204	4 888	2 204
Artur Chodacki	724	1 253	724	1 253
Eamonn Crowley	-	2 094	-	2 094
Beata Daszyńska-Muzyczka	923	700	923	700
Michael McCarthy	-	2 424	1 074	2 424
Carlos Polaino Izquierdo	-	1 000	-	1 000
Juan de Porras Aguirre	-	2 217	-	2 217
Marcin Prell	-	1 983	-	1 983
Mirosław Skiba	1 057	2 248	3 257	2 248
Feliks Szyszkowiak	204	2 248	1 704	2 248
Total	**5 908**	**18 371**	**12 570**	**18 371**

36. Related party disclosures

Transactions with associates	30.09.2016	31.12.2015	30.09.2015
Assets	**70**	**68**	**66**
Other assets	70	68	66
Liabilities	**109 522**	**60 351**	**100 476**
Deposits from customers	109 232	60 075	100 141
Other liabilities	290	276	335
Income	**15 009**	**49 561**	**30 321**
Fee and commission income	15 009	49 561	30 321
Expenses	**9 117**	**7 689**	**4 589**
Interest expense	1 019	1 237	936
Fee and commission expense	2 324	3 480	2 178
Operating expenses incl.:	5 774	2 972	1 475
General and administrative expenses	*5 774*	*2 972*	*1 475*
Contingent liabilities	**407**	**407**	**851**
Sanctioned:	407	407	851
- financing-related	-	-	407
- guarantees	*407*	*407*	*444*

In thousands of PLN

Transactions with Santander Group	with the parent company			with other entities		
	30.09.2016	31.12.2015	30.09.2015	30.09.2016	31.12.2015	30.09.2015
Assets	**793 989**	**684 477**	**321 717**	**6 223**	**13 376**	**11 261**
Loans and advances to banks, incl:	506 167	337 099	77 352	2 160	1 391	1 090
loans and advances	*299 059*	*252 132*	-	-	-	-
current accounts	*207 108*	*84 967*	*77 352*	*2 160*	*1 391*	*1 090*
Financial assets held for trading	287 647	343 790	242 840	4 063	11 982	10 171
Hedging derivatives	-	1 529	1 305	-	-	-
Other assets	175	2 059	220	-	3	-
Liabilities	**400 744**	**401 482**	**421 854**	**145 502**	**125 302**	**128 078**
Deposits from banks incl.:	74 264	102 590	145 190	1 385	9 193	7 908
current accounts	*74 264*	*102 590*	*145 190*	*1 385*	*9 193*	*7 908*
Hedging derivatives	30 505	22 065	22 409	-	-	-
Financial liabilities held for trading	295 945	276 696	254 253	22 321	7 220	7 356
Deposits from customers	-	-	-	112 274	105 202	106 649
Other liabilities	30	131	2	9 522	3 687	6 165
Income	**988 932**	**736 899**	**302 596**	**(2 951)**	**473**	**47**
Interest income	10 549	13 035	9 726	27	11	10
Fee and commission income	1 356	2 220	1 565	140	63	48
Other operating income	-	-	-	-	614	614
Net trading income and revaluation	977 027	721 644	291 305	(3 118)	(215)	(625)
Expenses	**1 023**	**1 083**	**715**	**16 422**	**16 452**	**11 638**
Interest expense	180	116	29	976	1 034	819
Fee and commission expense	843	967	686	166	192	3
Operating expenses incl.:	-	-	-	15 280	15 226	10 816
Bank's staff, operating expenses and management costs	-	-	-	*15 280*	*15 016*	*10 728*
Other operating expenses	-	-	-	-	*210*	*88*
Contingent liabilities	**-**	**280**	**261**	**-**	**-**	**-**
Sanctioned:	-	280	261	-	-	-
- financing-related	-	*280*	-	-	-	-
- guarantees	-	-	*261*	-	-	-
Derivatives' nominal values	**55 928 224**	**48 521 643**	**47 969 301**	**1 591 356**	**2 059 430**	**2 012 324**
Cross-currency interest rate swap – purchased amounts	5 605 955	3 704 776	3 662 617	-	-	-
Cross-currency interest rate swap – sold amounts	5 490 659	3 586 042	3 570 485	-	-	-
Single-currency interest rate swap	16 473 748	11 991 876	10 560 288	1 591 356	1 591 418	1 586 000
FRA - purchased amounts	-	1 600 000	3 100 000	-	-	-
Options	5 782 957	3 626 907	3 322 745	-	-	-
FX swap – purchased amounts	4 834 432	4 412 806	4 095 849	-	-	-
FX swap – sold amounts	4 857 692	4 401 243	4 104 620	-	-	-
FX options -purchased CALL	2 849 073	3 563 906	2 841 857	-	-	-
FX options -purchased PUT	2 971 074	3 751 086	2 980 432	-	-	-
FX options -sold CALL	2 760 690	3 408 284	2 885 925	-	-	-
FX options -sold PUT	2 927 205	3 588 205	3 007 685	-	-	-
Spot-purchased	178 761	144 011	1 718 014	-	-	-
Spot-sold	178 570	143 917	1 718 045	-	-	-
Forward- purchased amounts	181 813	165 120	110 436	-	-	-
Forward- sold amounts	205 211	169 671	115 530	-	-	-
Capital derivatives contract - purchased	630 384	263 793	174 773	-	468 012	426 324

37. Acquisitions and disposals of investments in subsidiaries and associates

Acquisitions and disposals of investments in subsidiaries and associates in 3Q 2016 and in 2015

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

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

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

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

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

Metrohouse Franchise S.A. shares sale transaction

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

Disposal of a shareholding in Lizar Sp. z o.o.

On 29.10.2015, BZ WBK Lease entered into an agreement with Poland Media Properties S.A. whereby it sold all its shares of Lizar Sp. z o.o. As a result, the company ceased to be a member of Bank Zachodni WBK Group.

Registration of SC Poland Consumer 15-1 sp. z o.o.

On 07.07.2015, a subsidiary of Santander Consumer Bank trading as SC Poland Consumer 15-1 sp. z o.o. was registered. This is a special-purpose vehicle formed for the purpose of securitisation of a part of the credit portfolio, its shareholder being a foreign legal person that is not associated with the Group. As the control criteria set out in IFRS 10.7 are met, the company is considered as an entity controlled by Santander Consumer Bank.

The closing of the sale by the Bank of a 17% equity stake in BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. to AVIVA International Insurance Limited

On 27.02.2015, Bank Zachodni WBK S.A. lost control over insurance entities BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. („TUnŻ S.A.") and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. („TUO S.A.") following the exercise of a call option by Aviva International Insurance Limited ("Aviva Ltd."). After the fulfilment of the conditions precedent, including the obtaining of the European Commission consent and a decision of the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego) confirming the absence of formal grounds for objecting to the direct acquisition by Aviva Ltd. and indirect acquisition by Aviva plc. of 17% of shares in TUnŻ S.A. and 17% of shares in TUO S.A., the ownership transfer of the abovementioned shares has been completed.

After the transfer, the Bank holds 49% of the total number of shares in the share capital and the total number of the votes at the general meetings of each of the Insurance Companies, with the remaining 51% of the shares and votes being held by Aviva Ltd.

Tables below present an analysis of assets and liabilities which were transferred upon the control loss and total profit before tax on the transaction.

as at 27.02.2015	BZ WBK-Aviva TUO S.A.	BZ WBK-Aviva TUŻ S.A.
ASSETS		
Loans and advances to banks	17 629	52 187
Financial assets held for trading	5 784	27 493
Investment securities	234 773	104 897
Intangible assets	179	180
Property, plant and equipment	552	786
Net deferred tax assets	(1 613)	(93)
Other assets	58 228	743 166
Total assets	**315 532**	**928 616**
LIABILITIES		
Current income tax liabilities	(9 626)	(3 470)
Other liabilities	(196 992)	(861 955)
Total liabilities	**(206 618)**	**(865 425)**
Book value of net assets	**108 914**	**63 191**

Total profit before tax on the transaction	as at 27.02.2015
Fair value of considaration received	244 317
Revaluation of retained non-controlling interest	766 360
Non-controlling interests derecognised	540 854
Other adjustments related to loss of controll	35 604
Less: book value of identifiable net assets	(172 105)
Less: derecognition of goodwill	(853 809)
Total	**561 221**

38. 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.

39. 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.

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

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

41. 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.

42. 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.

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

- The settlement of the acquisition of Visa Europe Limited by Visa Inc.(details in Note 7),
- The closing of the sale by the Bank of a 17% equity stake in BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. to AVIVA International Insurance Limited,
- Controlling stake at the companies PSA Finance sp. z o.o. and indirectly, PSA Consumer Finance sp. z o.o. (details in Note 49).

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

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

45. Dividend per share

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

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

Dividend per share is PLN 13.

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

As at 30.09.2016, 31.12.2015 and 30.09.2015 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.

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

As at 30.09.2016, 31.12.2015 and 30.09.2015, 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.

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

As at 30.09.2016, 31.12.2015 and 30.09.2015 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.

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

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

Transaction description

On 30.09.2016, Santander Consumer Bank (SCB), a subsidiary of Bank Zachodni WBK, and Banque PSA Finance entered into an agreement establishing strategic cooperation with regard to financing in Poland the vehicles manufactured by PSA Peugeot Citroen (PSA), financing the working capital requirements of the Polish PSA network and joint distribution of financial and banking products to the Polish customers of PSA. Under the above agreement, as of 1.10.2016 ("Change of Control Date"), Santander Consumer Finance (a subsidiary of SCB) purchased 50% shares of PSA Finance and, indirectly, PSA Consumer Finance for PLN 61,352,500. The price paid, which is a preliminary price, represents 50% of the reference book value of the acquired companies as agreed by the parties. The final price will be determined by the end of Q1 2017 and will depend on the outcome of the review of the acquired assets and liabilities carried out by the acquiring entity.

Assets and liabilities recognised at the merger date

As at the date of publication of the condensed interim consolidated financial statements of Bank Zachodni WBK Group for the period ended 30.09.2016, a provisional valuation was made of the acquisition of control over PSA Finance and PSA Consumer Finance. The companies' financial data as at 30.09.2016 that are the basis for this provisional valuation have not been audited and as such are subject to change as a result of a future audit of the financial statements. In addition, the Group has not finalised the process of estimating the fair value as at the date of combination of selected assets and liabilities of the PSA companies or the process of estimating the fair value of the intangible assets recognised in relation to the merger.

In thousands of PLN

The table below shows a preliminary estimation of the fair value of the acquired assets and liabilities.

as at 01.10.2016	PSA Finance sp. z o.o.	PSA Consumer Finance sp. z o.o.
ASSETS		
Cash and balances with central bank	1	5
Loans and advances to banks	317	33
Loans and advances to customers	735 486	141
Intangible assets	61	-
Property, plant and equipment	2 030	3
Net deferred tax assets	36 415	1
Other assets	13 145	13
Total assets	**787 455**	**196**
LIABILITIES		
Deposits from banks	(476 864)	-
Deposits from customers	(96 731)	-
Current income tax liabilities	(6 060)	-
Other liabilities	(71 192)	-
Total liabilities	(650 847)	-
Fair value of identifiable net assets	**136 608**	**196**

as at	01.10.2016
Goodwill	
Total consideration	61 353
Non-controlling interests	75 451
Less: fair value of identifiable net assets	(136 804)
Total	**-**

50. Macroeconomic Situation in Q3 2016

Economic Growth

The available data suggest that the economic growth in Poland in Q3 2016 was similar to H1 2016, although it might have slowed down a bit due to weak tendencies in investment and foreign trade. Investment was undermined by weak disbursement of EU funds in the transition period between two EU financial frameworks. It affected mostly investment in public infrastructure. Private investment most likely decelerated as well. The decrease in investment was observed mainly in non-housing construction, however, the recent data suggest that weaker tendencies could also be seen in housing construction, which had a positive contribution to the investment earlier in the year. Exports decelerated slightly versus Q2 2016 due to a deterioration in global trade. Imports decelerated as well, but less visibly than exports, which worsened the foreign trade's contribution to Polish GDP. Private consumption might have accelerated versus H1 2016 thanks to the positive labour market situation and payments of family benefits (500+ programme). Poland's external trade imbalance remained low - according to the bank's estimate the current account deficit accounted for approximately 0.6% of GDP at the end of September 2016.

Labour Market

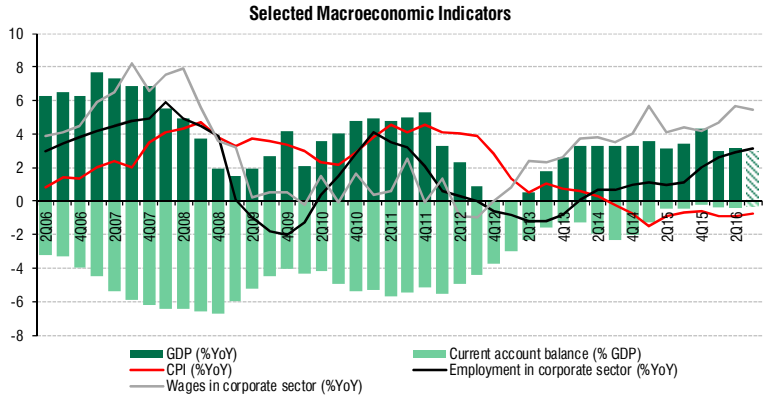
The labour market was strong in Q3 2016. Average employment in the corporate sector grew by approximately 3.1% YoY, amid a steady increase in the demand for labour. However, the data from other sources (e.g. Labour Force Survey, LFS) suggest that the growth in the employment statistics might have resulted to some extent from changes in the type of job contracts. Unemployment continued to fall, with regard to both the official unemployment rate and LFS unemployment, reaching its lowest levels since early 90s (8.4% and 5.9%, respectively). Corporate sector wages increased in nominal terms by 4.6% YoY, which together with negative growth of consumer prices and an increase in employment caused a decent rise in real wage bill (by approximately 8.7% YoY). A rise in wage pressure was visible, primarily in the retail sector.

Inflation

Inflationary pressure was low in Q3 2016, but CPI inflation started to rise, mostly due to low base effect in fuel prices. CPI inflation stood at -0.8% YoY on average and negative price growth was visible in many consumer products. Deflationary tendencies strengthened in the core categories, driving core inflation down to -0.4% YoY on average (excluding food and energy prices).

Monetary Policy

In Q3 2016, the Monetary Policy Council (MPC) kept monetary policy parameters unchanged. According to the MPC members, deflation did not show any negative effects, the GDP slowdown was temporary and interest rates were at optimum levels. The Council predicted that CPI inflation would turn positive in the next quarters. At the same time, central bankers believed that the downside risks to the global economic conditions and the volatility of commodity prices remained the sources of uncertainty for domestic economy and price developments. In general, the MPC rhetoric reduced market expectations of possible interest rate cuts.



Credit and Deposit Markets

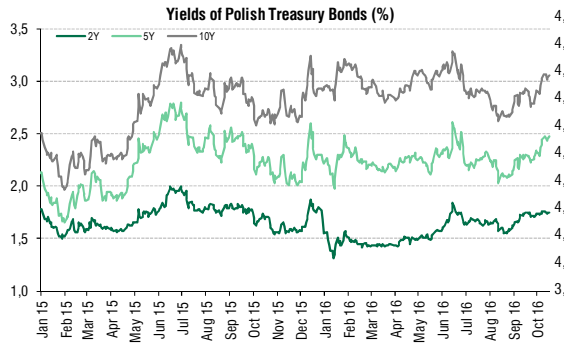
In Q3 2016, the growth in total deposits accelerated by 9.0% YoY on average. It stemmed from a solid increase in deposits from the household and corporate sectors. The credit market slowed down compared to Q2 2016. The growth in loans to households stabilised around 4% YoY (FX-adjusted). Mortgage loans rose by 3% YoY. At the same time, the growth of the corporate loan portfolio was curbed, which resulted mainly from a lower demand for working capital loans, however, other categories expanded at a similar pace as before. In particular, investment loans rose by almost 10% YoY.

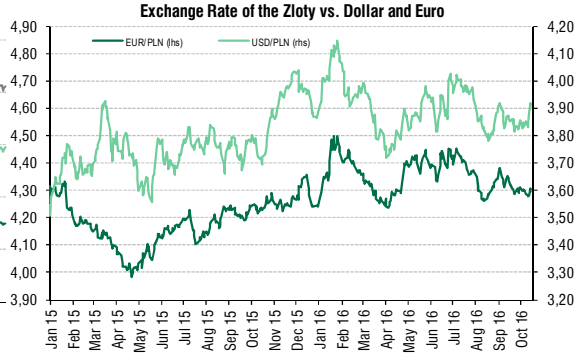
Financial Market

Financial markets were quite volatile in Q3 2016. Investor sentiment was driven by the following factors: (1) decisions of the rating agencies: (affirmation of Poland's rating by Fitch in mid-July 2016 at A- with stable outlook); (2) central bank actions (expected rate hikes by the Federal Reserve amid better-than-projected data from the US labour market and data regarding the economic growth); (3) domestic macroeconomic data (disappointing GDP growth in H1 2016 due to a stronger decrease in investments, probable deceleration of GDP growth below 3% YoY, slower-than-expected emergence from deflation; (4) political risk and geopolitical developments (the possibility of so-called "hard Brexit" for the exit of the United Kingdom from the European Union).

These factors determined the direction of the financial markets, in particular changes in the zloty and treasury bonds. In Q3 2016, the domestic debt weakened on the shorter end of the yield curve, mostly due to hawkish rhetoric of the MPC, which reduced market expectations of rate cuts. Moreover, MPC members suggested that their next decision would be to increase rates, yet it should not be expected in the near term. Compared with Q2 2016, the yield curve moved up by 10 b.p. on the short end and belly, while the long end remained relatively stable. As a result, the yield curve flattened.

The Polish currency was impacted by domestic factors, including the President's draft on FX loan conversion. EUR/PLN fell temporarily to 4.25 in August and after a correction in the following weeks exceeded 4.30 again, remaining considerably below this year's high at 4.50 following the January's decision of S&P. In the period from July to September, the zloty gained 2.5% against the euro, 2% against the Swiss franc, 3% against the US dollar and almost 7% against the British pound. Compared with the end of September 2015, the zloty lost 3% against the Swiss franc and 2% against the euro and the US dollar, but gained 13% against the British pound.





51. Activities of Bank Zachodni WBK Group in Q3 2016

Bank Zachodni WBK

Retail Banking Division

Directions and achievements in respective product lines

In Q3 2016, Bank Zachodni WBK continued the information campaign to notify personal customers of changes implemented from the beginning of August 2016, which:

- optimised and improved the clarity of the bank's offer of products and services (e.g. by limiting the number of cards and term deposits);
- helped to align the schedule of fees and charges with the market conditions (by introducing modifications to personal and savings accounts, debit and credit cards, and payment and cash services).

Accounts and settlement products

In September 2016, BZ WBK Account<20 (Konto<20) for the second year running was selected the best account for customers under 18 in the ranking of personal accounts for the young published by TotalMoney.pl. This recognition was received on account of such parameters as free account maintenance, free online transfers and ATM withdrawals across Poland, relatively wide age range of the target group (between 13 and 20) and no requirement for a parent account.

During the first nine months of 2016, the portfolio of PLN personal accounts grew by 28.1% YoY and reached 3.1m (162.3k accounts more than in the last year). Including FX accounts, the personal account base totalled 3.9m.

Debit cards for individuals

In Q3 2016, Bank Zachodni WBK focused on the promotion of card payments. As part of this endeavour, the Bank:

- launched the second edition of the "Account with 4% interest" ("Konto na 4%") campaign featuring the Account Worth Recommending (Konto Godne Polecenia) bundled with a free-of-charge MasterCard debit card;
- carried out the "Take time off fees" campaign addressed to students, offering the Account Worth Recommending (Konto Godne Polecenia) with a free-of-charge MasterCard debit card and selected services;
- extended the promotional campaign called "10% Cashback on MasterCard<20" ("Nagroda 10% na karcie MasterCard<20"), offering 10% cashback on card transactions at cinemas and theatres.

On 15 September 2016, the bank introduced BZWBK MasterPassTM Digital Wallet which registers and stores payment cards details of BZ WBK customers (Visa and MasterCard) to enable them to make online payments just by logging into the MasterPassTM system, without the need to provide payment card details. A dedicated promotion was launched to encourage customers to use a new payment solution when shopping online.

As at the end of September 2016, the personal debit card portfolio of Bank Zachodni WBK (excluding prepaid cards) comprised nearly 3.2m items and increased by 4.8% YoY. Taking business cards into account, the total number of debit cards reached 3.4 million, up 5.1% YoY.

Cash loans

In Q3 2016, cash loan sales exceeded PLN 1.0bn, up 7.0% YoY. Year-to-date credit sales grew at a similar rate, reaching PLN 3.1bn. This performance translated into a YoY increase of 10.4% in the gross cash loan portfolio of Bank Zachodni WBK to PLN 7.3bn as at 30 September 2016.

The sales growth was driven by:

- competitiveness of the product resulting from:
  - ✓ extension of the maximum tenor to 120 months;
  - ✓ special offers: "Loan without interest" ("Kredyt bez odsetek") and "Duet cash loan" ("Kredyt gotówkowy Duet") for two borrowers;
  - ✓ 4.99% interest for customers with high credit worthiness; lower arrangement fee for loans taken out in the remote channels;
  - ✓ simplified credit process for smaller-amount consumer loans;
- marketing support, including:
  - ✓ new CRM tools (including the specilised application software rolled out in branches and partner outlets on 1 August 2016) which provides access to comprehensive customer information and customised offers;
  - ✓ TV and online cash loan campaign started in Q2 2016 and continued into Q3 2016;
  - ✓ marketing and promotional campaigns via BZWBK24 platform, which brought about a 51% YoY growth in electronic sales of cash loans in Q3 2016.

Mortgage loans

In Q3 2016, the bank modified the terms of fixed-rate mortgage loans and equity releases. An interest rate of 4.15% (previously 3.95%) was set for home loans to be applied for the first five years of the lending period.

Following the termination of the cooperation agreement by the National Fund for Environmental Protection and Water Management (NFOŚiGW) in Q3 2016, the subsidized loans earmarked for development or purchase of energy-efficient houses or apartments were withdrawn from the bank's offer.

During the first nine months of 2016, the value of new (disbursed) mortgage loans totalled PLN 4.4bn, up 39.6% YoY. The gross mortgage portfolio grew by 10.7% YoY, reaching PLN 32.8bn at the end of September 2016, of which the PLN-denominated portion was PLN 20.1bn, up 23.4% YoY.

Credit cards

In Q3 2016, a number of initiatives were undertaken to activate sales and increase the volume of transactions made with credit cards. In August 2016, the bank simplified the credit card offer, reducing the number of available cards to five products meeting specific needs and transactional behaviours of customers.

As at 30 September 2016, the credit card portfolio of Bank Zachodni WBK comprised 775.1k instruments, an increase of 5.2% YoY.

Deposits and investment products

In Q3 2016, Bank Zachodni WBK continued the strategy aimed at increasing the share of current account balances (personal and savings accounts) and investment funds, and at optimising the term deposit portfolio while maintaining a stable growth of the entire deposit and investment base. To that end, the bank:

- launched new special offers under the "Active deposit" ("Aktywny depozyt") campaign, with interest on savings accounts linked with the volume of transactions made (1 July 2016);
- facilitated cross-selling of investment, insurance and credit card products using term deposits with attractive interest rates, including Bonus Deposit (Lokata Bonusowa) and eInvestor deposit (eInwestor) (available only in the mobile and internet channel);
- introduced a new Max Savings Account (Konto Max Oszczędnościowe) paying relatively high interest on new funds for the period of three months (1 August 2016);
- withdrew 20 term deposits from the offer, which simplified it significantly and strengthened the position of savings accounts (1 August 2016);
- continued the linkage development programme for deposit customers, which involved the communication of selected special offers to the most price-sensitive customer segments and sale of negotiated deposits to the VIP segment.

As a result of optimisation of BZ WBK deposit structure, the balance of savings accounts increased by 6% over Q3 2016. Growth was also reported with respect to term deposits for VIP customers (a negotiated deposit and an 18-month rentier deposit) and eDeposits available only in the electronic banking channel (a 1-month term deposit with a fixed rate and 3-month eInvestor deposit offered to buyers of investment products).

Brokerage products and services

In Q3 2016, Bank Zachodni WBK focused on acquisition and activation of Brokerage Office customers and on strengthening the position of brokerage products and services among BZ WBK customers, in particular the VIP segment. In the reporting period:

- the "Bonus for yield" ("Premia za zysk") marketing campaign was ended, helping to acquire or activate three thousand customers and increase share in the WSE retail trading market;
- a new marketing campaign called "Global stock markets without foreign currencies" ("Światowe giełdy bez obcych walut") was started on 1 August 2016 and will continue until 31 December 2016 to help the bank achieve a leadership position in the foreign spot markets. The special offer included an attractive transaction fee and currency spreads, automated currency conversion of funds earmarked for purchase of foreign stock and bonds, and free investment advice.

Structured deposits

In Q3 2016, Bank Zachodni WBK continued its activity on the structured deposit market. The bank offered products with yield linked to exchange rates (EUR/PLN, USD/PLN, EUR/USD), stock indices (NASDAQ 100, Euro Stoxx Oil&Gas®), or investment fund performance (Energy Select Sector SPDR Fund), providing 100% capital protection at maturity. The bank offered 27 products with different maturities in the total of 15 subscriptions, including 14 subscriptions for standard personal customers and one subscription for Private Banking customers. In all, PLN 185.3m worth of funds were collected as a result of the aforementioned subscriptions.

Investment funds managed by BZ WBK Towarzystwo Funduszy Inwestycyjnych (BZ WBK TFI)

Sale of investment funds

As at 30 September 2016, the total net assets managed by BZ WBK TFI were PLN 13.8bn, including PLN 13.3bn worth of net assets in mutual funds, which were up 6.7% on 31 December 2015 and up 3.6% on 30 June 2016.

In the year to date, the highest net sales were reported by the corporate bond and money market subfunds: Arka Prestiż Obligacji Korporacyjnych, Arka BZ WBK Gotówkowy and Arka Prestiż Gotówkowy. In Q3 corporate bond subfunds performed best, in particular Arka Prestiż Obligacji Korporacyjnych which at the end of September 2016 was ranked among the top 10 retail investment funds in Poland by an independent research company Analizy Online. Since February 2016, BZ WBK TFI funds have reported positive net monthly sales.

Awards and recognitions

Arka Prestiż Akcji Polskich, the Polish equity sub-fund, won an accolade in the Best Investment Products 2016 ranking published by Gazeta Finansowa on 16 September 2016, in recognition of its outstanding performance with a five-year yield totalling 35.79% on 31 August 2016).

The above subfund was also awarded four out of five stars in the rating published by Analizy Online.

Bancassurance

In Q3 2016, the range of the bank's insurance products was extended to include "Onkopolisa" cancer insurance designed to provide financial support to people diagnosed with cancer (July 2016).

SME Banking Division

Directions and results in respective product lines

In Q3 2016, the range of current accounts for small and medium enterprises was expanded to include accounts in non-standard currencies: CNY (Chinese yuan), MXN (Mexican peso), RON (Romanian leu), RUB (Russian rouble) and TRY (Turkish lira).

Bank Zachodni WBK amended the schedule of fees and charges for business customers with respect to certain card and ATM transactions, which became effective on 1 August 2016.

In August 2016, the bank launched a promotional campaign for Premium Business Account Worth Recommending (Konto Firmowe Godne Polecenia Premium) which was carried out under the slogan "VIP Account and Business Account" ("Konto VIP i rachunek dla firmy") and targeted at business customers holding VIP Account (Konto VIP) or VIP Account24 (Konto24 VIP). Accounts opened as part of this promotion are temporarily exempt from an account maintenance fee.

In Q3 2016, credit and deposit sales in the SME segment continued to grow dynamically.

- Credit sales for three quarters of 2016 went up by 5.4%, and the gross portfolio grew by 1.5% QoQ and 9.6% YoY;
- Deposit volume increased by 4.5% QoQ and 13.5% YoY.

Education and information initiatives

In September 2016, TVP1 launched the second edition of the TV show called "Business Evolutions" ("Firmowe Ewolucje") under the patronage of Bank Zachodni WBK and in cooperation with the bank's partners. The purpose of the programme is to analyse the situation of the companies, provide them with guidelines on how to do business and inspire them to take the most promising business opportunities. The programme also presents financial and non-financial solutions offered by the bank to small and medium-sized companies.

As part of BZ WBK Entrepreneur Academy, the bank launched another series of conferences for small and medium enterprises across Poland entitled "Win the markets with new technologies" ("Podbij rynki dzięki nowym technologiom"). By the end of 2016, the bank will have organised 33 conferences in the largest Polish cities.

Activities of leasing companies

In the year to date, BZ WBK Leasing and BZ WBK Lease financed movable assets with total net value of PLN 2.8bn, which represents an increase of 9.6% YoY and includes non-agricultural sector growing at a rate of 25.6% YoY.

Lease products and services were developed as follows:

- The financing for investments in agricultural land was re-introduced on attractive terms, following the amendment of regulations pertaining to the sale of agricultural land introduced in August 2016.
- In cooperation with Fundusz Poręczeń Kredytowych POLFUND, a guarantee scheme was set up to provide an opportunity to execute transactions requiring additional collateral which could not be processed as part of the existing credit risk management system of the leasing companies.
- New vendor finance schemes were introduced in collaboration with the three suppliers of machines and equipment, using financial solutions available in BZ WBK Leasing.

Business and Corporate Banking Division

Scope of business

The Business and Corporate Banking provides customers with end-to-end support in building and growing their businesses and offers specialized programmes with a view to being recognised as the first choice bank for corporate customers.

Corporate customers are serviced through a countrywide network of 12 Corporate Centres and two central units which offer specialist services: Large Corporate Department and Corporate Property Department. Customers are provided with tailor-made solutions by locally based relationship managers who work with credit partners and product specialists to ensure a complete and comprehensive customer proposition covering loans, deposits, transactional banking, treasury, leasing, factoring and capital markets products.

Directions and results in respective product lines

Similarly to the previous periods, in Q3 2016 the Business and Corporate Banking Division pursued its goals, focusing on areas which show considerable business potential or help enhance customer experience: foreign trade development programme (continuation of the Export Development Programme), products and services for the agriculture sector, digital banking, service quality, personnel and efficiency.

The Division's strategic approach to foreign trade business and agri sector was giving positive results both in terms of growth in business volumes and income.

Electronic platforms are key for the day to day business operations of the bank's corporate clients. After the successful launch of a mobile application this year, the bank is now in the next phase of developing features that are designed to personalize and increase functionality of this application.

In 2016, the Division maintained robust revenue and business momentum with performing loans and deposits growing at a rate of 11.5% YoY and 9.1% YoY, respectively. The continued focus on growing a diversified customer base with high share of wallet is key to delivering a strong performance at the year end. The Division also achieved a significant double digit growth in transactional banking and trade fees. Furthermore, a good trend in payments volumes and transfers has been observed since the beginning of 2016.

Factoring business

During the first nine months of 2016, the turnover of BZ WBK Faktor came in at PLN 13.5bn, up 9.4% YoY. This gave the company a market share of 12% and the second position in the ranking of the members of the Polish Association of Factoring Companies. As at the end of September 2016, the company's credit exposure was PLN 3.0bn, higher by 13.7% YoY.

Global Corporate Banking Division

Core business

Global Corporate Banking Division (GCB) provides an end-to-end support to the largest corporate customers of Bank Zachodni WBK (around 180 companies and groups as at the end of September 2016), renders services to corporations handled under the global framework of Santander Group GCB, is responsible for the bank's activities on the financial markets and provides specialist financial products including treasury, brokerage and capital market instruments to retail and corporate customers.

Directions and results in respective product lines

Global Transactional Banking

In the reporting period, Global Transactional Banking closed a number of deals in relation to financing, guarantees and trade finance with companies from the automotive, media, telecommunications, trade, construction, shipbuilding, mining, financial, transportation and household appliance sectors.

The volume of factoring receivables grew by 12% YoY to PLN 1.6bn and was generated mainly by the food and mining sectors.

As at the end of September 2016, the value of term deposits and current account balances totalled PLN 7.4bn.

Capital and Credit Markets

Capital Markets

In Q3 2016, Capital Markets:

- provided analytical and advisory services to customers and were engaged as a financial/transactional advisor for companies from the financial, construction, plastics processing, pharmaceutical and service sectors;
- managed the JESSICA Programme (Urban Regeneration Fund for Greater Szczecin) under the agreement with the Zachodniopomorskie province;
- at the turn of June and July, finalised – in cooperation with the Brokerage Office – a transaction to raise PLN 2.2bn worth of capital for a financial institution as part of the largest public offering on the WSE since 2013 and the largest issue of shares with pre-emptive rights since 2009.

Credit Markets

The Credit Markets were engaged in financing companies from the telecommunications, real estate and finance sectors, as well as transaction advisory services provided together with the Brokerage Office. Other significant undertakings of the Capital Markets included:

- refinancing the debt of a company from the telecommunications sector as part of a syndicate led by Bank Zachodni WBK, ensuring stable source of capex finance; the bank became the main lender for the customer and the coordinator of the interest rate hedging process;
- acquisitions made by companies from the metallurgical, trade and service sectors (with the bank acting in the capacity of a transaction advisor for the customer from one of the sectors mentioned above);
- financing a company from the real estate sector (in cooperation with the Business and Corporate Banking Division).

As at 30 September 2016, the value of open credit lines increased to PLN 9.3bn, whereas the total sum of loans and advances to customers amounted to PLN 5.8bn, i.e. up 34% YoY.

Financial Markets

Treasury

In Q3 2016, the Financial Market Transactions Department:

- focused on further development of products and services using the global know-how of Santander Group; the new products are targeted at large corporates and include solutions based on debt and derivative instruments with substantial market potential;

In the reporting period, the Treasury Services Department:

- continued an income diversification strategy based on the development of interest rate hedges;
- focused on promoting interest rate and FX hedging solutions among mortgage borrowers and SME customers; enabling them to hedge their respective risks and stabilise their balance sheet positions;
- intensified efforts to extend the range of structured products for retail and corporate customers, to develop the distribution channels for treasury products and e-commerce tools and to increase the opportunities for SME and corporate customers to invest surplus money by expanding the product range.

In Q3 2016, the bank actively offered currency and interest rate hedging solutions to the largest companies in Poland, including customers from the power, food, chemical and telecommunications sectors.

Brokerage Office

In Q3 2016, the “Bonus for yield” (“Premia za zysk”) promotional campaign launched at the beginning of 2016 came to an end. A new advertising and sales campaign called “Global stock markets without foreign currencies” (“Światowe giełdy bez obcych walut”) was started to promote mobile investments on foreign markets (for more information see “Brokerage products and services” in the “Retail Banking Division” section).

After three quarters of 2016, the BZ WBK Brokerage Office share in the equity market totalled 5.3% and in the futures market totalled 10.6%.

Santander Consumer Bank Group

Loans

The lending activity of Santander Consumer Bank Group (SCB Group) is based on the following product groups: car loans for the purchase of new and used vehicles, business loans, instalment loans, cash loans, consolidation loans, credit cards and leasing.

The bank steadily strengthens its presence in the remote channels (call centre, internet) in terms of cash loans, credit cards and instalment loans.

As at 30 September 2016, gross loans and advances granted by SCB Group amounted to PLN 14.2bn (including intercompany transactions) and were 1.1% higher YoY due to the growth in the portfolios of cash loans, instalment loans, working capital loans and lease products.

Deposits

Retail deposits are the bulk of the SCB Group's deposit base, and mainly include term deposits paying a fixed interest rate. The remaining portion is made up of business deposits.

As at 30 September 2016, deposits from customers (excluding intercompany transactions) totalled PLN 7.8bn and increased by 18.2% driven by higher volume of deposits from retail and corporate customers. The bank focused on the sale of deposits for tenors of one year or more, by offering attractive pricing, particularly on 12-month deposits. The value of retail deposits increased with a parallel decrease in their costs as a funding source.

Development of SCB Group

On 30 September 2016, SCB signed an agreement under which on 1 October 2016 it acquired 50% shares in PSA Finance Polska, a wholly owned subsidiary of Banque PSA Finance. The representatives of SCB and Banque PSA Finance will sit on the company's executive boards. As a result, SCB will increase its share in the car loan market and strengthen its leadership position.

Awards

In Q3 2016, SCB won the following accolades:

- 1st place in the rating of cash loans for summer holidays for internal and external customers published by TotalMoney.pl in July 2016;
- 1st place in the ranking of online cash loans published by TotalMoney.pl in September;
- 1st place in the ranking of loans for used cars published by TotalMoney.pl in September.

Distribution channels of Bank Zachodni WBK Group

Basic Distribution Channels of BZ WBK and SCB			
Bank Zachodni WBK	**30.09.2016**	**31.12.2015**	**30.09.2015**
Branches (location)	658	723	752
Partner outlets	110	115	115
ATMs	1 100	1 239	1 276
CDMs	87	158	221
Dual function machines	548	286	189
BZWBK24 - registered users (in thousands) [1]	3 180	3 193	3 083
iBiznes24 - registered users/companies (in thousands)	36	35	34
Santander Consumer Bank	**30.09.2016**	**1.01.2016**	**30.09.2015**
Branches	163	167	172
Partner outlets	144	136	121

1) *Includes users of BZWBK24 mobile: 809k as at 30 September 2016 and 612k as at 30 September 2015.*
2) *Apart from branches and partner outlets, the distribution network of SCB as at 30 September 2016 included 530 partners offering car loans (-52 YoY) and 12,816 partners offering instalment loans (-661 YoY).*

In Q3 2016, Bank Zachodni WBK continued the programme designed to develop self-service channels in order to reduce cashier-services in branches and enhance customer experience. The functionality of ATMs was extended to include a cash deposit option, new deposit ATMs (combining cash withdrawals and deposits) were put in place and old machines were replaced. At the same time, the network rationalisation process was continued (involving relocation of devices to more effective locations). As at the end of September 2016, the network of self-service devices of Bank Zachodni WBK comprised 1,735 ATMs, CDMs and deposit ATMs in total (vs. 1,686 as at 30 September 2015).

The number of customers who logged into BZWBK24 in September at least once (digital customers) totalled 1,960k, up 6.7% YoY. In the 9-month period ended 30 September 2016, the number of payment and similar transactions in the remote channels grew by 16.1% YoY, while the remote sales increased by 228.9% YoY in terms of personal accounts and by 25.6% YoY in terms of credit facilities (35.9% by value).

In Q3 2016, Bank Zachodni launched the TeleKlik service which allows customers who apply for credit facilities by phone or via an online advisor to sign an agreement through the BZWBK24 internet platform without the need to visit the bank's branch. The bank also started to implement the mass call centralisation project: each customer calling a branch is to be redirected to the Call Centre which will provide an end-to-end support.

Bank Zachodni WBK was named the Best Institution of 2016 in the third edition of the cross-sectoral service quality survey which was performed by MojeBankownie.pl portal in July and September to promote best practice in terms of customer experience in the remote channels. For the first time, the survey also covered customer contact via video or via chat line.

As at 30 September 2016, Santander Consumer Bank sold its products through the network of 307 branches and franchise outlets, mobile sales channels for car loans and corporate deposits, remote sales channels for banking products (call centre and the internet), a remote sales channel for car loans and a network of external partners offering the bank's car loans (530 active partners including car dealers, car dealers and intermediaries) as well as instalment loans and credit cards (12,816 active partners including retail chains and stores).

Other information relating to Bank Zachodni WBK Group

Rating actions by Fitch Ratings

On 4 August 2016, Fitch Ratings upgraded the national long-term rating and senior unsecured debt rating of Bank Zachodni WBK from AA- (pol) to AA (pol). Other ratings were kept unchanged.

The above upgrade of the national long-term ratings were driven by the recalibration of the National Rating scale for Poland due to the change in the sovereign's long-term local currency IDR on 22 July 2016.

Fitch Rating	Ratings updated as at 4.08.2016	Ratings updated as at 29.02.2016
	International Ratings	International Ratings
Long-term IDR	BBB+	BBB+
Outlook for the long-term IDR rating	stable	stable
Short-term IDR	F2	F2
Viability rating	bbb+	bbb+
Support rating	2	2
	National Ratings	National Ratings
National long-term rating	AA(pol)	AA-(pol)
Outlook for the national long-term rating	stable	stable
Senior unsecured debt national long-term rating	AA(pol)	AA-(pol)

Consent of the Polish Financial Supervision Authority to the appointment of the bank's Management Board President

On 9 August 2016, the Polish Financial Supervision Authority (KNF) approved the appointment of Mr. Michał Gajewski as the bank's Management Board President. The appointment of Mr. Michał Gajewski will become effective as of the day his current employment commitments have been fulfilled. Until that time, Mr. Gerry Byrne will continue in his role as the acting President of the bank's Management Board.

Identification of Bank Zachodni WBK as other systemically-important institution

In July 2016, Bank Zachodni WBK was informed by the Polish Financial Supervision Authority (KNF) about the instigation of the supervisory evaluation process regarding identification of the bank as other systemically-important institution pursuant to Article 39 (1) of the Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management. In view of a positive decision of the Financial Stability Committee issued in accordance with the macroprudential procedure, on 4 October 2016 KNF unanimously identified Bank Zachodni WBK as other systemically important institution and imposed a buffer (on a consolidated and stand-alone basis) equal to 0.50% of the total risk exposure (calculated pursuant to Article 92 (3) of CRR no. 575/2013).

Diversification of funding sources

Financing from international financial organisations

- On 1 August 2016, BZ WBK Leasing signed an agreement with International Finance Corporation providing for a USD 150m worth of facility (disbursed in the equivalent in EUR) earmarked for financing lease business. The facility is based on the EURIBOR rate and is payable within six years of the agreement date. The purpose of the loan is to support sustained economic growth by facilitating access to credit for businesses run by women and small enterprises. The facility is secured by a guarantee issued by Bank Zachodni WBK.

- On 3 October 2016, BZ WBK Faktor signed an agreement with a foreign bank providing for a EUR 100m credit facility with an interest rate based on EURIBOR. The facility is earmarked for financing the factoring business and matures within 12 months of the disbursement date. The facility is secured by a guarantee issued by Bank Zachodni WBK.

- Pursuant to the existing agreement, on 15 September 2016, Bank Zachodni WBK made an early repayment of CHF 17.7m worth of principal amount of a facility taken out with the European Investment Bank by the former Kredyt Bank on 29 June 2012.

Issue of debt securities

- On 17 August 2016 r. Bank Zachodni WBK issued certificates of deposit with a total nominal value of PLN 100m, with interest rate of 1,75% p.a. and 6-month maturity.

- In Q3 2016, 4-year bonds with a nominal value of PLN 100m were issued by SCB and guaranteed by Santander Consumer Finance, with an interest rate based on WIBOR 6M.

- In August 2016, SCB completed the securitization of a cash loan portfolio involving the transfer of securitized receivables to SC Poland Consumer 2016-1 sp. z o.o. The securitised assets were used by the company to issue PLN 1,225m worth of bonds secured by a registered pledge on SCPC assets, with an interest rate based on 1M WIBOR. The transaction has been structured as a revolving securitization.

52. Overview of BZ WBK Group Performance in Q3 2016

Financial and business highlights of Bank Zachodni WBK Group for the three quarters of 2016, and their drivers

	Key financial and business highlights of Bank Zachodni WBK Group for the three quarters of 2016
Total income	• Total income of Bank Zachodni WBK Group for the three quarters of 2016 decreased by 0.9% YoY to PLN 5,745.9m. • Excluding one-off gains on equity transactions (PLN 316.1m in relation to the settlement of acquisition of Visa Europe Ltd. by Visa Inc. in 2016 and PLN 523m from partial disposal and loss of control over BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO in 2015), the underlying total income increased by 2.9% YoY.
Total costs	• Total costs went up by 1.8% YoY to PLN 2,527.4m.
Profit	• Profit before tax amounted to PLN 2,411.0m, down 13.1% YoY. Adjusting income as above and excluding banking tax, the underlying profit before tax increased by 5.4% YoY. • Profit attributable to the shareholders of Bank Zachodni WBK was PLN 1,705.9m and 16.8% lower YoY (6.2% higher on a comparable basis).
Capital ratio	• Capital ratio stood at 15.3% (13.9% as at 30 September 2015), ensuring security of operations and a stable growth.
ROE	• Return on Equity (ROE) was 11.6% (16.4% as at 30 September 2015), and 11.2% excluding one-off items (14.1% as at 30 September 2015). The marked decrease in the ROE ratio results from the introduction of a tax on financial institutions and increased capital requirements imposed by the banking supervision authorities.
Costs/Income	• Cost to income ratio was 46.5% excluding one-off items (47.1% for the three quarters of 2015).
Net impairment losses	• Net impairment losses on loans and advances amounted to PLN 565.3m compared with PLN 554.3m for the three quarters of 2015.
Credit quality	• NPL ratio was 6.8% (8.1% as at 30 September 2015), while the ratio of impairment losses to the average gross credit volumes was 0.8% (0.9% as at 30 September 2015).
Loans to customers	• Gross loans to customers increased by 9.5% YoY to PLN 106,534.4m due to growth of 8.4% YoY in personal loans and 9.0% YoY in loans to enterprises and the public sector to PLN 55,026.4m and PLN 46,080.9m, respectively.
Deposits from customers	• Deposits from customers increased by 12.0% YoY to PLN 106,650.7m as a result of the expansion of deposits from enterprises and the public sector by 16.7% YoY to PLN 45,288.7m and increase of 8.8% YoY in personal deposits to PLN 61,362.0m.
Loans/Deposits	• Customer loan-to-deposit ratio was 94.8% as at 30 September 2016 compared with 96.5% as at 30 September 2015.
Net assets under management	• Net value of assets in mutual funds and private portfolios amounted to PLN 13.8bn and grew by 2.2% on 30 September 2015 and 6.6% on 31 December 2015.
Electronic banking	• The number of customers using BZWBK24 electronic banking services totalled 3.2m (+3.1% YoY), including customers with access to mobile services of 0.8m (+32.2% YoY). • The BZ WBK Group payment card base (excluding prepaid cards) included 3.4m debit cards (+5.1% YoY) and more than 1.2m BZ WBK and SCB credit cards (+8.2% YoY).
Customer base	• The customer base was more than 6.4m customers, including 4.4m BZ WBK customers.

Comparability of periods in the Income Statement of BZ WBK Group for the three quarters of 2016	
Three quarters of 2016	**Three quarters of 2015**
New statutory charge	**Loss of control over BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO**
• Pursuant to the Act on tax imposed on certain financial institutions, effective from 1 February 2016 bank assets are subject to tax of 0.0366% per month. As at the end of September 2016, total charge to the income statement of BZ WBK and SCB in this respect was PLN 278.3m.	• On 27 February 2015, BZ WBK sold a part of the stake in BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO, which resulted in a loss of control over the above entities. In effect, gains on the sale and adjustments resulting from the loss of control were recognised, totalling PLN 523m. The loss of control resulted in reclassification of those companies from subsidiaries to associated undertakings along with the change of their accounting treatment from full consolidation to equity method.
Remuneration resulting from the merger of Visa Europe Ltd. and Visa Inc.	
• As part of settlement of the transaction of take-over of Visa Europe Ltd. by Visa Inc. on 21 June 2016, BZ WBK and SCB, as members and shareholders of the acquired company received a cash payment, preferred series C shares and an earn-out totalling PLN 316.1m, including PLN 305.9m attributable to BZ WBK.	

Determinants of BZ WBK Group's profit for the three quarters of 2016	
Increase in net interest income	• The increase in net interest income (+PLN 322.7m YoY) reflects growing net interest margin (+0.12 p.p. YoY to 3.65%) resulting from the Group's multidimensional business activities and the dynamics of adaptation processes in the record low interest rate environment. Interest margin was strongly affected by trends in the Group's business volumes, including expansion of cash and mortgage loan portfolios, increase in SME credit exposures, growth of low-cost current and savings account balances and reduction of the term deposit base.
Stable net fee income	• Net fee and commission income was fairly stable at PLN 1,430.8m as a result of diversification of the Group's income sources and a mix of external and internal developments. In 2016, the Group's net fee and commission income was mainly impacted by the regulatory environment (insurance fees), financial markets (distribution and asset management fees) and customer activation and sales support system (credit card fees and guarantee fees). At the same time, the Group took measures to ensure value for money and bring its products and services in line with market and competition requirements.
Decrease in other income	• A YoY decrease of PLN 154.3m in the Group's other income (excluding one-off transactions in the equity market) was attributed to lower profit on the portfolio of available-for-sale debt securities and a decline in other operating income due to changes in the presentation of the Group's insurance income (following the deconsolidation of BZ WBK-Aviva insurance companies) and lower income from the disposal of fixed assets. • One-off items recognised in the current and base periods are presented in the table on comparability of periods.
Improved quality of credit portfolio despite higher impairment losses	• Higher YoY level of impairment losses (+PLN 11.0m) primarily reflects adaptive and restructuring measures taken by the Group within its credit risk management framework. It concurred with a 9.5% YoY increase in the gross loan-book and further improvement in credit quality ratios.
Effective management of staff and general expenses	• Slight increase in total costs (+PLN 44.1m YoY) was fuelled by amortisation and other operating costs while staff, general and administrative expenses were fairly stable, affirming the Group's effective cost management amid rising statutory charges and continuing transformation processes instigated by changing business and regulatory requirements or development and infrastructure initiatives.

Key macroeconomic factors impacting financial and business performance of the Group for the first three quarters of 2016	
Economic growth	• Solid economic growth in the euro zone, worries about the global economic outlook due to the slowdown in China and deteriorating tendencies in the international trade.
Labour market	• Favourable situation in the labour market – gradual increase in employment in the corporate sector, declining unemployment and relatively fast wage growth, supporting private consumption.
Inflation	• Low inflationary pressure, CPI inflation rate still below zero. • Oil prices remaining at a relatively low level.
Monetary policy	• NBP official rates kept at the lowest level ever.
Credit market	• Deceleration of credit growth in the banking sector.
Financial markets	• Changes of mood in international financial markets influenced by the expected policy orientation of the main central banks (Federal Reserve, ECB), incoming macroeconomic data, worries about the geopolitical situation, including the results of the negotiations regarding the British exit from the EU, the immigration crisis and the economic slowdown in China. • Volatility of the zloty exchange rate versus the main currencies; changes in Polish bond yields. • Affirmation of Poland's investment grade by Fitch. • Decelerating credit growth rate in the banking sector.

Income Statement of Bank Zachodni WBK Group

Structure of Bank Zachodni WBK Group profit before tax

PLN m

Condensed Income Statement (for analytical purposes)	Q1-3 2016	Q1-3 2015	Q3 2016	Q2 2016	YoY Change	QoQ Change
Total income	**5 745,9**	**5 797,5**	**1 803,0**	**2 114,9**	**-0,9%**	**-14,7%**
- Net interest income	3 495,6	3 172,9	1 218,4	1 152,5	10,2%	5,7%
- Net fee & commission income	1 430,8	1 443,9	487,2	470,9	-0,9%	3,5%
- Other income [1)]	819,5	1 180,7	97,4	491,5	-30,6%	-80,2%
Total costs	**(2 527,4)**	**(2 483,3)**	**(822,1)**	**(840,6)**	**1,8%**	**-2,2%**
- Staff, general and administrative expenses	(2 215,0)	(2 226,6)	(742,3)	(732,9)	-0,5%	1,3%
- Depreciation/amortisation	(202,5)	(190,4)	(68,3)	(68,8)	6,4%	-0,7%
- Other operating expenses	(109,9)	(66,3)	(11,5)	(38,9)	65,8%	-70,4%
Impairment losses on loans and advances	**(565,3)**	**(554,3)**	**(254,1)**	**(177,0)**	**2,0%**	**43,6%**
Profit/loss attributable to the entities accounted for using the equity method	36,1	13,8	15,4	13,1	161,6%	17,6%
Tax on financial institutions [2)]	(278,3)	-	(105,1)	(105,7)	-	-0,6%
Consolidated profit before tax	**2 411,0**	**2 773,7**	**637,1**	**1 004,7**	**-13,1%**	**-36,6%**
Tax charges	(536,2)	(544,1)	(157,0)	(231,4)	-1,5%	-32,2%
Net profit for the period	**1 874,8**	**2 229,6**	**480,1**	**773,3**	**-15,9%**	**-37,9%**
- Net profit attributable to BZ WBK shareholders	**1 705,9**	**2 050,1**	**425,9**	**723,5**	**-16,8%**	**-41,1%**
- Net profit attributable to non-controlling shareholders	168,9	179,5	54,2	49,8	-5,9%	8,8%

1) Other income includes the following items of the full income statement: dividend income; net profit on shares in subordinate entities; net trading income and revaluation; gains on other financial instruments; other operating income.
The figure for three quarters of 2016 and Q2 2016 includes one-off profit gained by BZ WBK and SCB from the settlement of acquisition of Visa Europe Ltd. by Visa Inc. in a total amount of PLN 316.1m (in the full version of the income statement this amount is reported as a part of gains on other financial instruments).
Other income for three quarters of 2015 includes one-off gains on subordinate entities of PLN 523m on account of partial disposal and loss of control over BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO on 27 February 2015 (in the full version of the income statement this amount is reported as a gain on subordinate entities).

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.

During nine months ended 30 September 2016, Bank Zachodni WBK Group earned a profit before tax of PLN 2,411.0m, down 13.1% YoY. Profit attributable to the shareholders of Bank Zachodni WBK was PLN 1,705.9m and decreased by 16.8% YoY.

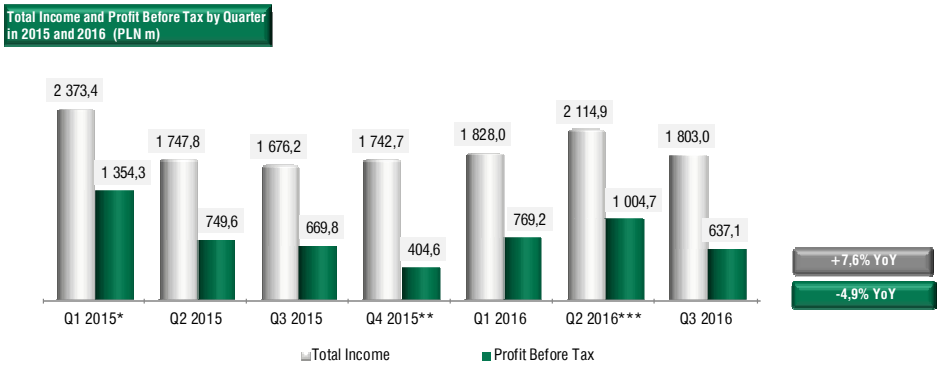
Adjusting the nine-month periods under review for one-off gains on equity instruments, namely:

- PLN 316.1m arising from settlement of the acquisition of Visa Europe Ltd. by Visa Inc. in Q2 2016;
- PLN 523m arising from the disposal of and loss of control over BZ WBK-Aviva companies in Q1 2015;

and for the new statutory charge applicable in the current period:

- tax on financial institutions of PLN 278.3m for three quarters of 2016;

the underlying profit before tax increased by 5.4% YoY and the profit attributable to the shareholders of the parent went up by 6.2% YoY.



* *As a result of a partial disposal of and loss of control over BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO in Q1 2015, the Group reported a one-off gain on subordinate entities of PLN 523m.*

** *Under Resolution of BFG Management Board of 26 November 2015, BZ WBK and SCB were obligated to make a contribution of PLN 183.8m from the deposit protection fund to help cover the reimbursements of guaranteed funds to depositors of a third bank following its bankruptcy.*

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

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

PLN m

Components of Bank Zachodni WBK Group Profit Before Tax by contributing entities	Q1-3 2016	Q1-3 2015	YoY Change
Bank Zachodni WBK S.A.	**2 128,1**	**1 891,6**	**12,5%**
Existing subsidiary undertakings:	**590,6**	**616,3**	**-4,2%**
Santander Consumer Bank and its subsidiaries [1)]	478,7	493,1	-2,9%
BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. [2)]	48,8	55,5	-12,1%
BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A., BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. [3)]	-	12,1	-
BZ WBK Leasing S.A., BZ WBK Lease S.A. and BZ WBK Finanse Sp. z o.o. [4)]	52,7	47,3	11,4%
Faktor Sp. z o.o.	16,6	6,4	159,4%
Other subsidiary undertakings [5)]	(6,2)	1,9	-426,3%
Equity method valuation	**36,1**	**13,8**	**161,6%**
Elimination of dividends received by BZ WBK [6)]	**(343,8)**	**(51,7)**	**565,0%**
Other intercompany and consolidation adjustments [7)]	**-**	**303,7**	**-**
Profit before tax	**2 411,0**	**2 773,7**	**-13,1%**

1) *SCB Group is controlled and consolidated by BZ WBK. As at 30 September 2016, SCB Group included the following entities: AKB Marketing Services in liquidation, Santander Consumer Multirent, Santander Consumer Finanse, SC Poland Consumer 15-1 and SC Poland Consumer 16-1. As at 30 September 2015, the last of the aforementioned entities was not yet in existence and the SCB Group additionally included SC Poland Auto 2014-1 (liquidated). The amounts provided above represent profit before tax (after intercompany and consolidation adjustments) of SCB Group for the periods indicated.*
2) *On 31 March 2016, BZ WBK TFI merged with BZ WBK AM by taking over its assets in return for merger shares issued to the co-owners, i.e. to BZ WBK and Banco Santander. The combined profit before tax of these entities for the three quarters of 2015 excludes the dividend of PLN 41.6m received by BZ WBK AM from BZ WBK TFI.*
3) *BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ changed their status from subsidiaries to associated undertakings as of 27 February 2015. Since then, both entities have been accounted for using the equity method. The amounts provided above represent profit before tax of both companies for two months of 2015 after consolidation adjustments and post-audit profit adjustments.*
4) *The combined profit before tax of these entities for 2015 excludes the dividend of PLN 32.4m received by BZ WBK Finanse from BZ WBK Leasing.*
5) *Other subsidiaries include: BZ WBK Inwestycje, BZ WBK Nieruchomości and Giełdokracja in liquidation.*
6) *Dividend received by Bank Zachodni WBK from subsidiaries and associated undertakings, including dividend of PLN 260.8m received from SCB and disclosed in Q2 2016.*
7) *Consolidation adjustments (other than dividends) for the three quarters of 2015 mainly include the items resulting from the loss of control over BZ WBK-Aviva companies (PLN 288.6m).*

Parent entity of Bank Zachodni WBK Group

During the first nine months of 2016, the stand-alone profit before tax of Bank Zachodni WBK increased by 12.5% YoY.

On an underlying basis (i.e. adjusting the base period for the one-off gain of PLN 234.4m on partial disposal of shares in BZ WBK-Aviva companies while the current period for PLN 305.9m representing the one-off gain from settlement of Visa Europe Ltd. take-over by Visa Inc. and for PLN 256.5m of the banking tax), the profit before tax increased by 25.4% YoY and was affected by the following trends:

- Major improvement in net interest income (+10.8% YoY) driven by robust credit delivery and optimisation of the deposit range focused on development of current account balances and long-term relationships with deposit customers;
- Increase in net trading income and revaluation (+53.5% YoY) on account of derivative and FX transactions;
- Higher dividend income disclosed in 2016 (+209.7% YoY), mainly as a result of dividends from SCB (PLN 260.8m) and BZ WBK TFI (PLN 29.8m), which were not paid out in the corresponding period of the last year;
- Lower impairment losses on loans and advances (-8.7% YoY), reflecting primarily a reduction in the IBNR reserves.

At the same time, a decrease was noted in gains on debt securities (-68.4% YoY), chiefly treasury bonds, and an increase in operating costs (+2.9% YoY) amid higher depreciation/amortisation and a provision to cover disputed legal issues.

Subsidiaries

The total profit before tax gained by the companies consolidated with Bank Zachodni WBK was down 4.2% YoY due to slightly lower profitability of SCB Group, impairment loss on the portfolio of equity investments of BZ WBK Inwestycje (disclosed in the table above under "Other subsidiary undertaking") and the weaker financial performance of BZ WBK TFI in the market of mutual funds and asset management.

The contribution of SCB Group to the consolidated profit before tax of Bank Zachodni WBK Group for the first nine months of 2016 was PLN 478.7m (after intercompany transactions and consolidation adjustments) and decreased by 2.9% YoY due to the following factors:

- 8.3% YoY higher net interest income of PLN 832.6m, driven by larger net interest margin amid lower funding cost, moderate growth of credit portfolio and favourable changes reported in its structure (e.g. bigger share of high-margin products such as cash loans and credit cards).
- Increase of PLN 13.7m in total gains on other financial instruments and net trading income due to the remuneration arising from the settlement of the acquisition of Visa Europe Ltd. by Visa Inc. as well as valuation of derivatives through profit and loss.
- Decrease of 9.9% YoY in net fee and commission income to PLN 137.5m on account of lower insurance income and higher partner commissions.
- Higher net impairment charge by PLN 58.4m YoY, mainly attributable to the lower value of disposal of bad loans over the first nine months of 2016 compared with the corresponding period of the previous year and changes in the underwriting policy for the consumer loans portfolio.
- Additional charge to the income statement of PLN 21.8m representing tax on financial institutions.

The 12.1% YoY decrease in profit before tax reported by BZ WBK TFI reflects lower net fee income from asset management as a result of a decline in the average value of net assets under management and the change in their structure with a shift towards low-margin products (mainly money market instruments and corporate bonds). Due to the high volatility of stock markets in Poland and abroad, the demand for share-based solutions was weak, while the slowdown of the debt market discouraged investors from choosing solutions based on treasury bonds. The negative impact of lower fee and commission income on the company's bottom line was partly offset by lower operating cost base.

BZ WBK Faktor generated an increase of PLN 10.2m in profit before tax amid steadily rising sales and lower credit impairment charges.

In the nine months ended on 30 September 2016, leasing companies with its parent BZ WBK Finanse earned 11.4% YoY higher profit before tax due to the robust sales of lease products, which translated into an increase of 20% YoY in the performing portfolio (with better quality parameters) and a significant improvement in net interest income. Also, leasing companies generated higher net fee income on account of the insurance offered.

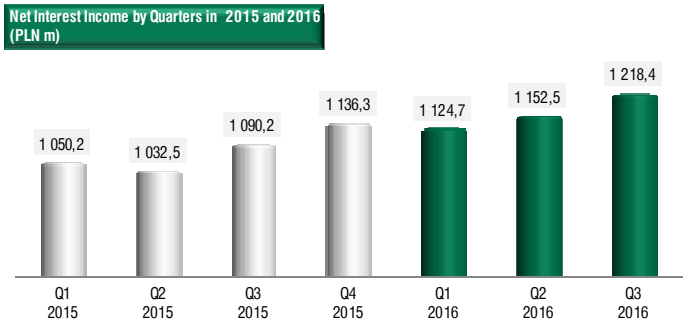
The change in accounting treatment of the insurance companies BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO from line-by-line consolidation to equity method valuation is an effect of the partial disposal of shares of both companies and the loss of control over them, effective from 27 February 2015.

Total Income

The total income generated by Bank Zachodni WBK Group for the three quarters of 2016 was PLN 5,745.9m and down 0.9% YoY. Adjusting the current and base period for one-off gains on equity investments, the Group's underlying total income was higher by 2.9% YoY.

Net interest income

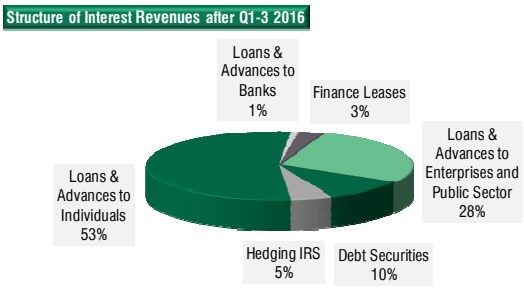
Net interest income for the first nine months of 2016 amounted to PLN 3,495.6m and increased by 10.2% YoY.

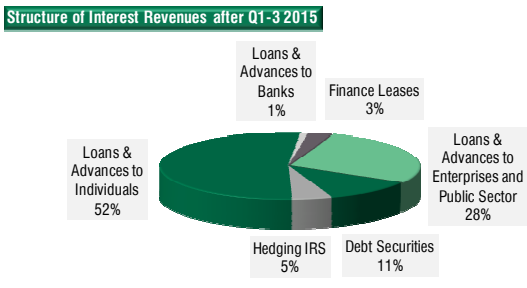


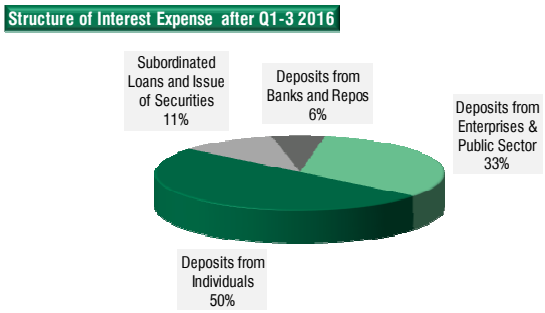
In the lower interest rate environment, the Group reported increased interest revenue (by 5.1% YoY to PLN 4,468.6m) alongside a decline in interest expense (down 9.7% YoY to PLN 973.1m).

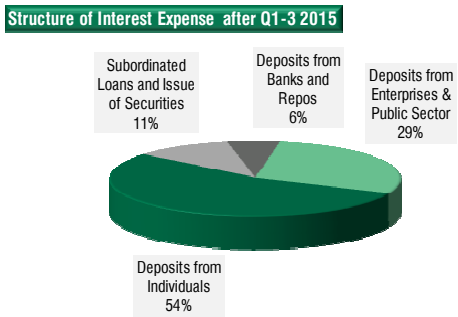
The growth rate of interest revenue – driven by loans to personal and business customers, leasing receivables and CIRS/IRS transactions hedging cash flows – was slowed down by decreases in the portfolio of debt securities and reverse repo transactions.

The decline in interest expense was due to the pressure from retail customer and public sector deposits, amounts due in respect of repo transactions as well as subordinate debt and debt securities in issue.

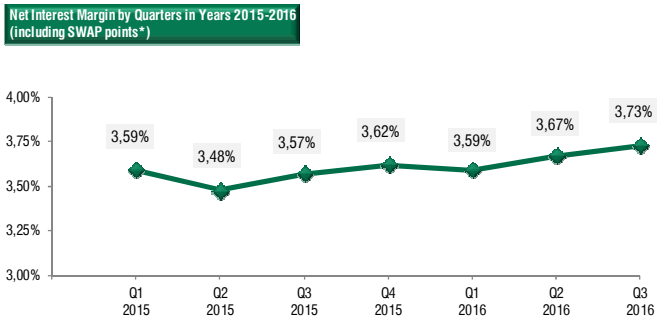








The annualised (on a year-to-date basis) net interest margin of Bank Zachodni WBK Group increased from 3.54% as at the end of September 2015 to 3.65% as at the end of September 2016 as a result of lower funding costs aided by the adaptation measures and optimisation strategy for key sources of finance in the lower interest rate environment (following the interest rate cut by 50 b.p. effected by Monetary Policy Council in March 2015), and due to favourable developments in the Group's core business volumes, including further growth in loans to individuals (in particular cash loans and mortgage loans) and businesses, coupled with a significant increase in low-cost current account balances from personal and business customers and a decline in retail term deposits.



* *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.*

The annualized (on a quarterly basis) net interest margin increased from 3.67% in Q2 2016 to 3.73% in Q3 2016. The growth trend reflected proactive business acquisition, promotion and management of product parameters, taking into account market conditions, customer expectations and the organisation's own objectives in liquidity, capital and balance sheet management. From the perspective of business volumes, the quarterly margin was positively affected by the continued business trends, in particular further growth of the retail loan portfolio and an increase in the balances of retail and business current accounts alongside a decline in term deposit balances of individuals.

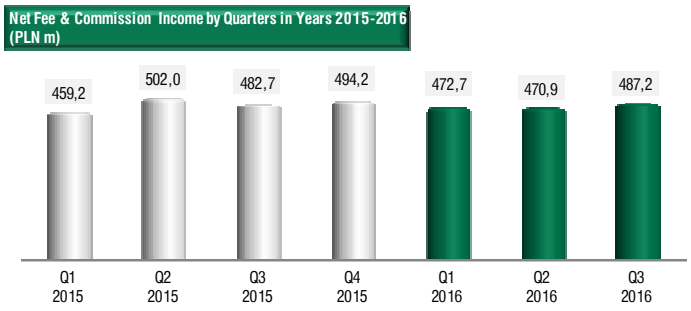
Net fee and commission income

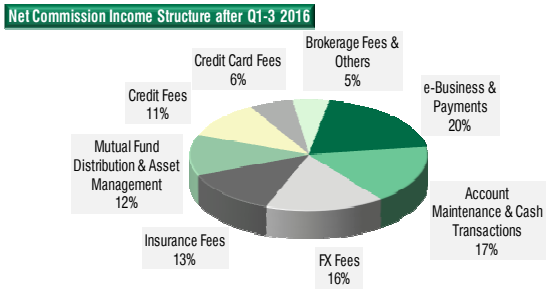
Net fee and commission income for the nine months of 2016 was PLN 1,430.8m and held fairly steady compared with the corresponding period last year (-0.9% YoY).

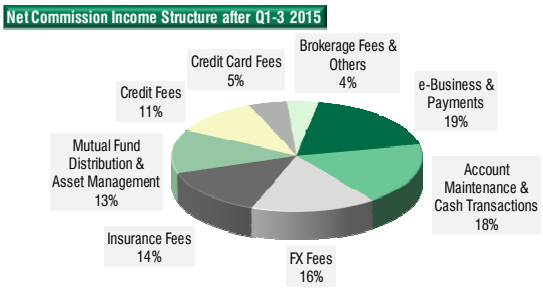
PLN m

Net Fee and Commission Income	Q1-3 2016	Q1-3 2015	YoY Change
E-Business and payments [1]	280,5	275,5	1,8%
Account maintenance and cash transactions [2]	248,0	253,5	-2,2%
FX fees	235,0	230,0	2,2%
Insurance fees [3]	178,5	200,6	-11,0%
Asset management and distribution	172,0	190,3	-9,6%
Credit fees [4]	157,2	162,7	-3,4%
Credit cards	91,5	77,8	17,6%
Brokerage fees	44,4	42,0	5,7%
Other [5]	23,7	11,5	106,1%
Total	**1 430,8**	**1 443,9**	**-0,9%**

1) *Fees for foreign and mass payments, Western Union transfers, trade finance, debit cards, services for third party institutions as well as other electronic and telecommunications services.*
2) *Fee income from account maintenance and cash transactions has been reduced by the corresponding expenses which in Note 5 "Net fee and commission income" of the consolidated financial statements are included in the line item "Other" (PLN 2.3m for the three quarters of 2016 vs. PLN 2.0m for the three quarters of 2015).*
3) *During the period of control over BZ WBK-Aviva companies (from 20 December 2013 to 27 February 2015), the bank disclosed the major part of income from the insurance business in "Other operating income" instead of "Net fee and commission income" (PLN 26.3m in Q1 2015). Since the loss of control over the entities, the entire insurance fee income other than an integral part of effective interest rate has been disclosed under "Net fee and commission income".*
4) *Net fee income from lending, leasing and factoring activities which is not amortised to net interest income. This line item includes inter alia the cost of credit agency.*
5) *Guarantees and sureties, issue arrangement fees and other.*







The highest YoY growth in net fee and commission income for the three quarters of 2016 was reported for credit cards (+17.6% YoY) on account of a 8.2% YoY increase in the size of a combined credit card portfolio of Bank Zachodni WBK and SCB, higher volume of credit card-related transactions and a revision of selected credit card fees and charges of both banks.

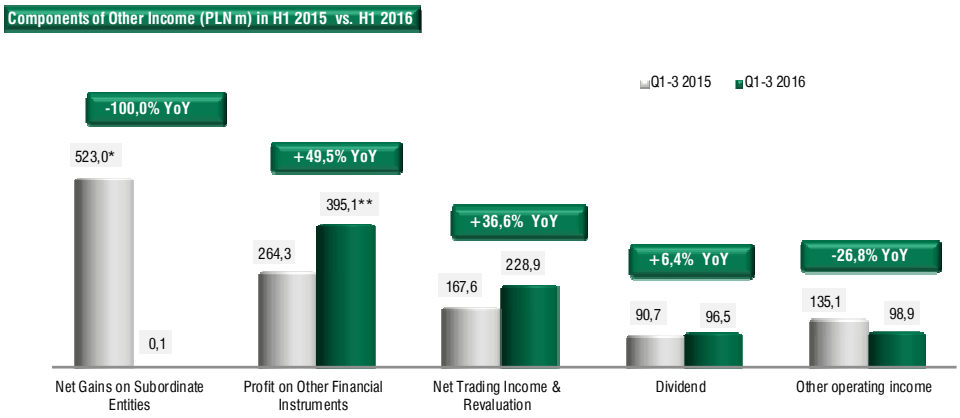
The YoY decline of 11% in net fee and commission income from insurance business was connected with the legal and regulatory regime of the bancassurance market, in particular the statutory ban imposed by the Act of 11 September 2015 on insurance and reinsurance activity (effective from 1 April 2016) on collection of insurance fees by banks acting as insuring parties in relation to group insurance plans (e.g. linked with payment cards). At the same time, the leasing companies of Bank Zachodni WBK reported a growth in insurance income from Guaranteed Auto Protection (GAP) and other property insurance.

Lower net fee income from fund distribution and asset management (-9.6% YoY) reflects a decrease in the average value of assets managed by BZ WBK TFI and a change in their structure in favour of lower-margin products (mainly cash instruments and corporate bonds). The demand for investment solutions with equity and bond components subsided amid uncertainties in the financial markets.

The growth in other fees (+106.1% YoY) was triggered by fee income from guarantees and from the share issue arrangement, which increased by 62.3% (to PLN 49.5m) and by 25.7% (to PLN 14.2m), respectively. It resulted from measures taken by Bank Zachodni WBK to support foreign trade development and from handling of a substantial public offerings on WSE.

Increases and decreases in other business lines were moderate and kept within the deviations observed in the business as usual operations.

Other Income



* *Includes one-off gains on subordinate entities of PLN 523m recognised in Q1 2015 on account of partial disposal and loss of control over BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO.*

** *Includes total gains of PLN 316.1m on a shareholding in Visa Europe Ltd. disclosed by BZ WBK and SCB upon the completion of acquisition of Visa Europe Ltd. by Visa Inc. on 21 June 2016.*

Gains on subordinate entities

In the income statement for the three quarters of 2016, Bank Zachodni WBK Group disclosed one-off gains of PLN 523m on interest in subordinated entities arising from the partial sale of shares in BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ and the loss of control over the above-mentioned companies in favour of Aviva Ltd., and their consequent reclassification from subsidiaries to associates.

Gains on other financial instruments

Gains on other financial instruments for the three quarters of 2016 increased by 49.5% YoY to PLN 395.1m, including PLN 316.1m of total gains earned by the Group (PLN 305.9m by BZ WBK and PLN 10.2m by SCB) from settlement of acquisition of Visa Europe Ltd. by Visa Inc. on 21 June 2016. Bank Zachodni WBK and SCB – as members and shareholders of the acquired company – received cash consideration of EUR 51.6m, 18,692 series C preference shares and an earn-out of approx. 0.4% from EUR 1.12bn payable to all transaction participants.

Gains on other instruments from BZ WBK Group's available for sale equity investment portfolio totalled PLN 1.8m.

Gains on the sale of debt instruments (mainly treasury bonds) were PLN 84.0m, down 67.8% YoY. The measures taken as part of duration management on the available-for-sale debt securities portfolio are kept in line with market conditions and take into account the Group's objectives with regard to risk and liquidity management. The decisions regarding the structure of the portfolio and balance sheet are determined by expectations of interest rate cycle movements and fluctuations of yield curves.

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

In the nine months ended 30 September 2016, net trading income and revaluation reported by Bank Zachodni WBK Group was PLN 228.9m, up 36.6% YoY.

The Group generated a profit on derivatives and interbank FX trading of PLN 204.6m vs. PLN 174.0m a year before. This result was achieved amid moderate volatility on the interest rate and FX markets. Compared with 30 September 2015, the IRS rate declined by 20 b.p. in the 10Y segment whereas 2Y IRS rate increased by almost 10 b.p. The zloty weakened by approx. 3% against the Swiss franc and approx. 2% against the euro and the US dolar but appreciated against the British pound by 13%.

The above-mentioned item includes the net interest-related income of PLN 13.3m on the non-hedging CIRS/IRS transactions for the three quarters of 2016 vs. PLN 14.0m for the three quarters of 2015. It excludes, however, the net interest income from the CIRS and IRS transactions designated as hedging instruments under the cash flow hedge accounting (PLN 208.0m for the three quarters of 2016 vs. PLN 185.9m for the three quarters of 2015), which is disclosed under "Net interest income".

Other FX related income was PLN 20.9m, higher by PLN 7.3m on a YoY basis.

Debt and equity securities trading brought in a total profit of PLN 3.3m compared to a loss of PLN 20.0m in the corresponding period.

Dividends

Dividend income disclosed by the Group for the nine months ended 30 September 2016 was PLN 96.5m and up 6.4% YoY on account of dividends from Aviva Group companies from BZ WBK portfolio of equity investments.

Other operating income

Other operating income for the three quarters of 2016 decreased by 26.8% to PLN 98.9m.

The decline was primarily attributed to changes in the presentation of the Group's insurance income following the loss of control over BZ WBK-Aviva companies. From 1 January 2014 to 27 February 2015, the major part of net insurance income was still disclosed under other operating income (PLN 26.3m in 2015), but starting from March 2015, total insurance income that is not an integral part of an effective interest rate or spread over time is taken to insurance fees.

A YoY decrease of PLN 15.9m was also reported in the income on sale or liquidation of fixed assets and assets held for sale due to execution of transactions involving relatively smaller properties in the current period.

Impairment Charges

PLN m

Impairment Losses on Loans and Advances	Q1-3 2016	Q1-3 2015	YoY Change
Collective and individual impairment charge	(608,4)	(582,0)	4,5%
Impaired but not reported losses charge	(28,2)	(58,5)	-51,8%
Recoveries of loans previously written off	51,9	74,0	-29,9%
Off-balance sheet credit related facilities	19,4	12,2	59,0%
Total	**(565,3)**	**(554,3)**	**2,0%**

After the three quarters of 2016, the loan impairment charge to the income statement of Bank Zachodni WBK Group was PLN 565.3m, up 2% YoY. The contribution of SCB Group to that figure was PLN 109.6m and increased by PLN 58.4m compared to the corresponding period of 2015 on account of lower sales of bad loans and changes in the underwriting policy for the consumer loan portfolio.

The charge for incurred and reported losses (on individual and collective exposures) was PLN 608.4m for the three quarters of 2016 and increased by 4.5% YoY amid a robust growth in the Group's credit portfolio: loans to enterprises and the public sector increased by 9.0% YoY (including factoring receivables), retail loans by 8.4% YoY and lease facilities by 25.5% YoY. Compared with the corresponding period of 2015, impairment charges on individually assessed exposures decreased in favour of impairment charges on collectively assessed exposures (mainly in relation to retail loans), which was attributed to the reclassifications or increases arising from modified procedures and tools, and updated parameters under the credit risk management process. Meanwhile, the Group reported a decline in the impairment charges on both individually and collectively assessed exposures towards business customers.

The impairment charge for incurred but not reported losses was PLN 28.2m vs. PLN 58.5m in the base period. In 2016, Bank Zachodni WBK sold business receivables with incurred but not reported loss in the principal amount of PLN 440.0m.

In total, over the first nine months of 2016, Bank Zachodni WBK sold credit receivables in the principal amount of PLN 656.1m (PLN 704.7m including interest) vs. PLN 165.5m in the corresponding period, which contributed PLN 28.8m and PLN 18.1m to the profit before tax in respective periods. Apart from business loans, mainly from the IBNR portfolio, the receivables sold included overdue retail loans.

Santander Consumer Bank sold the written-off portfolio of instalment loans and cash loans at PLN 326.6m, which brought in profit before tax of PLN 51.9m. Last year, SCB sold the written-off portfolio of credit cards, cash loans and instalment loans for the total amount of PLN 425.0m, generating profit before tax of PLN 60.5m.

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

As at 30 September 2016, Bank Zachodni WBK Group's NPL ratio was 6.8% compared with 8.1% as at 30 September 2015. The cost of credit improved as well and totalled 0.8% vs. 0.9% after the three quarters of 2015.

Total Costs

PLN m

Total costs	Q1-3 2016	Q1-3 2015	YoY Change
Staff, general and administrative expenses, of which:	(2 215,0)	(2 226,6)	-0,5%
- Staff expenses	(1 126,3)	(1 149,1)	-2,0%
- General and administrative expenses	(1 088,7)	(1 077,5)	1,0%
Depreciation/amortisation	(202,5)	(190,4)	6,4%
Other operating expenses	(109,9)	(66,3)	65,8%
Total costs	**(2 527,4)**	**(2 483,3)**	**1,8%**

The total costs of BZ WBK Group for the three quarters of 2016 amounted to PLN 2,527.4m, and were 1.8% higher YoY amid higher prudential fee payable to BFG, significant costs associated with maintenance and extension of IT systems, considerable expenses associated with the Group's development projects, increased depreciation/amortization and provisions for legal disputes reflected in other operating costs.

Given the business growth and development projects under way (related to, among other things, digitalization and transformation of BZ WBK business model), the low rate of growth in total costs points to the strong cost discipline across the entire Group.

Adjusting the current and base period for the one-off gains on equity instruments, the Group's cost to income ratio totalled 46.5% as at 30 September 2016 vs. 47.1% 12 months before.

Staff expenses

Staff expenses of Bank Zachodni WBK Group for the three quarters of 2016 totalled PLN 1,126.3m and decreased by 2.0% YoY. SCB Group's contribution to consolidated staff expenses was PLN 168.5m and stable YoY.

The key staff expense line items, i.e. "salaries and bonuses" and "statutory deductions from salaries" decreased by 1.9% YoY to PLN 1,087.4m in total as a result of lower costs incurred in 2016 in relation to incentive programmes (including share-based plans) and organisational changes in the Group, particularly in the branch banking.

As at 30 September 2016, the number of FTEs in Bank Zachodni WBK Group was 14,366 and increased by 49 YoY, as a result of delivery of the project aimed at ensuring BZ WBK customers with centralised top quality phone banking services to be provided by the Telephone Banking Centre. The above headcount figure includes 2,433 SCB Group employees vs. 2,642 a year before.

General and administrative expenses

General and administrative expenses of Bank Zachodni WBK Group for the nine months of 2016 increased slightly by 1.0% YoY to PLN 1,088.7m. Costs incurred by SCB Group were relatively stable at PLN 183.4m (-0.9% YoY) and contributed most to the cost of marketing and entertainment, cost of maintenance and rental of premises, IT usage and fees payable to market regulators.

The most pronounced increase in the consolidated general and administrative expenses (in absolute terms) was reported for statutory charges imposed on Bank Zachodni WBK and Santander Consumer Bank by market regulators (+28.9m YoY). The growth was driven mainly by a prudential fee of PLN 53.3m (+69.0% YoY) payable to the BFG stabilisation fund which is calculated quarterly at an increased rate and against the new base. In addition, part of contribution to the BGK Borrowers Support Fund was recognised in H1 2016 (PLN 8.5m in addition to the provision raised for that purpose in Q4 2015).

Significant growth was also reported in the following line items of the Group's general and administrative expenses:

- cost of bank security (+33.6% YoY) - related to a growing cost of physical protection driven among others by amended payroll regulations;
- cost of machine repair (+81.6% YoY) - as part of fitting out office premises;
- cost of IT usage (+5.8% YoY) - connected with the new systems, development of the central environments and delivery of development projects;
- consultancy and advisory fees (+29.4% YoY) – generated by higher costs of legal and consultancy services related to the bank's digital transformation programme and programmes delivered across Santander Group.
- other third party services (+3.8% YoY) – as an effect of higher number of queries to BIK (credit reference agency), services for external companies and mass printout of letters including the bank's new schedule of fees and charges.

Cost of marketing and entertainment declined YoY (-16.2% YoY) due to the modified timing and payment schedules of marketing campaigns and other initiatives delivered by Bank Zachodni WBK. The Group reduced cost of data transmission (-22.6% YoY) as well as postal fees and telecommunication fees (-11.2% YoY) as a result of review and renegotiation of the agreements. Furthermore, savings were achieved in such line items as: cost of vehicles, transportation and valuables in transit (-8.2% YoY) and cost of consumables, prints, cheques and cards (-8.1% YoY).

Tax on Financial Institutions

Pursuant to the Act of 1 February 2016 on tax imposed on certain financial institutions, bank assets above PLN 4bn are subject to tax of 0.0366% per month. As at 30 September 2016, the total charge to the income statement of Bank Zachodni WBK Group in this respect was PLN 278.3m.

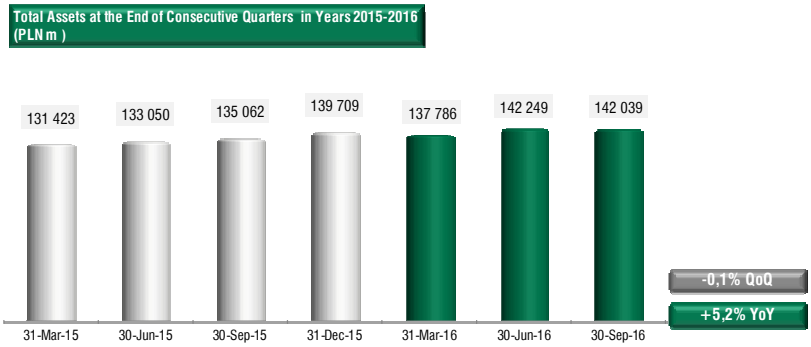
Effective Tax Rate

After the three quarters of 2016, the effective interest rate was 22.2% vs. 19.6% in the corresponding period of 2015, due to loss on debt sale, higher prudential fee and banking tax, which are not tax deductible and do not reduce the tax base of corporate income tax.

Financial Position

Assets

As at 30 September 2016, total assets of Bank Zachodni WBK Group amounted to PLN 142,038.9m and increased by 1.7% Ytd and by 5.2% YoY. The value and structure of the Group's financial position is determined by the parent entity, which accounts for 88.8% of the consolidated total assets vs. 89.8% as at the end of December 2015.



PLN m

Assets (condensed presentation for analytical purposes)	30.09.2016	Structure 30.09.2016	31.12.2015	Structure 31.12.2015	30.09.2015	Structure 30.09.2015	Change	Change
	1	2	3	4	5	6	1/3	1/5
Loans and advances to customers [1]	101 154,4	71,2%	94 913,9	67,9%	91 902,1	68,0%	6,6%	10,1%
Financial assets available for sale	25 479,6	17,9%	24 622,1	17,6%	25 827,1	19,1%	3,5%	-1,3%
Financial assets held for trading and hedging derivatives	3 375,7	2,4%	4 330,3	3,1%	4 774,4	3,5%	-22,0%	-29,3%
Cash and operations with Central Banks	3 259,3	2,3%	6 229,9	4,5%	3 480,1	2,6%	-47,7%	-6,3%
Loans and advances to banks [2]	2 836,3	2,0%	3 581,0	2,6%	3 094,7	2,3%	-20,8%	-8,3%
Fixed assets, intangibles and goodwill	2 935,6	2,1%	2 984,7	2,1%	2 830,0	2,1%	-1,6%	3,7%
Other assets [3]	2 998,0	2,1%	3 046,8	2,2%	3 153,9	2,4%	-1,6%	-4,9%
Total	**142 038,9**	**100,0%**	**139 708,7**	**100,0%**	**135 062,3**	**100,0%**	**1,7%**	**5,2%**

1) *Net of impairment losses and excluding buy-sell-back transactions which are reported here under other assets whereas in the full version financial statements are disclosed in the separate line item.*
2) *Excludes buy-sell-back transactions reported under other assets.*
3) *Other assets include the following: buy-sell-back transactions, investments in associates, net deferred tax assets, assets classified as held for sale and other assets.*

The movements in the consolidated statement of financial position of Bank Zachodni WBK Group over the first nine months of 2016 reflect market tendencies, new business acquisition and the Group's strategy for management of its balance sheet structure and current liquidity.

As at 30 September 2016, consolidated net loans and advances to customers totalled PLN 101,154.4m, up 6.6% on the end of December 2015 on account of credit delivery to business and retail customers. SCB Group contributed PLN 12,629.2m to this line vs. PLN 12,901.7m as at 31 December 2015 (after intercompany and consolidation adjustments).

The portfolio of financial assets available for sale increased in value (+3.5% Ytd) on account of the growth in debt securities portfolio. SCB Group contributed PLN 2,952.3m to this item, an increase of 47.6% Ytd.

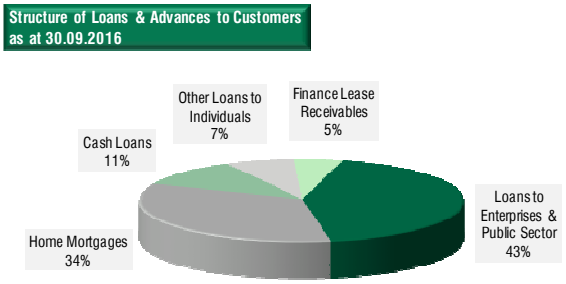
A decline in the balance of the bank's current account held with the NBP caused a decrease in the value of "cash and operations with central banks" (-47.7% Ytd). A drop was also reported in loans and advances to banks (-20.8% Ytd) and a portfolio of trading debt securities and derivatives disclosed in the table above under "financial assets held for trading and hedging derivatives" (-22.0% Ytd).

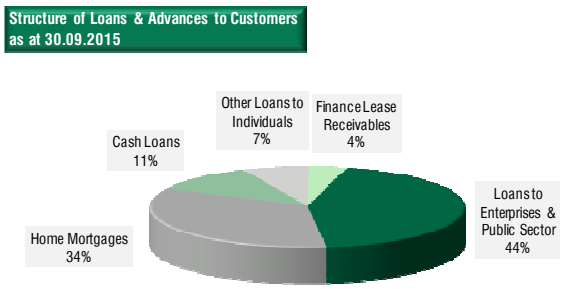
Credit Portfolio

PLN m

Gross Loans and Advances to Customers	30.09.2016	31.12.2015	30.09.2015	Change	Change
	1	2	3	1/2	1/3
Loans and advances to individuals	55 026,4	51 950,1	50 774,2	5,9%	8,4%
Loans and advances to enterprises and public sector customers [1]	46 080,9	43 542,3	42 278,7	5,8%	9,0%
Finance lease receivables	5 343,8	4 545,7	4 258,7	17,6%	25,5%
Other	83,3	6,9	8,0	1107,2%	941,3%
Total	**106 534,4**	**100 045,0**	**97 319,6**	**6,5%**	**9,5%**

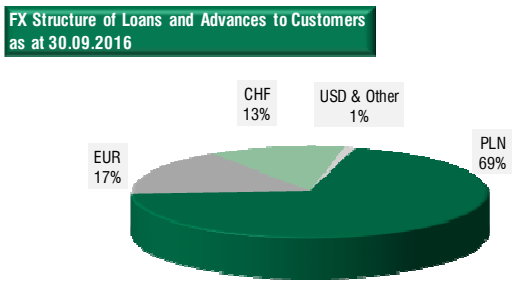
1) *Excluding buy-sell-back transactions.*



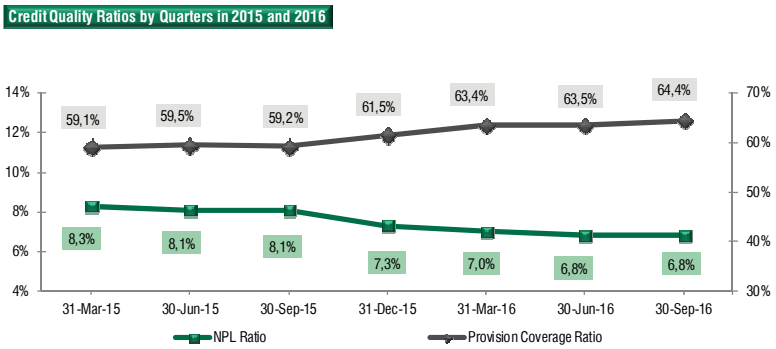


As at 30 September 2016, gross loans and advances to customers were PLN 106,534.4m (excluding buy-sell-back transactions) and higher by 6.5% Ytd. On a constant currency basis, the figure increased by 6.1% Ytd.

Compared with 31 December 2015, loans and advances to individuals increased by 5.9% to PLN 55,026.4m as at 31 September 2016. Housing loans, which represent the major portion of loans and advances to individuals, increased by 6.6% Ytd to PLN 35,953.0m. The second significant constituent item, i.e. cash loans, grew by 8.8% Ytd to PLN 11,833.4m.



Loans and advances to enterprises and the public sector entities were PLN 46,080.9m and higher by 5.8% Ytd, driven by robust lending to large corporate and SME customers. Finance leases, which include the portfolios of BZ WBK Leasing, BZ WBK Lease, and Santander Consumer Multirent, increased by 17.6% Ytd to PLN 5,343.8m on account of a dynamic growth in sales of vehicles. Loans granted by the BZ WBK leasing companies to finance machines and vehicles for business customers, which totalled PLN 1,584.3m as at 30 September 2016 (vs. PLN 1,460.6m as at 31 December 2015), are disclosed outside the leasing portfolio, as loans and advances to enterprises.



As at 30 September 2016, non-performing (impaired) loans and advances to customers accounted for 6.8% of the gross portfolio vs. 7.3% nine months before. The provision coverage ratio for impaired loans was 64.4% compared with 61.5% as at 31 December 2015.

Equity and Liabilities

PLN m

Liabilities & Equity (condensed presentation for analytical purposes)	30.09.2016	Structure 30.09.2016	31.12.2015	Structure 31.12.2015	30.09.2015	Structure 30.09.2015	Change	Change
	1	2	3	4	5	6	1/3	1/5
Deposits from customers [1]	106 650,7	75,1%	101 245,2	72,4%	95 206,4	70,5%	5,3%	12,0%
Subordinated liabilities and debt securities in issue	5 764,5	4,1%	4 847,5	3,5%	4 913,1	3,6%	18,9%	17,3%
Financial liabilities held for trading and hedging derivatives	4 041,0	2,8%	4 615,5	3,3%	4 403,4	3,3%	-12,4%	-8,2%
Deposits from banks [1]	1 574,1	1,1%	1 066,8	0,8%	1 970,4	1,5%	47,6%	-20,1%
Sell-buy-back transactions	1 238,4	0,9%	5 258,0	3,8%	6 411,3	4,7%	-76,4%	-80,7%
Other liabilities [2]	1 996,2	1,4%	2 107,6	1,5%	2 243,8	1,7%	-5,3%	-11,0%
Total equity	20 774,0	14,6%	20 568,1	14,7%	19 913,9	14,7%	1,0%	4,3%
Total	**142 038,9**	**100,0%**	**139 708,7**	**100,0%**	**135 062,3**	**100,0%**	**1,7%**	**5,2%**

1) Deposits from customers and banks do not include liabilities in respect of sell-buy-back transactions which are reported under a separate line item.
2) Other liabilities include current income tax and other liabilities.

The key change in the consolidated equity and liabilities of Bank Zachodni WBK Group was noted in sell-buy-back transactions (-76.4% Ytd). A decrease was also reported in the carrying amount of trade instruments and hedging derivatives reported under "financial liabilities held for trading and hedging derivatives" (-12.4% Ytd).

At the same time, deposits from banks (+47.6%) increased on account of funding granted by international commercial banks. Deposits from customers went up by 5.3%, reflecting a significant growth of personal account balances. As at 30 September 2016, deposits from customers represented 75.1% of the Group's equity and liabilities and were the primary source of funding for its lending business.

The Group continued the issue of debt securities as part of diversification of funding sources. In the year to date, Bank Zachodni WBK issued two series of certificates of deposit with a nominal value of PLN 250m and PLN 100m, respectively, and zero-coupon bearer bonds with a nominal value of PLN 185m. PLN 480m worth of certificates of deposit matured in the analysed period. At the same time, Santander Consumer Bank issued bonds with a nominal value of PLN 432m (as part of debt securities issue programme guaranteed by Santander Consumer Finance) and redeemed several series of matured bonds with a nominal value of PLN 574.7m. Furthermore, SC Poland Consumer 2016-1, a special purpose vehicle, issued bonds under the securitization transaction, which were taken up by SCB. 1bn worth of such bonds by nominal value were sold to external investors.

As a result of the above measures, subordinated liabilities and liabilities from the issue of debt securities increased by 18.9%.

Deposit Base

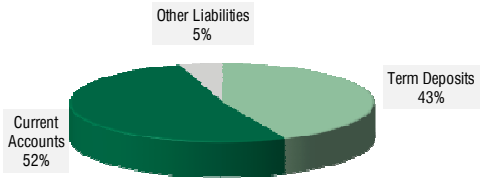
PLN m

Deposits from Customers	30.09.2016	31.12.2015	30.09.2015	Change	Change
	1	2	3	1/2	1/3
Deposits from individuals	61 362,0	59 200,7	56 389,3	3,7%	8,8%
Deposits from enterprises and public sector customers [1)]	45 288,7	42 044,5	38 817,1	7,7%	16,7%
Total	**106 650,7**	**101 245,2**	**95 206,4**	**5,3%**	**12,0%**

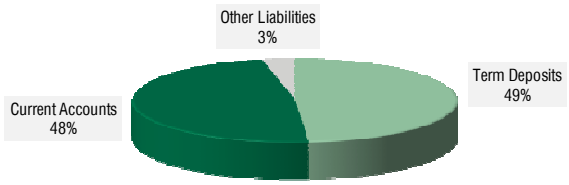
1) *Excluding sell-buy-back transactions.*

Over the last nine months, deposits from customers increased by 5.3% and amounted to PLN 106,650.7m as at 30 September 2016 (excluding sell-buy-back transactions), including PLN 7,847.7m relating to SCB Group after intercompany transactions (vs. PLN 7,006.5m as at the end of December 2015).

Structure of Customer Deposits as at 30.09.2016

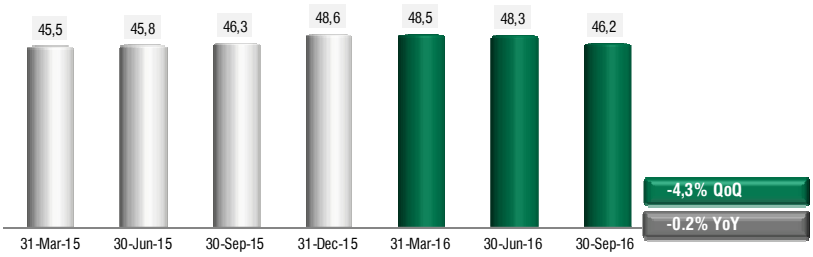


Structure of Customer Deposits as at 30.09.2015

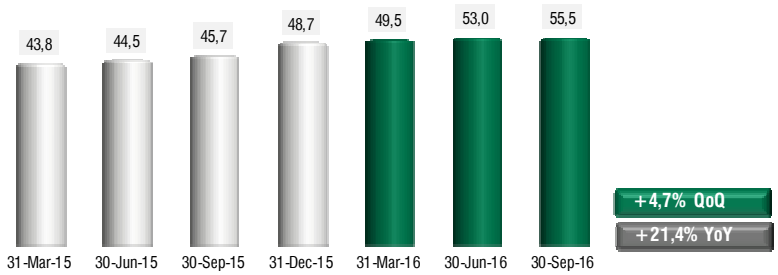


The Group's total term deposits from customers amounted to PLN 46,185.4m and decreased by 4.9% Ytd. Current account balances increased by 14.0% Ytd to PLN 55,529.8m, and other liabilities were PLN 4,935.6m, up 24.4% on 31 December 2015. The largest constituent of the last item were "loans and advances" (PLN 3,987.0m vs. PLN 3,002.0m as at 31 December 2015), reported under "deposits from enterprises", which included loans 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. In the year to date, the bank obtained funding from the above-mentioned financial institutions for a total value of EUR 170m, while the leasing companies drew down EUR 25m worth of financing granted by the Council of Europe Development Bank and received a loan of EUR 135.4m from the International Finance Corporation. At the same time, the bank repaid several tranches of the loan from the European Investment Bank in a total amount of CHF 112.5m.

Term Deposits at the End of Consecutive Quarters of 2015 and 2016 (PLN bn)



Current Accounts* at the End of Consecutive Quarters of 2015 and 2016 (PLN bn)



* *Including savings accounts*

The retail deposit base stood at PLN 61,362.0m, higher by 3.7% on 31 December 2015 as a result of a strong increase in current account balances (+18.6% Ytd), including savings accounts. In 2016, the bank launched promotional campaigns offering higher interest rates to customers for selected savings accounts, which translated into a significant rise in the balance of such accounts. The new Max Savings Account (Konto Max Oszczędnościowe) with a relatively high interest rate was an effective acquisition tool. At the same time, the value of term deposits declined markedly (-14.2% Ytd) because of a low appeal of deposits in the record low interest rate environment and the Group's strategic focus on increasing the strength of customer relationships and at ensuring stable growth of the entire deposit and investment portfolio.

During the first nine months of 2016, deposits from enterprises and the public sector increased by 7.7% to PLN 45,288.7m at the end of September 2016. The balances in current accounts (+5.1%) grew dynamically, as did term deposits (+6.8%), mainly from the public sector.

Selected Ratios

Selected Financial Ratios	Q1-3 2016 [1]	Q1-3 2015 [1]
Total costs/Total income	46,5%	47,1%
Net interest income/Total income	64,4%	60,2%
Net interest margin [2]	3,7%	3,5%
Net commission income/Total income	26,4%	27,4%
Customer net loans/Customer deposits	94,8%	96,5%
NPL ratio	6,8%	8,1%
NPL coverage ratio	64,4%	59,2%
Credit risk ratio [3]	0,8%	0,9%
ROE [4]	11,6%	16,4%
ROTE [5]	14,0%	20,9%
ROA [6]	1,4%	1,9%
Capital ratio [7]	15,3%	13,9%
Tier I ratio [8]	14,9%	13,5%
Book value per share (in PLN)	209,3	200,7
Earnings per share (in PLN) [9]	14,6	16,4

1) *The calculations of the following ratios for 2016 and 2015 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 commission income/total income and earnings per share.*
2) *Annualized net interest income (excluding interest income from the portfolio of trading securities) to average net interest-bearing assets (excluding the trading portfolio).*
3) *Impairment losses (for four consecutive quarters) to average gross loans and advances to customers (as at the beginning and end of the reporting period).*
4) *Net 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 undistributed portion of the profit. Adjusted for one-off items, ROE was 11.2% as at 30 September 2016 vs.14.1% as at 30 September 2015. The decrease in the ROE ratio results from the introduction of a tax on financial institutions and increased capital requirements imposed by the banking supervision authorities.*
5) *Net 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, retained earnings, intangible assets and goodwill. Adjusted for one-off items, ROTE was 13.5% as at 30 September 2016 vs. 17.3% as at 30 September 2015.*
6) *Net profit attributable to BZ WBK 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 the parent entity (excluding one-off items) 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 2016 and 30 September 2015.

	BZ WBK Group	30.09.2016	30.09.2015
I	Total capital requirement	8 831,9	8 752,9
II	Own funds after reductions	16 891,0	15 245,6
	CAD [II/(I*12.5)]	**15,30%**	**13,93%**
	Tier 1 Ratio	**14,88%**	**13,47%**

The tables below present the capital and Tier 1 ratios of Bank Zachodni WBK and Santander Consumer Bank as at 30 September 2016 and 30 September 2015.

BZ WBK Capital Ratios	30.09.2016	30.09.2015
Total Capital Ratio	16,79%	14,85%
Tier I Ratio	16,35%	14,47%

SCB Capital Ratios	30.09.2016	30.09.2015
Total Capital Ratio	16,77%	14,79%
Tier I Ratio	16,74%	14,60%

53. Key factors affecting the profit in the next quarter

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

- Stabilisation of the Polish economic growth at around 3% YoY amid uncertainty about the world economic outlook, fuelled by external risk factors such as economic slowdown in China.
- Favourable growth in real disposable income of households due to higher employment and wage growth, and a new parent benefit programme.
- Growth in consumer prices and movements in commodity prices.
- Low financing costs for households and businesses should stimulate demand for bank debt. At the same time, low interest rates on deposits should encourage bank customers to seek alternative savings/investment options.
- Possible changes in the monetary policy of the NBP, the ECB and Federal Reserve.
- Changes in asset funding costs dependent on the pace and degree of changes in base rates, movements in the PLN exchange rate, liquidity position of the banking sector and the degree of price competition between banks seeking to attract customer deposits.
- Changes in Poland's credit rating or rating outlook.
- Modification of the banking tax.
- New capital requirements for FX loans, which may affect the banking sector's lending capacity.
- Effects of the negotiations regarding the British exit from the European Union.
- Results of presidential elections in the USA.
- Possible increase in volatility of financial markets in the event of a more negative outlook for global economic growth, growing concerns about potential monetary policy tightening by the Federal Reserve and further turmoil in financial markets in China.

Signatures of the persons representing the entity			
Date	Name	Function	Signature
24.10.2016	Carlos Polaino Izquierdo	Member	
24.10.2016	Wojciech Skalski	Financial Accounting Area Director	