ANNUAL REPORT 2016
OF BANK ZACHODNI WBK GROUP

2016

Bank Zachodni WBK
Grupa Santander

Dear All,

2016 was a year of seeking growth opportunities amid sustained market and social uncertainty. The European economy had to come to terms with the prospective Brexit whilst the Polish economy was faced with a paradigm shift in development concepts and the slowdown in the GDP growth. The domestic banking sector was confronted with multiple external pressures arising from regulatory and legislative requirements, among other things.
In these conditions, Bank Zachodni WBK Group consistently pursued its growth strategy, consolidating its position among the top Polish financial institutions. In many business areas our results were not only above the market average, but also ahead of the entire sector.

Macroeconomic environment – relative stabilisation

The key challenges for the European economy in 2016 were centred around the consequences of political developments. The historical decision taken by the British to sever institutional ties with the European Union (Brexit) marks the beginning of building new economic relations between the UK and the entire EU, a process which may take several years. Likewise, two other events: the constitutional referendum in Italy and presidential elections in the United States, posed important questions about the impact on the European economy. Encouragingly, the turbulence triggered by the above events was short-lived and markets quickly regained stability. According to most estimates, in 2016, GDP of the eurozone was around 1.8%, and in EU-28 it stood at nearly 1.9%. After many years of deflation, inflation is back in the eurozone and the end of the year saw a pronounced improvement in the market climate: the PMI index for the industry sector and the services sector of the eurozone increased to 54.9 points, the lowest level in more than five years. The future potential threats to the European economy may involve geopolitical unrest and increased risk of protectionism that may have unfavourable effect on international trade and economic growth in the long-term.

All in all, the Polish economy in 2016 was characterised by a weaker-than-expected economic growth. According to estimates, for the first time in three years, the domestic GDP, measured for the whole year, did not exceed 3% (it was estimated at 2.5% YoY in Q4). Investments, particularly public ones, were disappointing. Their decrease was associated with a delayed absorption of EU funds as part of the new financial perspective. Exports were stagnant, which reflected the sluggish international trade globally. Like in the most of Western European countries, Poland's economic growth strongly depended on internal demand. However, due to the significant social outlays in 2016 (the start of the "Family 500+" child benefit programme), it was expected that the value of private consumption would exceed 3.9% for the whole year. Nonetheless, it was the economic standing of households that was the most positive feature of our landscape – the number of the employed reached its historical high, the wage growth accelerated and consumer optimism increased to a record level. The financial position of enterprises has improved as well.

In 2017, the national economy should see an acceleration of growth, including as a result of a gradual increase in investments, (at least) stable consumption growth and projected recovery of exports.

Banking sector poised to meet the challenges

In 2016 the Polish financial sector successfully resisted both external pressures and the challenges inherent in the process of aligning business models to the changing market conditions. Despite the numerous charges resulting from regulations that had an unfavourable impact on the sector and the historically lowest interest rates, the total capital ratio of the Polish banking sector increased. Banks also managed to increase their revenues and earnings. The consolidation processes that started several years ago gained momentum with a number of ownership changes in the Polish banking sector. It is worth noting that state-run entities were the most active in sector consolidation in 2016.

A key outstanding issue for the banking sector in Poland is the resolution of the FX mortgage loans problem, announced by the legislative, executive and regulatory authorities. Taking into account the severity of challenges and concerns in the European financial markets (including the crisis in the Italian banking system) and the high volatility in the domestic regulatory landscape, including the requirements set for the sector, the final solutions in this regard should be dealt with properly, taking into account, in a balanced and proportional manner, the interests of the borrowers, security of lenders, stability of the entire banking sector and, consequently, a lack of negative impact on the Polish economy.

Strategic focus on customers

Customers and partnership relations with them are always at the heart of the strategic development and business transformation of Bank Zachodni WBK Group. The transformation that has been part of our business covers many key initiatives designed to bring improvement for customers. One of these is process simplification, which will allow a consistent, transparent and clear offer to be presented to address the needs and expectations of the existing and new customers of Bank Zachodni WBK Group. In short, our ambition is to be present in those distribution channels that are most convenient for customers, including mobile, internet, phone and branch banking. This is how we define and understand our mission as a financial group, which is Simple, Personal and Fair and helps people and businesses prosper.

Our financial performance in 2016 is evidence that despite the regulatory and legislative pressure and other challenges we remain a stable, a steadily growing institution. In 2016, the profit before tax of Bank Zachodni WBK Group was more than PLN 3.1 billion. The value of our assets exceeded PLN 150.1 billion. In the demanding environment of historically lowest interest rates we managed to achieve a year-on-year growth in net interest income and fee income. We remained a leader among our Polish peers in terms of effectiveness measured by ROE. Our capital base is strong and our cost-to-income ratio stands out positively in the sector.

Bank Zachodni WBK Group manged its cost base strictly within the budget and duly met all the additional tax charges, mandatory costs of participation in the banking system and in the deposit guarantee scheme. In 2016 we demonstrated that in terms of diversification of our business we were one of the best organised and effective capital groups in the market. Bank Zachodni WBK Group confirmed the effectiveness of its strategy and reported robust performance in individual business segments.

At the end of 2016, Bank Zachodni WBK Group (Bank Zachodni WBK + Santander Consumer Bank) had a total of 6.4 million customers. Retail lending increased by 8.4% YoY, and loans to businesses and public institutions were up 4.2%.

Last year was record-breaking for Bank Zachodni WBK in terms of the number of retail loans sanctioned. The number of home mortgages increased by more than 20% YoY (30% in terms of value). Also, with regard to consumer finance products we have been much above the market average, with sales of PLN 5.9 billion. Our deposit acquisition efforts yielded an unprecedented result with an increase of 22.9% in personal and savings account balances. Bank Zachodni WBK opened more than 346 thousand new personal accounts, including nearly 261 thousand Accounts Worth Recommending. We were very successful in online sales of personal accounts, the number of accounts opened being twice as high as in 2015. The portfolio of credit cards was nearly 7% higher YoY with nearly 800 thousand cards at the end of 2016. Furthermore, 2016 saw a major growth (by 25%) in demand for non-related insurance products. More than 1.2 million customers have already taken out insurance via the bank. The sales of cancer insurance (Onkopolisa) were particularly high. By the end of the year, it was sold to more than ten thousand customers. Bank Zachodni WBK finished the year as a leader among banking distributors of mutual funds as measured by net sales.

In the SME segment, the number of new, active customers increased by 50%. The Business and Corporate Banking Division continued its strategy of increasing its share in the market of corporate customers. As a result, the performing loans portfolio increased by 5% YoY in the corporate segment and the deposit balance rose by 9%. The Bank successfully developed its business activity in the food & agri sector, which resulted in a 23% YoY increase in customer assets. Also, the Exports Development Programme was continued to ensure that customers could reach new business partners in the markets where Santander Group is present. This was reflected in the rapid growth in export finance, which increased by 8% YoY.

The Global Corporate Banking Division successfully developed its proposition, using the international know-how of Santander Group, e.g. by joining the innovative FX platform and becoming a leader in the global trade in Polish government bonds. The division finalised a number of financing transactions with customers, including capital raising 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.

The multichannel transformation results in an increased activity of our customers in online and mobile banking segments, as well as higher value of facilities sold in both channels (increase by nearly 45% YoY). Our strength is best proven by the fact that in 2016 the number of our mobile banking users increased by more than 30% YoY. The mobile solution of Bank Zachodni WBK was also recognised by international experts. We were ranked 1st in Poland and 3rd in Europe in the prestigious ranking European Mobile Banking, Functionality Benchmark.

Santander Consumer Bank remains a leader in the Polish market of consumer loans. As at 31 December 2016, the gross loans originated by Santander Consumer Bank Group increased by PLN 1,214 million (8.4%) YoY, mainly due to the higher balance of cash loans and credit cards as well as due to the take-over of control, on 1 October 2016, over PSA Finance Polska Sp. z o.o. The balance of cash loans increased on the back of higher sales driven by low interest rates and an intensive marketing campaign. In 2016 the Bank was awarded with the title of Great Pearl of Polish Economy and as Customer Friendly Company.

In 2016 BZ WBK Leasing and BZ WBK Lease financed fixed assets of PLN 4 billion net, the highest value in their history. Record-high performance was noted both in the SME segment and the corporate segment. Sales increased by 12.5% (and by 24% YoY in non-agricultural markets). In Q4 2016, BZ WBK Leasing launched a financing scheme for entrepreneurial businesswomen, “Successful Businesswomen”.

The turnover of BZ WBK Faktor Group was 12% higher YoY, at PLN 19.03 billion. The loan book grew by 16% YoY, to PLN 3.35 billion. With its 12% market share, the company was a runner-up in the market.

Corporate Social Responsibility

Bank Zachodni WBK Group is a proud promoter of Corporate Social Responsibility projects. In 2016, as part of Poland’s largest programme of cooperation between the world of science and business - Santander Universidades, comprising already 64 Polish universities, we extended support to 1026 scholarship holders. We issued and activated 1023 Student IDs with a payment function (smartcards).

We also do the Barrier-Free Banking programme and have implemented a number of features, in all service channels, to assist movement, hearing and vision impaired persons. In addition, customers may use video calls with advisors who speak the sign language, the “talking ATMs” or electronic banking adapted to the needs of the visually impaired.

2016 was also very special for us in terms of our marketing activity. We put together a unique social media campaign “12th Player”, telling about the emotions associated with supporting our national football team and emphasising the feeling of togetherness among Poles. We were one of the most visible institutions in the traditional, electronic and social media. Our marketing campaigns endorsed by Łukasz Fabiański, among others, resulted in record loan sales for the Bank.

Our social activities have been assisted by the Foundation of Bank Zachodni WBK, which has been actively operating for more than 20 years. Only in 2016 the foundation provided social organisations with 227 grants totalling PLN 1.2 million (e.g. as part of the Bank of Children’s Smiles or the Bank of Ambitious Youth programmes). The number of active volunteers have been increasing year over year (with more than 600 at present). In the social area, our intention is to help as many beneficiaries as possible. Under the projects carried out by the Bank and the foundation, we extended aid to more than 115,000 beneficiaries in 2016.

Last year, Bank Zachodni WBK issued the third CSR Report, describing its social activities in 2015. In the “Social Reports” competition, the Bank was awarded by journalists for reporting essential data from the key stakeholders’ perspective. The report was also voted the best by internet users.

Last year, Santander Consumer Bank engaged in a sweeping campaign to promote active lifestyle. Thanks to the “Santander Health Academy” supported by Justyna Kowalczyk, Poland’s most successful sportswoman, who became the programme’s ambassador, thousands of Poles had a chance to get acquainted with Nordic walking or take part in free training held in 15 cities, conducted by licensed instructors. SCB also continued cooperation with charitable institutions that support children. In addition, for the first time SCB became engaged in assistance for the Polish Association Against Cystic Fibrosis, purchasing breathing-support equipment.

Simple, Personal and Fair

The satisfactory results generated by Bank Zachodni WBK Group in 2016 are an effect of the trust that customers have for our development strategy. Moreover, and let me emphasise this, it reflects the skills, experience and engagement of all the Group’s employees, features that are evident in their daily efforts to strengthen our market position. Our main shareholder, Santander Group, helps us build best practice and provides us with valuable inspiration for our key banking projects.

In 2016, changes took place in the Management Board of Bank Zachodni WBK. Artur Chodacki joined the Board as Head of Small and Medium Enterprise Banking Division, while Feliks Szyszkowiak, who became responsible for the Digital Transformation Division. In addition, Dorota Strojkowska was appointed a new member of the Management Board. In turn, Beata Daszyńska - Muzyczka and Paweł Wieczorek resigned as Board members.

I joined the Management Board of Bank Zachodni WBK on 29 November 2016. I would like to thank Gerry Byrne, the Supervisory Board Chairman, and the entire Supervisory Board for their trust and assure you that this is an utmost honour and privilege for me to be part of the Bank’s team.

Michał Gajewski

CEO of Bank Zachodni WBK Management Board

	FINANCIAL HIGHLIGHTS	PLN k		EUR k	
	for reporting period ended:	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Consolidated financial statement of Bank Zachodni WBK Group				
I	Net interest income	4 770 372	4 309 151	1 090 196	1 029 715
II	Net fee and commission income	1 914 720	1 938 100	437 580	463 128
III	Operating profit	3 453 821	3 150 581	789 319	752 863
IV	Profit before tax	3 122 054	3 178 292	713 498	759 485
V	Net profit attributable to owners of BZ WBK S.A.	2 166 847	2 327 273	495 200	556 125
VI	Total net cash flows	(838 893)	(853 283)	(191 716)	(203 901)
VII	Total assets	150 099 716	139 708 700	33 928 507	32 783 926
VIII	Deposits from banks	2 561 281	1 066 763	578 951	250 326
IX	Deposits from customers	112 522 457	101 245 186	25 434 552	23 758 110
X	Total liabilities	129 081 240	119 140 570	29 177 495	27 957 426
XI	Total equity	21 018 476	20 568 130	4 751 012	4 826 500
XII	Non-controlling interests in equity	1 237 649	1 176 101	279 758	275 983
XIII	Profit of the period attributable to non-controlling interests	217 245	207 278	49 648	49 531
XIV	Number of shares	99 234 534	99 234 534		
XV	Net book value per share in PLN/EUR	211,81	207,27	47,88	48,64
XVI	Capital ratio	15,05%	14,62%		
XVII	Profit per share in PLN/EUR	21,84	23,45	4,99	5,60
XVIII	Diluted earnings per share in PLN/EUR	21,80	23,41	4,98	5,59
XIX	Declared or paid dividend per share in PLN/EUR*	*	13,00	*	3,05

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

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

- for balance sheet items – average NBP exchange rate as at 30.12.2016: EUR 1 = PLN 4.4240 and as at 31.12.2015: EUR 1 = PLN 4.2615
- for profit and loss items – as at 31.12.2016 - the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month in 2016: EUR 1 = PLN 4.3757; as at 31.12.2015 - the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month in 2015: EUR 1 = PLN 4.1848

As at 31.12.2016, FX denominated balance sheet positions were converted into PLN in line with the NBP FX table no. 252/A/NBP/2016 dd. 30.12.2016.

CONSOLIDATED FINANCIAL STATEMENT OF BANK ZACHODNI WBK GROUP FOR 2016

2016

Bank Zachodni WBK
Grupa Santander

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In thousands of PLN

Consolidated income statement

for reporting period:		01.01.2016 31.12.2016	01.01.2015 31.12.2015
Interest income		6 060 920	5 708 829
Interest expense		(1 290 548)	(1 399 678)
Net interest income	Note 6	**4 770 372**	**4 309 151**
Fee and commission income		2 388 464	2 358 072
Fee and commission expense		(473 744)	(419 972)
Net fee and commission income	Note 7	**1 914 720**	**1 938 100**
Dividend income	Note 8	96 582	105 278
Net gains/(losses) on subordinated entities	Note 49	100	522 995
Net trading income and revaluation	Note 9	280 820	223 642
Gains (losses) from other financial securities	Note 10	402 774	277 350
Other operating income	Note 11	140 764	163 607
Impairment losses on loans and advances	Note 12	(784 590)	(810 692)
Operating expenses incl.:		(3 367 721)	(3 578 850)
Bank's staff, operating expenses and management costs	*Notes 13, 14*	*(2 935 229)*	*(3 208 701)*
Depreciation/amortisation		*(277 220)*	*(256 561)*
Other operating expenses	*Note 15*	*(155 272)*	*(113 588)*
Operating profit		**3 453 821**	**3 150 581**
Share in net profits (loss) of entities accounted for by the equity method		55 439	27 711
Tax on financial institutions		(387 206)	-
Profit before tax		**3 122 054**	**3 178 292**
Corporate income tax	Note 16	(737 962)	(643 741)
Consolidated profit for the period		**2 384 092**	**2 534 551**
of which:			-
attributable to owners of BZ WBK S.A.		*2 166 847*	*2 327 273*
attributable to non-controlling interests		*217 245*	*207 278*
Net earnings per share (PLN/share)	Note 17		
Basic earnings per share		21,84	23,45
Diluted earnings per share		21,80	23,41

Consolidated statement of comprehensive income

for reporting period:	01.01.2016 31.12.2016	01.01.2015 31.12.2015
Consolidated profit for the period	**2 384 092**	**2 534 551**
Other comprehensive income which can be transferred to the profit and loss account:	**(510 064)**	**(177 216)**
Available-for sale financial assets valuation, gross	(738 327)	(112 746)
Deferred tax	140 282	21 422
Cash flow hedges valuation, gross	108 618	(106 040)
Deferred tax	(20 637)	20 148
Other comprehensive income which can't be transferred to the profit and loss account	**5 556**	**8 055**
Provision for retirement allowances – actuarial gains/losses, gross	6 859	9 944
Deferred tax	(1 303)	(1 889)
Other comprehensive income for the period, net of income tax	**(504 508)**	**(169 161)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1 879 584**	**2 365 390**
Attributable to:		
owners of BZ WBK S.A.	*1 666 087*	*2 152 641*
non-controlling interests	*213 497*	*212 749*

Notes presented on pages 8 – 106 constitute an integral part of this Financial Statement.

In thousands of PLN

Consolidated statement of financial position

as at:		31.12.2016	31.12.2015
ASSETS			
Cash and balances with central banks	Note 18	4 775 660	6 229 853
Loans and advances to banks	Note 19	3 513 278	3 580 957
Financial assets held for trading	Note 20	3 180 985	4 165 511
Hedging derivatives	Note 21	67 645	164 777
Loans and advances to customers	Note 22	103 068 538	94 913 884
Buy-sell-back transactions	Note 42	-	289 260
Financial assets available for sale	Note 23	29 307 878	24 622 078
Investments in associates	Note 24	871 491	831 142
Intangible assets	Note 25	486 762	465 687
Goodwill	Note 26	1 688 516	1 688 516
Property, plant and equipment	Note 27	878 298	830 493
Net deferred tax assets	Note 28	1 534 322	1 251 808
Assets classified as held for sale	Note 29	629	1 569
Other assets	Note 30	725 714	673 165
Total assets		**150 099 716**	**139 708 700**
LIABILITIES AND EQUITY			
Deposits from banks	Note 31	2 561 281	1 066 763
Hedging derivatives	Note 21	2 023 344	2 079 805
Financial liabilities held for trading	Note 20	1 809 060	2 535 684
Deposits from customers	Note 32	112 522 457	101 245 186
Sell-buy-back transactions	Note 42	1 632 613	5 258 031
Subordinated liabilities	Note 33	440 457	526 634
Debt securities in issue	Note 34	5 529 187	4 320 891
Current income tax liabilities		84 151	228 488
Provisions	Note 35	130 128	132 570
Other liabilities	Note 36	2 348 562	1 746 518
Total liabilities		**129 081 240**	**119 140 570**
Equity			
Equity attributable to owners of BZ WBK		**19 780 827**	**19 392 029**
Share capital	Note 37	992 345	992 345
Other reserve capital	Note 38	15 791 555	14 685 919
Revaluation reserve	Note 39	276 093	776 914
Retained earnings		553 987	609 578
Profit for the current period		2 166 847	2 327 273
Non-controlling interests in equity	Note 40	**1 237 649**	**1 176 101**
Total equity		**21 018 476**	**20 568 130**
Total liabilities and equity		**150 099 716**	**139 708 700**

Notes presented on pages 8 – 106 constitute an integral part of this Financial Statement.

In thousands of PLN

Consolidated statement of changes in equity

Consolidated statement of changes in equity	Equity attributable to equity holders of BZ WBK SA					Non-controlling interests in equity	Total equity
	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total		
Note	37	38	39			40	
Opening balance as at 31.12.2015	**992 345**	**14 685 919**	**776 914**	**2 936 851**	**19 392 029**	**1 176 101**	**20 568 130**
Total comprehensive income	-	-	(500 760)	2 166 847	1 666 087	213 497	1 879 584
Consolidated profit for the period	-	-	-	*2 166 847*	*2 166 847*	*217 245*	*2 384 092*
Other comprehensive income	-	-	*(500 760)*	-	*(500 760)*	*(3 748)*	*(504 508)*
Distributions of profits and losses	-	1 177 730	-	(1 177 730)	-	-	-
Share scheme charge	-	16 213	-	-	16 213	-	16 213
Dividends	-	-	-	(1 290 049)	(1 290 049)	(226 025)	(1 516 074)
Equity from acquisition of controlling interest in PSA Finanse sp. z o.o. and PSA Consumer Finanse sp. z o.o.	-	-	-	-	-	74 076	74 076
Settlement on account of merger of subsidiaries and other	-	(88 307)	(61)	84 915	(3 453)	-	(3 453)
As at 31.12.2016	**992 345**	**15 791 555**	**276 093**	**2 720 834**	**19 780 827**	**1 237 649**	**21 018 476**

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

Consolidated statement of changes in equity	Equity attributable to equity holders of BZ WBK SA					Non-controlling interests in equity	Total equity
	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total		
Note	37	38	39			40	
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**

The revaluation reserve of PLN 776,914k comprises valuation of debt securities of PLN 183,416k, equity shares of PLN 786,398k, cash flow hedges of PLN (195,500)k and the provision for retirement allowances with cumulative actuarial gains of PLN 2,600k.

Notes presented on pages 8 – 106 constitute an integral part of this Financial Statement.

In thousands of PLN

Consolidated statement of cash flows

for the period	01.01.2016-31.12.2016	01.01.2015-31.12.2015
Profit before tax	**3 122 054**	**3 178 292**
Total adjustments:		
Share in net profits (losses) of entities accounted for by the equity method	(55 439)	(27 711)
Depreciation/amortisation	277 220	256 561
Impairment losses	22 077	10 048
Profit (loss)from investing activities	(417 631)	(823 152)
	2 948 281	**2 594 038**
Changes:		
Provisions	(2 442)	(19 796)
Trading portfolio financial instruments	957 785	827 234
Hedging derivatives	40 671	895 693
Loans and advances to banks	4 589	(246 272)
Loans and advances to customers	(8 154 654)	(9 110 273)
Deposits from banks	164 897	(261 896)
Deposits from customers	10 336 381	6 190 483
Buy-sell/ Sell-buy-back transactions	(3 608 458)	(1 944 591)
Other assets and liabilities	683 114	(97 485)
	421 883	**(3 766 903)**
Interest accrued excluded from operating activities	(436 651)	(445 117)
Dividend	(96 051)	(103 899)
Paid income tax	(1 016 330)	(1 048 980)
Net cash flows from operating activities	**1 821 132**	**(2 770 861)**
Inflows	**6 069 162**	**6 745 190**
Sale of subordinated entities	100	244 316
Sale/maturity of financial assets available for sale	5 327 990	5 640 574
Sale of intangible assets and property, plant and equipment	26 800	50 389
Dividend received	95 903	103 899
Interest received	618 369	706 012
Outflows	**(10 406 768)**	**(5 119 400)**
Purchase of subordinated entities net of cash acquired	(61 197)	-
Purchase of financial assets available for sale	(9 991 588)	(4 769 279)
Purchase of intangible assets and property, plant and equipment	(353 983)	(350 121)
Net cash flows from investing activities	**(4 337 606)**	**1 625 790**
Inflows	**6 037 678**	**3 359 574**
Debt securities in issue	2 762 880	2 111 125
Drawing of loans	3 274 798	1 248 449
Outflows	**(4 360 097)**	**(3 067 786)**
Debt securities buy out	(1 554 700)	(728 200)
Repayment of loans	(1 108 976)	(2 143 089)
Dividends and other payments to shareholders	(1 516 074)	(16 593)
Interest paid	(180 347)	(179 904)
Net cash flows from financing activities	**1 677 581**	**291 788**
Total net cash flows	**(838 893)**	**(853 283)**
Cash at the beginning of the accounting period	**12 677 692**	**13 530 975**
Cash at the end of the accounting period	**11 838 799**	**12 677 692**

* Cash components are presented in Note 47.

Notes presented on pages 8 – 106 constitute an integral part of this Financial Statement.

Additional notes to consolidated financial statement

1. General information about issuer

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

Consolidated financial statement of BZ WBK Group includes Bank's standalone financial information as well as information from its subsidiaries (all together called Group) and shares in associated entities.

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

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

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

In thousands of PLN

BZ WBK Group consists of the following entities:

Subsidiaries:

	Subsidiaries	Registered office	% of votes on AGM 31.12.2016	% of votes on AGM 31.12.2015
1.	BZ WBK Finanse Sp. z o.o.	Poznań	100.00	100.00
2.	BZ WBK Faktor Sp. z o.o.	Warszawa	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.
3.	BZ WBK Leasing S.A.	Poznań	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.
4.	BZ WBK Lease S.A.	Warszawa	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.
5.	BZ WBK Inwestycje Sp. z o.o.	Poznań	100.00	100.00
6.	Giełdokracja Sp. z o.o. in liquidation	Poznań	100.00	100.00
7.	BZ WBK Nieruchomości S.A.	Zakrzewo	99.99	99.99
8.	BZ WBK Asset Management S.A. [1)]	Poznań	-	50.00
9.	BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. [1)]	Poznań	50.00	100% of AGM votes are held by BZ WBK Asset Management S.A.
10.	Santander Consumer Bank S.A.	Wrocław	60.00	60.00
11.	Santander Consumer Finanse Sp. z o.o.	Wrocław	100% of AGM votes are held by Santander Consumer Bank S.A.	100% of AGM votes are held by Santander Consumer Bank S.A.
12.	PSA Finance Sp. z o.o. [2)]	Warszawa	50% of AGM votes are held by Santander Consumer Bank S.A. and 50% of AGM votes are held by Banque PSA Finance S.A.	-
13.	PSA Consumer Finance sp. z o.o. [2)]	Warszawa	100% of AGM votes are held by PSA Finance Sp. z.o.o.	-
14.	Santander Consumer Multirent Sp. z o.o.	Wrocław	100% of AGM votes are held by Santander Consumer Bank S.A.	100% of AGM votes are held by Santander Consumer Bank S.A.
15.	AKB Marketing Services Sp. z o.o. in liquidation	Poznań	100% of AGM votes are held by Santander Consumer Bank S.A.	100% of AGM votes are held by Santander Consumer Bank S.A.
16.	SC Poland Auto 2014-1 Limited	Dublin	-	subsidiary of Santander Consumer Bank S.A.
17.	SC Poland Consumer 15-1 Sp. z o.o.	Warszawa	subsidiary of Santander Consumer Bank S.A.	subsidiary of Santander Consumer Bank S.A.
18.	SC Poland Consumer 16-1 Sp. z o.o. [3)]	Warszawa	subsidiary of Santander Consumer Bank S.A.	-

[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.

In thousands of PLN

As at 31.12.2016, 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) Details about the controlling stake at the companies PSA Finance sp. z o.o. and indirectly, PSA Consumer Finance sp. z o.o. are provided in Note 50.

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

Associates:

	Associates	Registered office	% of votes on AGM 31.12.2016	% of votes on AGM 31.12.2015
1.	POLFUND - Fundusz Poręczeń Kredytowych S.A.	Szczecin	50.00	50.00
2.	Metrohouse Franchise S.A.*	Warszawa	-	20.13
3.	BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Poznań	49.00	49.00
4.	BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poznań	49.00	49.00

*Details about the sale of shares of Metrohouse Franchise S.A. are provided in Note 49.

2. Basis of preparation of consolidated financial statement

Statement of compliance

This annual consolidated financial statement of BZ WBK Group was prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union, which are applied on a consistent basis, as at 31 December 2016 and, in the case of matters not governed by the above Standards, in accordance with the provisions of the Accounting Act of 29 September 1994 (consolidated text: Journal of Law of 30 January 2013, item 330, as amended) and related implementing acts as well as the requirements imposed on issuers whose securities are admitted to trading on regulated markets or issuers who have applied to have securities admitted to trading on regulated markets outlined in Act dated 29 July 2005 on Public Offering, on Conditions for the Introduction of Financial Instruments to the Organized Trading System and on Public Companies.

These consolidated financial statements have been approved for publication by the Bank’s Management Board on 14 February 2017.

In thousands of PLN

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

IFRS	Nature of changes	Effective from	Influence on BZ WBK Group
Amendments to IAS 7 Statement of Cash Flows *	Amendments to IAS 7 introduce the requirements to disclose changes in liabilities arising from financing activities in statement of cash flows, including both changes arising from cash flows and non-cash changes.	1 January 2017	The amendment will not have a significant impact on financial statement.
Amendment to IAS 12 Income Taxes *	The amendment clarifies the application of the standard for the recognition of a deferred tax asset in the case of losses on measurement of financial instruments classified as available for sale, among other things debt instruments.	1 January 2017	The amendment will not have a significant impact on financial statement.
IFRS 9 Financial Instruments	The changes refer to the following areas: • Classification and measurement – introduction of three classification categories for debt instruments, i.e. measured at: amortised cost, fair value through other comprehensive income and fair value through profit or loss. Changes were made in the measurement of equity instruments by limiting the possibility of measurement at historical cost; • Expected credit losses – introduction of a new model for recognition of impairment (ECL): impairment charge is required to be measured as lifetime expected credit losses rather than 12-month expected credit losses; • Hedge effectiveness testing and eligibility for hedge accounting – replacement of the precise effectiveness range (80-125%) with a requirement that there is an economic relationship between the hedged item and the hedging instrument and that the hedge ratio is the same as the one used for risk management purposes. Ineffective hedges continue to be taken to a profit and loss account; • Hedged items – new requirements allow appointment of new hedged items in relation to certain economically viable hedging strategies, which, to date, were not eligible under IAS 39; • Hedging instruments – relaxation of requirements pertaining to certain hedging instruments listed in IAS 39. The standard allow recognition of the time value of options purchased and implementing non-derivative financial instruments as hedging instruments; • Recognition of change in the fair value of financial liability arising from changes in the liability's credit risk in other comprehensive income (in principle).	1 January 2018	IFRS 9 implementation progress is described below.
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 parallel to revenue recognition; • Disclosures - introduction of a requirement to disclose qualitative and quantitative information relating to judgements and changes in the judgements related with revenue recognition.	1 January 2018	The Group does not expect significant impact on revenue recognition model.

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 future minimum lease fees due to irrecoverable operating lease are presented in disclosure number 46.
Amendments to IFRS 2: Classification and measurement share-based payment transactions*	Changes relate to the following areas: • Guideliness on fair value measurement of liability due to cash-settled share-based payment transaction; • Guideliness on classification modification from cash-based to equity-settled payment transactions and also • Guideliness on employees tax liabilities recognition relating to share-based payment transactions.	1 January 2018	The amendment will not have a significant impact on financial statement.

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

IFRS 9 "Financial instruments"

Classification and measurement

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

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

In 2016, the BZ WBK Group has preliminarily identified business models which are not contrary to the segments determined for the management purposes. It is only for the ALM and Centre segment that the BZ WBK Group analyses the merits of the distinguishing of the following two business models: a hold-to-collect business model and a hold-to-collect-and-sell business model.

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

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

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

Hedge accounting

IFRS 9 includes new hedge accounting requirements which have a twofold objective: to simplify current requirements, and to bring hedge accounting in line with risk management, so allowing there to be a greater variety of derivative financial instruments which may be considered to be hedging instruments.

Furthermore, additional breakdowns are required providing useful information regarding the effect which hedge accounting has on financial statements and also on the entity's risk management strategy.

Once the analysis of the advantages and disadvantages of the proposal is completed, the BZ WBK Group shall make its decision for hedge accounting under IFRS 9. According to the best estimates hedging relations will be continued.

Impairment of credit exposures

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

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

- Stage 1 – with no significant increase in credit risk since initial recognition, i.e. the likelihood of the exposure being downgraded to the impaired portfolio (Stage 3 exposures) has not increased. For such exposures, the expected losses will be recognised over the next 12 months.
- Stage 2 – exposures with a significant increase in credit risk since initial recognition, but with no objective evidence of impairment. For such exposures, lifetime credit losses are recognised.
- Stage 3 – exposure for which the risk of default has materialised. For such exposures, lifetime credit losses are recognised.

One of the aspects of implementation of IFRS 9 is to work out a definition of a significant increase in credit risk that determines the classification of an exposure as Stage 2. In 2016, the BZ WBK Group started work on systematisation of the definition of a significant increase in risk. The definition will use the key criteria laid down in IFRS 9, such as delay in repayment exceeding 30 days and the BZ WBK Group's PD/rating models as well as additional elements of a qualitative risk assessment used in the process of exposure monitoring. To identify a significant increase in risk it is also necessary to compare the risk assessment at the time of initial recognition with the current assessment at the reporting date, which entails major technological changes in impairment allowance calculation.

Another key feature introduced by IFRS 9 is the approach to the estimation of risk parameters. For the purpose of estimating impairment allowances, the BZ WBK Group plans to continue using own estimates of risk parameters (PD, LGD, CCF) that are based on internal models. However, in the context of IFRS 9 requirements, the process of models calibration will change significantly. As a result of transition from the incurred loss to expected loss model, the emergence period/ loss identification period (LIP) parameter will no longer be used for provision calculation on the IBNR portfolio. On average for the whole portfolio of the BZ WBK Group, emergence period/LIP was shorter than 12 months, so as a result of transition to IFRS 9, the provision estimation horizon will increase (Stage 1 - 12 months, Stage 2 - lifelong). In addition, to ensure proper estimation of parameters over the life of an exposure, it is necessary to consider several options of future macroeconomic conditions and to estimate the expected future life of the exposure. Finally, in accordance with the standard, parameters will be calibrated using several scenarios, and the final impairment allowance will be estimated as a weighted average of expected losses in each scenario. The above changes cause a significant increase in the range of parameters used for the calculations. They also introduce new elements to the models of impairment parameters resulting from the use of calibration in several macroeconomic scenarios. In 2016, the BZ WBK Group worked on preparation of the final methodological concept for the model parameters and on implementation of the new allowance calculation method, a process that will become much complex after IFRS 9 is adopted.

Status of implementation

As described above, the BZ WBK Group is currently in process of business models identification and contractual cash flows analysis generated by individual portfolios of assets. Also works connected with impairment losses are in progress. In late 2016, the BZ WBK Group has launched a phase relating to tax aspects, hedge accounting and disclosures required by the Standard.

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

In thousands of PLN

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

IFRS	Nature of changes	Effective from	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 IFRSs 2010-2012 cycle	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 Update – 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 guideliness (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 IFRSs 2012-2014 cycle	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 goodwill.	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 fixed 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 drawing up notes to the financial statement, disclosing accounting principles and grouping of items presented in other comprehensive income from the investment.	1 January 2016	The Group implemented Standard's provisions. Influence's description is disclosed in section "Comparability with results of previous periods".

In thousands of PLN

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Consolidation exception	The amendments to IFRS 10, IFRS 12 and IAS 28 exempt to the requirement of presenting consolidated financial statements by an entity that is a parent if its ultimate or any intermediate parent produces financial statements that are available for public use and comply with IFRSs, in which subsidiaries are consolidated or are measured at fair value through profit or loss. Additionally, the requirement to consolidation was limited to the situation when an investment entity has a subsidiary that is not itself an investment entity and whose main purpose and activities are providing services that relate to the investment entity's investment activities. Moreover, when applying the equity method in an associate or joint venture that is an investment entity, an investor retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.	22 September 2016	The change had no significant effect on financial statement.

Accounting principles

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

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

Changes in accounting policies

The accounting policies applied by the BZ WBK Group in these consolidated financial statements are the same as those applied by the BZ WBK Group in its consolidated financial statements for 2015.

Comparability with results of previous periods

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

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

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

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

	31.12.2015 before conversion	Change in recognition of Buy-sell-back and Sell-buy-back transactions	31.12.2015 converted
Loans and advances to banks	3 853 257	(272 300)	3 580 957
Loans and advances to customers	94 930 844	(16 960)	94 913 884
Buy-sell-back transactions	-	289 260	289 260
Deposits from banks	5 704 604	(4 637 841)	1 066 763
Deposits from customers	101 865 376	(620 190)	101 245 186
Sell-buy-back transactions	-	5 258 031	5 258 031

	31.12.2015 before conversion	Change in recognition of provisions	31.12.2015 converted
Provisions	-	132 570	132 570
Other liabilities	1 879 088	(132 570)	1 746 518

The above changes are for presentation purposes only.

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".

Basis of preparation

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

The consolidated financial statement of BZ WBK Group has been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted in the European Union, on a historical cost basis, taking into account measurement basis used for available-for-sale financial assets, financial assets and liabilities at fair value through profit and loss and all derivative contracts and liabilities for cash-settled share-based payment transactions, which are measured at fair value. Fixed assets or disposal group classified as held for sale are stated at their carrying amount or fair value less costs of disposal, whichever is lower.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses.

The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the given circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and assumptions are reviewed on an ongoing basis. Changes to estimates are recognised in the period in which the estimate is changed if the change affects only that period, or in the period of the change and future periods if the change affects both current and future periods.

Main estimates and judgments made by the BZ WBK Group

Loan impairment

The estimation of potential loan impairment charges is inherently uncertain and depends upon many factors in respect of credit risk, including loans' impairment charges trends, portfolio grade profiles, economic climates, conditions in various industries to which BZ WBK Group is exposed and other external factors such as legal and regulatory requirements. Impairment charges are posted for loans with indications of impairment if in the management's opinion the estimated recovery from the debtor, including value of the existing collateral, may be lower than the outstanding exposure. For all the impaired credit exposures, the BZ WBK Group calculates an impairment charge as a difference between the credit exposure's book value and the present value of the estimated future cash flows, discounted using the effective interest rate as at the date of recognition of impairment.

The identification of exposures that require impairment charges to be posted is based on several independent review levels. Credit quality and impairment charges for loans receivables are independently monitored by head office personnel on a regular basis. A group-wide system for grading advances according to agreed credit criteria exists with an important objective being the timely identification of vulnerable loans so that remedial action can be taken at the earliest opportunity. The credit grading system plays a key role in the calculation of impairment charges in Bank Zachodni WBK Group ; this is the starting point of a process that ends in an impairment charge being posted against the individual exposures that are at the risk of default.

The analysis of impairment is carried out:

- with reference to individual credit exposures representing significant reporting items, for which indications of impairment have been identified; for the customers of global corporate banking, customers with a commercial grading, property customers and local authorities, and for significant retail exposures (individual analysis);
- with reference to the portfolio of individually insignificant credit exposures (collective analysis) or individually significant exposures, but with no identified indications of impairment.

The BZ WBK Group regularly reviews the methodologies and assumptions underpinning estimation of cash flows and periods of time in which they occur; in particular the BZ WBK Group compares estimated and actual cash flows to arrive at the best estimate of the recoverable amount.

Impairment loss on non-financial assets

The valuation of the fixed-assets of the BZ WBK Group is reviewed as at the end of the reporting period to specify whether there are indicators for write-down due to impairment. If there are such indicators, the recoverable value of assets should be determined.

Impairment charge is recognised if the book value of an asset exceeds its recoverable value and is presented in the income statement.

For other receivables impairment charge is recognised considering the expected recoverable amounts, and for other long-term receivables discounting is applied.

Assets held for sale are measured at the lower of their carrying amount or estimated fair value less estimated costs to sell.

Fair value of financial instruments

Some of the BZ WBK Group's financial instruments are carried at fair value, including all derivatives, other financial assets at fair value through profit and loss and financial investments classified as available for sale. Financial instruments are either priced with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using financial-markets pricing models, the methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, securities and commodities prices, option volatilities and currency rates. Most market parameters are either directly observable or are implied from instrument prices.

In justified cases, for financial instruments whose carrying amount is based on current prices or valuation models, the BZ WBK Group takes into account the need to identify additional adjustments to the fair value of the counterparty credit risk.

Revenues arising from insurance mediation

In 2016, the BZ WBK Group has changed estimation of the parameters of the relative-fair-value model. The model is applied by the BZ WBK Group to allocate the amount of intermediation remuneration services arising from insurance sale offered in conjunction with a financial instrument between components: one-off recognised immediately in income statement on the time of origination, part of fee amortized as part of the loan and as provisions for reimbursement in proportion accordingly to fair value of financial instrument and fair value of intermediation services in relation to the sum of the two above amounts. Based on the parameters review, the following elements have been changed: a portion of remuneration arising from the offered financial instrument, remuneration for insurance mediation services and remuneration for additional activities carried out during the term of the insurance contract.

Consolidation scope

According to the Management Board of BZ WBK Group, investment in BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. is an investment in a subsidiary for the purpose of preparation of the consolidated financial statement in the light of the strategy adopted by the ultimate parent entity. As at 31 December 2016, Bank Zachodni WBK S.A. co-owns BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. with Banco Santander S.A. Both owners are members of Santander Group and each holds 50% of the shares in the company.

In practice, Bank Zachodni WBK exercises control over the subsidiary company, BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A due to the fact that:

- Banco Santander delivers its strategy in Poland through Bank Zachodni WBK,
- Bank Zachodni WBK has rights to manage significant current operations,
- Bank Zachodni WBK has rights to variable returns due to its exposure,
- Bank Zachodni WBK may use its powers to affect the amount of its financial results.

The investment in POLFUND - Fundusz Poręczeń Kredytowych S.A., where 50% of the voting rights are held by the Bank Zachodni WBK on Annual General Meeting, was classified, in accordance with the best knowledge and estimates, as an investment in an associate as the ownership structure does not allow the Bank to control and to joint-control the company.

According to BZ WBK Group Management Board, investing in PSA Finance Sp. z o.o., a subsidiary company, resulted from the need to draft consolidated financial statements due to the fact that Santander Consumer Bank has a direct control and Bank Zachodni WBK has indirect control over the investment. The need of controlling the company results from the fact that:

- Santander Consumer Bank has power over PSA Finance Sp. z o.o., i.e. holds the rights to manage the current, significant operations related to risk management and business financing. As Santander Consumer Bank S.A is the main entity acquiring and guaranteeing PSA Finance Sp z o.o. financing, its risk exposure and rights to benefits from the relationship are significantly larger than Banque PSA Finance S.A., the second shareholder of PSA Finance Sp. z o.o.
- Santander Consumer Bank has rights to variable returns of PSA Finance Sp. z o.o. due to its exposure. This means that Santander Consumer Bank can affect the returns of PSA Finance Sp. z o.o., depending on the results generated by the company.

- Santander Consumer Bank may use its authority over PSA Finance Sp. z o.o. in which the Bank invested in order to exert influence on its own financial results - it is possible to adjust financial results of Santander Consumer Bank S.A, depending on the results generated by PSA Finance Sp. z o.o. Additionally, Santander Consumer Bank S.A acts as the principal, not the agent.

Other accounting estimates and judgements

Provisions for employee benefits paid on termination of employment, i.e. post-employment benefits, are estimated on the basis of an actuarial valuation. The actuarial valuation of those accruals is updated at least on an annual basis.

See Note 50 for details about provisions for staff benefits.

The fair value of awards granted under an incentive scheme is determined using the share based payments pricing models, which take into account the exercise price of the award, the share price at date of grant, discount rate - the risk free rate, the expected volatility of the share price over the life of the award and other relevant factors influencing fair value. The BZ WBK Group assesses probability of the programme vesting which affects the programme value in the costs of the reporting period.

Provisions for legal claims have been estimated considering the expected loss arising on individual cases.

Changes in judgments and estimates

In 2016, the scope of data covered by estimates did not change in comparison with the consolidated financial statements of BZ WBK Group's for 2015 with the exception of those listed above.

Basis of consolidation

Subsidiaries

The Bank defines the consolidation group by assessing whether it controls an investee. The Bank controls an entity if, due to its involvement, the Bank is exposed or has rights to variable returns and can affect those returns through its power over the investee.

The Bank, being the parent entity, controls directly or indirectly an investee when:

- the Bank has power over the investee;
- the Bank has exposure or rights to variable returns from its involvement with the investee;
- the Bank has the ability to use its power over the investee to affect the amount of the investor's financial results.

When assessing whether it controls an investee, the Bank considers all facts and circumstances, among other things following factors:

- the purpose and design of the investee;
- what the relevant activities are and how decisions about those activities are made;
- whether the rights of the Bank give it the current ability to direct the relevant activities;
- whether the Bank is exposed or has rights to variable returns from its involvement with the investee;
- whether the Bank has the ability to use its power over the investee to affect the amount of the investor's returns.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Purchase (acquisition) method

BZ WBK Group applies the acquisition method to account for acquisition of subsidiaries. Under this method, the acquirer has to:

- recognise and measure all identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree as at the acquisition date (the date on which the acquirer obtains control of the acquiree);
- recognise and measure goodwill or gain from a bargain purchase.

The acquirer measures:

- identifiable assets acquired and liabilities assumed - at fair value as at the acquisition date;

- any non-controlling interest – at fair value or pro-rata to their share in the identifiable net assets of the acquiree.

Joint ventures

Joint ventures are those entities over whose activities the BZ WBK Group has joint control, established by contractual agreement. In consolidated financial statements joint ventures are included using equity method.

Associates

Associates are those entities in which the BZ WBK Group has significant influence, but are not subsidiaries, neither joint ventures.

They are accounted for in accordance with the equity method in consolidated financial statements.

The consolidated financial statements include the BZ WBK Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the BZ WBK Group's share of losses exceeds its interest in an associate, the BZ WBK Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the BZ WBK Group has incurred legal or constructive obligations or made payments on behalf of an associate.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or incomes (including dividends) and expenses arising from intragroup transactions, are eliminated in the preparation of consolidated financial statements.

Foreign currency

Foreign currency transactions

The functional and presentation currency of the BZ WBK Group are the Polish złoty (PLN).

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Resulting from these transactions monetary assets and liabilities denominated in foreign currencies, are translated at the foreign exchange rate ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the reporting currency at the foreign exchange rates ruling at the dates that the fair values were determined. Foreign exchange differences arising on translation are recognised in profit or loss except for differences arising on retranslation of available for sale equity instruments of other entities, which are recognised in other comprehensive income.

Financial assets and financial liabilities

Classification

The BZ WBK Group classifies its financial instruments into the following categories:

- financial assets or financial liabilities measured at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables;
- available-for-sale financial assets;
- other financial liabilities.

Financial asset or financial liability measured at fair value through profit and loss

This is a financial asset or liability that meets either of the following conditions:

(a) Classified as held for trading.
A financial asset or financial liability is classified as held for trading if:
    (i) it is acquired or incurred principally for the purpose of selling or repurchasing in the near term;
    (ii) it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking;
    (iii) derivatives are held for trading unless the derivative is a designated and effective hedging instrument.

(b) Upon initial recognition it is designated by the BZ WBK Group at fair value through profit and loss. As at the current balance sheet date and in previous financial year the BZ WBK Group did not hold this category of financial instrument.

Held-to-maturity investments

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the BZ WBK Group's management has the positive intention and ability to hold to maturity. If the BZ WBK Group were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity, the entire category would be reclassified as available for sale and for a two year period the BZ WBK Group would not classify financial assets as held to maturity. As at the current balance sheet date and in previous financial year the BZ WBK Group did not hold this category of financial instrument.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(a) those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
(b) those that the entity upon initial recognition designates as available for sale;
(c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans and receivables comprise loans and advances to banks and customers including purchased receivables and investments in debt instruments provided that they are not quoted in an active market and receivables due to reverse repo transactions. Loans and receivables also include finance lease receivables of BZ WBK Leasing S.A. and BZ WBK Lease S.A. and factoring receivables of BZ WBK Faktor.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as:

(a) loans and receivables;
(b) held-to-maturity investments;
(c) financial assets measured at fair value through profit and loss.

Other financial liabilities

Financial liabilities include financial liabilities not classified as those measured at fair value through income statement. Those liabilities are valued at amortised cost and comprise: deposits from banks, deposits from customers, liabilities due to reverse repo transactions, received credits and loans, debt securities in issue and subordinated liabilities.

Recognition

The BZ WBK Group recognises a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument.

Lease receivables of leasing companies are accounted for in statement of financial position as of the date from which the lessee is entitled to exercise its rights to use the leased asset. Other agreements where the leased assets have not yet been made available to the lessee are recognised as contingent liabilities.

A regular way purchase of a financial asset is recognised in the statement of financial position as at the transaction settlement date. For assets that are carried at fair value, changes in fair value between the trade date and the settlement date are recognised in profit or loss or in other items of equity. This method is applied consistently for all purchases and sales of financial assets. Loans are recognised in the statement of financial position when cash is advanced to the borrowers. At the time of signing the loan agreement, the loans are recognised as contingent commitments.

Derecognition

Financial assets are derecognised from the statement of financial position when the contractual rights to the cash flows from the financial assets expire or when the BZ WBK Group transfers the contractual rights to receive the cash flows from a transaction in which substantially all risk and rewards of ownership of the financial asset are transferred.

A regular way purchase or sale of a financial asset is derecognised using settlement date accounting. The method is applied consistently for all purchases and sales of financial assets.

The BZ WBK Group removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled or expires.

Measurement

When a financial asset or financial liability is recognised initially, it is measured at fair value including (in the case of a financial asset or financial liability not classified at fair value through profit or loss) transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification) or based on a valuation technique whose variables include only data from observable markets.

After initial recognition, the BZ WBK Group measures financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for:

(a) loans and receivables which shall be measured at amortised cost using the effective interest rate method;
(b) held-to-maturity investments, which are measured at amortised cost using the effective interest rate;
(c) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

The fair values of quoted financial instruments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities) the BZ WBK Group establishes fair value by using valuation techniques which include recent arm's length market transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Where a fair value cannot be reliably estimated, unquoted instruments that do not have a quoted market price in an active market are measured at cost and periodically reviewed for impairment.

After initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method, except for:

(a) financial liabilities at fair value through profit and loss. Such liabilities, including derivatives that are liabilities, are measured at fair value;
(b) financial liabilities resulting from transferring a financial asset that is not to be derecognised.

Lease payment receivables of BZ WBK Leasing S.A. and BZ WBK Lease S.A. are accounted for in the statement of financial position at an amount equal to the net investment in the lease. Receivables to clients are measured at amortised cost using the effective interest rate.

A calculation based on the effective interest rate is made monthly on the basis of inflows and expenses arising from the lease agreement.

Financial assets and financial liabilities that are designated as hedged items are subject to measurement under hedge accounting requirements.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or financial liability that is not part of a hedging relationship is recognised as follows:

- a gain or loss on a financial asset or financial liability classified at fair value through profit or loss is recognised in profit or loss presented in income statement in line "Net trading income and revaluation";
- a gain or loss on an available-for-sale financial asset, except for impairment losses, is recognised directly in other comprehensive income, until the financial asset is derecognised, at which time the comprehensive income previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest rate method is recognised in profit or loss. Dividends on an available-for-sale equity instruments are recognised in profit or loss when the entity's right to receive payment is established.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when there is:

(a) a legally enforceable right to set off the recognised amounts;
(b) and when there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Repurchase and reverse repurchase transactions

The BZ WBK Group also generates/invests funds by selling/purchasing financial instruments under repurchase/reverse repurchase agreements whereby the instruments must be repurchased/resold at the previously agreed price.

Securities sold subject to repurchase agreements (“repo and sell-buy-back transaction”) are not derecognised from the statement of financial position at the end of the reporting period. The difference between sale and repurchase price is treated as interest cost and accrued over the life of the agreement.

Securities purchased subject to resale agreements (“reverse repo and buy-sell-back transactions”) are not recognised in the statement of financial position at the end of the reporting period. The difference between purchase and resale price is treated as interest income and accrued over the life of the agreement.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value. After their initial recognition, derivatives are subsequently measured at their fair values without any deduction for transactions costs to be incurred on sale or disposal. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received).

Certain derivatives embedded in other financial instruments shall be separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and the host contract is not carried at fair value through profit or loss. Embedded derivatives are measured at fair value with changes recognised through the income statement.

The BZ WBK Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from BZ WBK Group activities. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments and recognised at fair value.

Hedge accounting

Hedge accounting recognises the offsetting effects on the statement of comprehensive income of changes in the fair values of the hedging instrument and the hedged item.

At the inception of the hedge there is formal designation and documentation of the hedging relationship and the BZ WBK Group's risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction and the nature of the risk being hedged. The BZ WBK Group also documents, at inception and on ongoing basis, an assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in the fair value of the hedged item.

The BZ WBK Group uses derivative financial instruments among others to hedge its exposure to interest rate risks arising from BZ WBK Group operational, financing and investment activities.

The BZ WBK Group discontinues hedge accounting when:

(a) it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
(b) the derivative expires, or is sold, terminated, or exercised;
(c) the hedged item matures or is sold, or repaid.

Fair value hedge

This is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the statement of comprehensive income.

A fair value hedge is accounted for as follows: the gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) shall be recognised in profit or loss; and the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognised in profit or loss. This applies also to the hedged item, which otherwise would be measured at amortised cost or presented as available-for-sale financial asset.

Cash flow hedge

This is a hedge of the exposure to variability in cash flows that:

(a) is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction; and
(b) could affect profit and losses.

A cash flow hedge is accounted for as follows: the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognised directly in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument shall be recognised in profit or loss.

Interest income and expenses hedged and hedging instruments are recognised as net interest income.

Amounts recognised in 'Other comprehensive income' are reclassified to profit or loss during the period of time in which the hedged item affects the income statement.

If the hedging instrument expires or is sold or the hedge accounting relationship is terminated, the BZ WBK Group discontinues hedge accounting. All profits or losses on the hedging instrument pertaining to the effective hedge recognised in other comprehensive income remains an element of equity until the forecast transaction occurs, when it is recognised in profit or loss.

If the transaction is no longer expected to occur, the cumulative gain or loss relating to the hedging instrument recognised in other comprehensive income is reclassified to profit or loss.

Impairment of financial assets

Assets carried at amortised cost - loans and receivables

The BZ WBK Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets are impaired. A financial asset or a group of financial assetsare impaired and impairment charges are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "impairment event") and that impairment event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that a financial asset or group of assets is impaired includes observable data:

(a) significant financial difficulty of the issuer or obligor;
(b) a breach of contract, such as a default or delinquency in interest or principal payments;
(c) the BZ WBK Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the BZ WBK Group would not otherwise consider;
(d) it becoming probable that the borrower will enter bankruptcy, recovery, arrangement or other financial reorganisation;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the bank, including:
    (i) adverse changes in the payment status of borrowers in the BZ WBK Group, or
    (ii) national or local economic conditions that correlate with defaults on the assets in the BZ WBK Group.

If there is objective evidence that an impairment charge on loans and receivables has been incurred, the amount of the impairment charge is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). If a loan or receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. If a floating rate financial asset or floating rate financial liability is recognised initially at an amount equal to the principal receivable or payable on maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or liability. The carrying amount of the asset shall be reduced through establishing an impairment charge. The amount of the impairment charge shall be recognised in profit or loss.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs in obtaining and selling the collateral, whether or not foreclosure is probable.

The BZ WBK Group periodically reviews its loan portfolio to check whether there is any objective evidence that a financial asset or group of financial assets are impaired.

With regard to impairment, the review of individual loan exposures is carried out once a quarter or more often, if needed. Impairment for the portfolio, which is assessed jointly (collective approach), is verified monthly. The BZ WBK Group carries out validation (so called "back tests") of parameters which are used to calculate impairment charges under collective approach, on the basis of historical observations, at least twice a year.

Impairment of individual loan exposures is based on the amount of prospective receivables (defined as the current value of expected cash flows discounted by the effective interest rate) using the scenario-based approach to the individually significant exposures. As part of the scenario analysis, the relationship manager selects the strategy that reflects the current recovery method. Within each strategy, consideration is given to other possible scenarios. The selected strategy affects the limitations of other parameters'valuethat can be used in the model. In the individual approach, the impairment charge is determined based on the calculation of the total likelihood-weighted impairment charges estimated for all the possible recovery scenarios, depending on the recovery strategy currently employed vis-à-vis the customer.

In the scenario analysis, the key strategies / scenarios used are as follows:

- Recovery from the operating cash flows / refinancing / capital support;
- Recovery through the voluntary liquidation of collateral;
- Recovery through debt enforcement;
- Recovery through an arrangement / turnaround / bankruptcy;
- Recovery by take-over of the debt / assets / sale of receivables.

Under the collective approach, credit exposures are grouped into portfolios reflecting specific features of the client or product (property, commercial customers, SMEs, mortgages, overdrafts, cash loans, etc.). Each portfolio contains systematic pools based on similar characteristics of the credit risk, i.e.:

- Internal grade;
- Timeliness of debt service;
- Time that has elapsed from the moment of default, i.e. from identification of an indication of impairment;
- Time that has elapsed after an indication of impairment has ceased to exist;
- Time from the commencement of debt enforcement;
- Implementation of restructuring measures;
- Parameters specific to certain products (e.g. currency, distribution channel).

If the BZ WBK Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised by the BZ WBK Group are not included in a collective assessment of impairment.

For the purpose of the collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (for example, on the basis of the BZ WBK Group's credit risk evaluation or the BZ WBK Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The rating systems have been internally developed and are continually being enhanced, e.g. externally benchmarked to help underpin the aforementioned factors which determine the estimates of impairment charges.

Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical impairment charges experience for assets with credit risk characteristics similar to those in the group. Historical impairment charges experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical impairment charges experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of impairment charges in the group and their magnitude). The BZ WBK Group reviews regularly the methodology and assumptions used for estimating future cash flows in order to reduce any differences between estimates and actual impairment charge experience.

IBNR (Incurred But Not Reported) impairment charges are also maintained to cover loans, which are impaired at the end of the reporting period and, while not separately identified, are known from experience to be present in any portfolio of loans.

IBNR impairment charges are maintained at levels that are deemed appropriate by management having considered: credit grading profiles and grading movements, historic loan impairment charges rates, changes in credit management, procedures, processes and policies, economic climates, portfolio sector profiles/industry conditions and current estimates of impairment charges in the portfolio.

Estimates of incurred but not reported losses (IBNR) take into account the following key factors:

- EP - Emergence Period i.e. time between the occurrence of event of default and its identification by the BZ WBK Group;
- PD - Probability of Default, based on historical observations together with EP is considered to be best indicator of incurred but not reported losses;
- LGD - Loss Given Default i.e. the fraction of the exposure amount that will be lost in the event of default;
- EAD - Exposure at Default;
- CCF - Credit Conversion Factor determining level to which liability to pay out cash will be realized (conversion of off-balance sheet items into on-balance sheet exposure).

These parameters are estimated based on historical experience of impairment charges on loans with a similar credit profile on account of the adopted granularity of the estimated risk parameters.

If, in a subsequent period, the amount of the impairment charge decreases and the decrease is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment charge is reversed either directly or by adjusting the impairment charge. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

The amount of the reversal is recognised in income statement.

When a loan has been subject to a specific provision and the prospects of recovery do not improve, eventually it may be concluded that there is no real prospect of recovery. When this point is reached, the amount of the loan which is considered to be non-recoverable is written off against the related impairment charge for loan. Subsequent recoveries of amounts previously written off decrease the amount of the charge for loan impairment in the income statement.

Impairment calculation methods are standardised across the BZ WBK Group.

Available-for-sale financial assets

For financial assets classified as available-for-sale for which there is objective evidence that the asset is impaired, the cumulative impairment charge that had been recognised directly in other comprehensive income shall be removed and recognised in profit or loss. The amount of the cumulative impairment charge that is removed from other comprehensive income and recognised in profit or loss shall be the difference between the acquisition cost (net of any principal repayments and amortisation) and current fair value. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Calculated in this way impairment charges are not reversed through income statement.

Contingent liabilities

The BZ WBK Group creates provisions for impairment risk-bearing irrevocable conditional liabilities (irrevocable credit lines, financial guarantees, letters of credit, etc.). The value of the provision is determined as the difference between the estimated amount of available conditional exposure estimated with the use of Credit Conversion Factor (CCF) and the current value of expected future cash flows under this exposure.

Property, plant and equipment

Owned fixed assets

Property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses.

Leased assets

Leases for which the BZ WBK Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired through finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Subsequent expenditure

The BZ WBK Group recognises in the carrying amount of property, plant and equipment the cost of replacing part of such an asset when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated economic useful lives of each part of an item of property, plant and equipment.

The estimated economic useful lives are as follows:

- buildings 40 years
- structures 22 years
- plant and equipment 3 – 14 years
- vehicles 4 years

Depreciation rates are verified annually. On the basis of this verification, depreciation periods might be changed.

Fixed assets held for sale

On initial date of classification of non-current assets as assets held-for-sale, the BZ WBK Group measures them at the lower of carrying amount and fair value less cost to sell.

Any initial or subsequent write-down of assets held-for-sale to fair value less cost to sell is recognised in the income statement.

Goodwill and Intangible assets

Goodwill

Goodwill as of the acquisition date measured as the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities, contingent liabilities less impairment. Goodwill value is tested for impairment annually.

Licences, patents, licences and similar assets

Acquired computer software licences are recognized on the basis of the costs incurred to acquire and bring to use the specific software.

Expenditures that are directly associated with the production of identifiable and unique software products controlled by the BZ WBK Group, and that will probably generate economic benefits exceeding expenditures beyond one year, are recognised as intangible assets.

Other intangible assets

Other intangible assets that are acquired by the BZ WBK Group are stated at cost less accumulated amortisation and total impairment losses.

Expenditure on intangible assets

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated economic useful lives of intangible assets, which for the majority of intangibles equals to three years.

Amortisation rates are verified annually. On the basis of this verification, amortisation periods might be changed.

Other items of the statement of financial position

Other trade and other receivables

Trade receivables and other receivables payable within 12 months from the origination are measured at the initial recognition at par due to the immaterial effect of discounting. Trade receivables and other receivables payable within 12 months are at the balance sheet day recognised in the amount of the required payment less impairment loss.

Other liabilities

Other liabilities payable within 12 months from the initial recognition are measured at par due to the immaterial effect of discounting. Like other liabilities payable within 12 months, trade payables are recognised at the balance sheet day in the amount of the payment due.

Equity

Equity comprises capital and funds created in accordance with applicable law, acts and the Articless of Association. Equity also includes retained earnings and prior year losses carried forward.
Share capital is stated at its nominal value in accordance with the Articles of Association and the entry in the court register.

Supplementary capital is created from profit allocations and share issue premiums.

Reserve capital is created from profit allocations and is earmarked for covering balance sheet losses.

The result of valuation of management incentive program is included in reserve capital (IFRS 2.53).

The supplementary, reserve, general banking risk fund and share premium are presented jointly under category “Other reserve funds”.

Revaluation reserve is comprised of adjustments relating to the valuation of available-for-sale financial assets and adjustments relating to the valuation of effective cash flow hedges taking into account deferred tax and actuarial gains from estimating provision for retirement. The revaluation reserve is not distributable.

Except for own equity, non-controlling interests are also recognised in BZ WBK Group capital.

On derecognition of all or part of financial assets available for sale the total effects of periodical change in the fair value reflected in the revaluation reserve are reversed. Total or part of the previous revaluation charge increases or decreases the value of the given financial asset available for sale. The effects of the fair value changes are removed from the revaluation reserve with a corresponding change in the income statement.

The net financial result for the accounting year is the profit disclosed in the income statementof the current year adjusted by the corporate income tax charge.

Custody services

Income from custody services is an element of the fee and commission income. The corresponding customer assets do not form part of the Group’s assets and as such are not disclosed in the consolidated statement of financial position.

Capital payments (Dividends)

Own dividends for a particular year, which have been approved by the General Meeting of Shareholders but not paid at the at the end of the reporting period are recognised as dividend liabilities in “other liabilities” item.

Employee benefits

Short-term employee benefits

The Group’s short-term employment benefits which include wages, bonuses, holiday pay and social insurance payments are recognised as an expense as incurred.

Long-term employee benefits

The BZ WBK Group's obligation in respect of long-term employee benefits is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The accrual for retirement bonus is estimated using actuarial valuation method. The valuation of those provisions is updated at least once a year.

Equity-settled share-based payment transactions

For equity-settled share-based payment transactions, the entity measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the BZ WBK Group cannot estimate reliable the fair value of the goods or services received, the BZ WBK Group measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

Vesting conditions included in the terms of the grant are not taken into account in estimating fair value except where those terms are dependent on market conditions. Non-market vesting conditions are taken into account by adjusting the number of awards included in the measurement of the cost of employee services so that ultimately, the amount recognised in the income statement reflects the number of vested awards.

The expense related to share based payments is credited to shareholder's equity. Where the share based payment arrangements give rise to the issue of new shares, the proceeds of issue of the shares are credited to share capital (nominal amount) and share premium (if any) when awards are exercised.

Cash-settled share-based payment transactions

For cash-settled share-based payment transactions, the BZ WBK Group measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the BZ WBK Group remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period. The BZ WBK Group recognises the services received, and a liability to pay for those services, as the employees render the service. The liability is measured, initially and at each reporting date until settled, at the fair value of the share appreciation rights, by applying an option pricing model, taking into account the terms and conditions on which the share appreciation rights were granted, and the extent to which the employees have rendered the service to that date.

Provisions

A provision is recognised when the BZ WBK Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the amount is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions for contingent liabilities such as guarantees, letters of credit, and unutilised irrevocable credit facilities are recognised in accordance with this policy.

Net interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the BZ WBK Group and the amount of income can be measured reliably.

Interest income and expenses for all financial instruments is recognised in the income statement at amortised cost using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the BZ WBK Group shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses.

The calculation includes all fees (e.g. arrangement, drawdown, renewal, restructure fees and fees for annexes which modify payments) transaction costs and all other premiums or discounts.

Costs that can be directly related to the sales of loan products are partly amortised according to the effective interest method, if there is a possibility of direct allocation to the specific loan agreement, and partly recognised in the fee income, at the moment of realisation, if there is no possibility of direct allocation to the specific loan agreement.

For the selected loan products, where linkage to the insurance product has been identified, the BZ WBK Group splits realised income into a portion recognised as interest income according to effective interest rate method and a portion recognised as fee income. The BZ WBK Group qualifies distributed insurance products as linked to loans in particular if the insurance product influences contractual provisions of a loan.

In case impairment is recognised for a financial asset, interest income is accrued based on the carrying amount of receivable (i.e. the value reduced by revaluation charge) using the interest rate according to which future cash flows were discounted for impairment valuation.

Net commission income

Fees and commissions settled under effective interest rate are described under section “Net interest income”.

Fees on overdrafts, revolving loans, credit cards and off balance sheet liabilities are recognised on a straight-line basis in the income statement.

Other fees and charges, which are not settled according to the effective interest rate, are included in income statement in accordance with accrual method.

Net fee and commission income includes outcome from FX transactions in the branch network.

Net income on bancassurance

For the selected loan products, where linkage to the insurance product has been identified, the BZ WBK Group splits realised income into a portion recognised as interest income according to effective interest rate method and a portion recognised as fee income. The BZ WBK Group qualifies distributed insurance products as linked to loans in particular if the insurance product influences contractual provisions of a loan.

To determine what part of income is an integral part of the credit agreement recognised as interest income using effective interest rate, the BZ WBK Group separates the fair value of the financial instrument offered and the fair value of the intermediation service of insurance product sold together with such instrument. The portion that represents an element of the amortised cost of the financial instrument and the portion that represents remuneration for the agency services are split in proportion to the fair value of the financial instrument and the fair value of the agency service cost, respectively, relative to the sum of the two values.

The portion of income that is considered an agency fee for sales of an insurance product linked to a loan agreement is recognised by the BZ WBK Group as fee income when the fee is charged for sales of an insurance product.
The BZ WBK Group verifies the accuracy of the assumed allocation of different types of income at least annually.

Net trading income and revaluation

Net trading income and revaluation include profits and losses resulting from changes in fair value of financial assets and liabilities classified as held for trading that are measured at fair value through profit and loss. Interest cost and income related to the debt instruments are also reflected in the net interest income.

Dividend income

Dividends are taken to the income statement at the moment of acquiring rights to them by shareholders provided that it is probable that the economic benefits will flow to the BZ WBK Group and the amount of income can be measured reliably.

Profit on disposal of subsidiaries, associates and joint ventures

Gain or loss on the sale of shares in subsidiaries is determined as the difference between the subsidiary’s net asset value adjusted for unwritten-off portion of goodwill and the sale price.

Profit on the sale of interests in associates and joint ventures is the difference between the carrying amount and their sale price.

Other operating income and costs

Other operating income and costs include operating expenses and revenues, which are not related directly to the statutory activity of the BZ WBK Group. These are primarily revenues and costs from the sale and liquidation of fixed assets, income from sale of other services, paid and received damages, penalties and fines.

Impairment losses on loans and advances

Other operating income and costs include operating expenses and revenues, which are not related directly to the statutory activity of the BZ WBK Group. These are primarily revenues and costs from the sale and liquidation of fixed assets, income from sale of other services, paid and received damages, penalties and fines.

Operating lease payments

Operating lease payments are taken to the Bank's cost in income statement on a straight-line basis over the lease term.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. Finance charge is allocated over lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Corporate income tax

Corporate income tax comprises current and deferred tax. Income tax is recognised in profit and loss except to the extent that it relates to items recognised in other comprehensive income.

Current tax is the tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are provided, using the balance sheet method, on temporary differences between the tax bases of assets and liabilities and their values arising from the statement of financial position. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the end of the reporting period and expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised at realizable amount – it is to the extent that is probable that the BZ WBK Group generates taxable profit allowing partial or wholly realisation of deferred tax assets.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

3. Operating Segments reporting

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

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

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

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

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

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

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

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

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

In 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 from the transaction of acquisition of Visa Europe Limited by Visa Inc. (described in Note 10) is presented in ALM and Centre 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 business segments)

01.01.2016-31.12.2016	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Global Corporate Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	**2 240 035**	**594 714**	**144 726**	**634 470**	**1 156 427**	**4 770 372**
incl. internal transactions	(101 019)	(41 953)	6 476	133 373	3 123	-
Net fee and commission income	**1 314 987**	**223 113**	**217 305**	**(17 689)**	**177 004**	**1 914 720**
incl. internal transactions	70 749	35 274	(110 984)	6 736	(1 775)	-
Other income	**69 009**	**94 993**	**124 914**	**503 686**	**31 856**	**824 458**
incl. internal transactions	19 686	50 274	(54 645)	(19 414)	4 099	-
Dividend income	**-**	**-**	**1 584**	**94 988**	**10**	**96 582**
Operating costs	**(1 887 026)**	**(320 629)**	**(200 281)**	**(178 308)**	**(504 257)**	**(3 090 501)**
incl. internal transactions	(19 633)	(1 858)	(6)	24 044	(2 547)	-
Depreciation/amortisation	**(170 832)**	**(19 859)**	**(21 790)**	**(30 213)**	**(34 526)**	**(277 220)**
Impairment losses on loans and advances	**(453 012)**	**(154 031)**	**5 396**	**(1 689)**	**(181 254)**	**(784 590)**
Share in net profits (loss) of entities accounted for by the equity method	**-**	**-**	**-**	**55 439**	**-**	**55 439**
Tax on financial institutions	**-**	**-**	**-**	**(356 078)**	**(31 128)**	**(387 206)**
Profit before tax	**1 113 161**	**418 301**	**271 854**	**704 606**	**614 132**	**3 122 054**
Corporate income tax						(737 962)
Consolidated profit for the period						**2 384 092**
of which:						
attributable to owners of BZ WBK S.A.						2 166 847
attributable to non-controlling interests						217 245

In thousands of PLN

Consolidated statement of financial position (by business segment)

31.12.2016	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Global Corporate Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Loans and advances to customers	54 735 861	25 793 781	8 375 514	131 116	14 032 266	103 068 538
Investments in associates	-	-	-	871 491	-	871 491
Other assets	5 779 987	1 285 223	3 702 015	31 325 087	4 067 375	46 159 687
Total assets	**60 515 848**	**27 079 004**	**12 077 529**	**32 327 694**	**18 099 641**	**150 099 716**
Deposits from customers	71 287 038	20 246 946	7 886 487	4 874 585	8 227 401	112 522 457
Other liabilities and equity	5 011 770	3 389 474	3 323 973	16 054 844	9 797 198	37 577 259
Total equity and liabilities	**76 298 808**	**23 636 420**	**11 210 460**	**20 929 429**	**18 024 599**	**150 099 716**

*Includes individual customers and small & micro companies.

In thousands of PLN

Consolidated income statement (by business segments)

01.01.2015-31.12.2015	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Global Corporate Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	**1 973 426**	**542 629**	**135 063**	**605 825**	**1 052 208**	**4 309 151**
incl. internal transactions	(89 883)	(34 464)	6 221	124 624	(6 498)	-
Net fee and commission income	**1 334 446**	**219 753**	**209 934**	**(17 181)**	**191 148**	**1 938 100**
incl. internal transactions	61 531	40 003	(108 953)	6 141	1 278	-
Other income	**67 619**	**70 627**	**105 448**	**924 745**	**19 155**	**1 187 594**
incl. internal transactions	(1 248)	40 629	(21 201)	37 631	(55 811)	-
Dividend income	**-**	**-**	**1 511**	**103 761**	**6**	**105 278**
Operating costs	**(1 931 882)**	**(305 658)**	**(221 445)**	**(317 402)**	**(545 902)**	**(3 322 289)**
incl. internal transactions	(12 762)	(1 157)	(6)	16 301	(2 376)	-
Depreciation/amortisation	**(114 337)**	**(14 952)**	**(16 282)**	**(73 244)**	**(37 746)**	**(256 561)**
Impairment losses on loans and advances	**(515 577)**	**(176 947)**	**3 080**	**2 267**	**(123 515)**	**(810 692)**
Share in net profits (loss) of entities accounted for by the equity method	**-**	**-**	**-**	**27 711**	**-**	**27 711**
Profit before tax	**813 695**	**335 452**	**217 309**	**1 256 482**	**555 354**	**3 178 292**
Corporate income tax						(643 741)
Consolidated profit for the period						**2 534 551**
of which:						
attributable to owners of BZ WBK S.A.						2 327 273
attributable to non-controlling interests						207 278

In thousands of PLN

Consolidated statement of financial position (by business segment)

31.12.2015	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	49 254 006	25 510 951	7 167 990	79 224	12 901 713	94 913 884
Investments in associates	-	-	-	831 142	-	831 142
Other assets	7 004 612	1 505 721	5 782 536	26 665 010	3 005 795	43 963 674
Total assets	**56 258 618**	**27 016 672**	**12 950 526**	**27 575 376**	**15 907 508**	**139 708 700**
Deposits from customers	65 682 909	18 588 522	7 360 921	1 943 000	7 669 834	101 245 186
Other liabilities and equity	4 601 380	3 272 547	4 145 027	14 953 899	11 490 661	38 463 514
Total equity and liabilities	**70 284 289**	**21 861 069**	**11 505 948**	**16 896 899**	**19 160 495**	**139 708 700**

*Includes individual customers and small & micro companies.

4. Risk management

Bank Zachodni WBK Capital Group is exposed to a variety of risks in its ordinary business activities. The role of risk management is to ensure that BZ WBK Group continues to take risk in a controlled way in order to enhance shareholder value. Risk is a possibility that some events would materialise, which would impact the achievement of the BZ WBK Group's strategic goals.

Risk management policies are designed to identify and measure those risks, define the most profitable return within the accepted risk level (risk-reward), and to continually set appropriate risk limits, which restrict the risk exposure. BZ WBK Group continues to modify and enhance its risk management practices to reflect changes in Group's risk profile, economic environment, regulatory requirements and evolving best practice.

Management Board and Supervisory Board set the business direction and actively support the risk management strategies. This is achieved by approving the key risk management policies, participation of the Management Board Members in the risk management committees, reviewing and signing off on the key risks and risk reports.

Supervisory Board continuously oversees the risk management system. The Supervisory Board approves the strategy, key risk management policies, the acceptable risk level and monitors the utilisation of the internal limits in relation to the current business strategy and macroeconomic environment. It conducts the reviews of the key risk areas, the identification of threats and the process of defining and monitoring of remedial actions. The Supervisory Board assesses if the Management Board control activities are effective and aligned with the Supervisory Board policy, including the assessment of the risk management system.

Audit and Compliance Committee supports the Supervisory Board in its supervisory activities. The Committee annually reviews the internal controls in financial reporting, accepts the reports on independent internal audit unit and compliance units. The Committee receives the regular quarterly reports on the status of the implementation of audit recommendations as the basis of the assessment of the quality of management actions. The Audit Committee assesses the efficiency of the internal control system and the risk management system.

Risk Committee supports the Supervisory Board in assessment of the effectiveness of the internal control system and risk management system and the resources, which were accepted and planned in order to provide the efficient management of the material risks of the Group.

Management Board is responsible for the effectiveness of the risk management. In particular, the Management Board introduces the organisational structure aligned with the level and profile of the risk being undertaken, split of the responsibilities providing the separation of the risk measurement and control function from the operational activity, is responsible for implementation and updating of the written risk management strategies, and transparency of the activities. The Management Board reviews the financial results of the Group. The Management Board established a number of committees directly responsible for the development of the risk management methodology and monitoring of risks in particular areas.

The Management Board fulfils its risk management role through the following three committees: Risk Management Committee, Risk Management Sub-Committee and Risk Control Committee.

Risk Management Committee, which is an executive committee responsible for developing a risk management strategy across the Group, including the identification of material risk types, setting the risk appetite and defining the methods of risk measurement, control, monitoring and reporting. **Risk Management Sub-Committee** constitutes part of the Risk Management Committee which approves the key decisions taken by the lower-level risk committees (above established limits).

Risk Control Committee set up to monitor the risk level across different areas of the bank's operations and supervise the activities of lower-level risk management committees set up by the Management Board. Those Committees, acting within the established by the Board competences, are direcly responsible for developing risk management methods and for on-going monitoring of risk levels.

The Risk Control Committee has an oversight over the following risk committees:

Risk Management Forum, a body authorised to approve and supervise the risk measurement policy and methodology and to monitor the credit risk, market risk in the banking book, market risk in the trading book, structural balance sheet risk and liquidity risk. The Forum operates through 4 panels:

- **Credit Risk Panel;**
- **Market Risk Panel;**

- **Models and Methodology Panel;**
- **Equity Investment and Underwriting Panel.**

Credit Committee takes credit decisions in accordance with the applicable credit discretion levels.

Provisions Committee decides on the amount of impairment losses on credit exposures and the legal provisions. The Committee approves the methodology and the parameters used for the calculation of impairment on a portfolio level for BZ WBK Group.

Information Management Committee is responsible for the quality and organisation of data related to risk management and other areas of the bank's operations.

Cyber Risk Committee, newly set up as a forum for direct cooperation and communication among all organisational units involved in the processes related to cyber security, to ensure effective supervision of the cyber security strategy.

Operational Risk Management Committee (ORMCo) sets the strategic activities within the operational risk management in BZ WBK Group, including business continuity management, information security and fraud prevention.

Assets and Liabilities Committee (ALCO) supervises the activity on the banking book, manages liquidity interest rate risk in the banking book. It is responsible for the funding and balance sheet management, including for the pricing policy.

Capital Committee is responsible for capital management, in particular the ICAAP process.

Disclosures Committee verifies the Group's financial information in terms of its compliance with legal and regulatory requirements.

Deposit Working Group has a responsibility for ensuring a balanced growth of the savings and investment products portfolio.

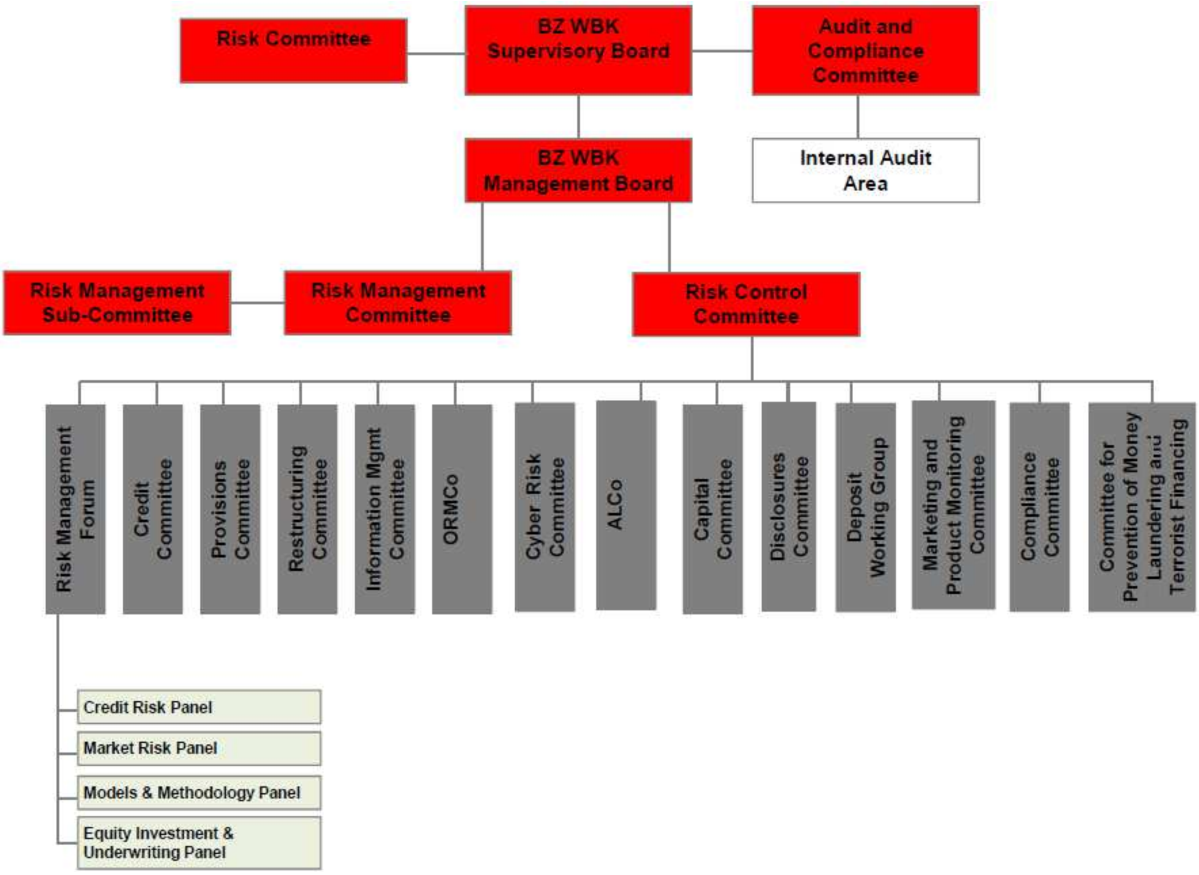
Product Marketing and Monitoring Committee approves new products and services to be implemented in the market, taking into account the reputation risk analysis.

Compliance Committee is responsible for setting standards with respect to the management of compliance risk and the codes of conducts adopted by the Group.

Anti-Money Laundering and Terrorism Financing Committee approves the Group's policy on prevention of money laundering and the financing of terrorism. It approves and monitors the bank's activities in this area.

Restructuring Committee takes decisions as to the relationship management strategy for borrowers in distress as well as the cancellation and sale of loan receivables under the lending discretions.

The picture below presents the corporate governance in relation to the risk governance process.



Risk management is consistent with risk profile resulting from agreed general risk appetite approved by the Risk Management Committee.

Risk appetite is expressed as quantitative limits and captured in the "Risk Appetite Statement" approved by the Management Board and the Supervisory Board. With global limits in place, watch limits are set and risk management policies are drafted.

BZ WBK Group is exposed to a variety of risks impacting the strategic goals. The Group continuously analyses the risks, identifies their sources, creates the relevant risk management mechanisms including among others the measurement, control, mitigation and reporting. Within the risks of the most importance to the BZ WBK Group are the following:

- credit risk,
- concentration risk,
- market risk in the banking and trading book,
- liquidity risk,
- operational risk,
- compliance risk.

Detailed principles, roles and responsibilities of the BZ WBK Group have been described in relevant internal policies on the management of the particular risks.

BZ WBK Group pays special attention to the consistency of risk management processes across the Group, which allows for adequate control of the risk exposure. The subsidiaries implement risk management policies and procedures reflecting the principles adopted by the BZ WBK Group.

Acting under the applicable law, the Bank exercises oversight over risk management in Santander Consumer Bank (SCB) in line with the same oversight rules as applied to other Bank Zachodni WBK Group companies. Bank Zachodni WBK Management Board Members in charge of the Risk Management Division and Financial Management Division (respectively) sit on the Supervisory Board of SCB. Pursuant to the "BZ WBK strategy of investments in capital market instruments", they are responsible for supervision over SCB and they ensure, together with the SCB Supervisory Board, that the company operates in line with adopted plans and operational security procedures. The Bank monitors the profile and level of SCB risk via BZ WBK risk management committees.

Credit risk

BZ WBK Group's credit activities focus on growing a high quality loan book with a good yield and customer satisfaction.

Credit risk is defined as the possibility of suffering a loss as a result that a borrower will fail to meet its credit obligation, including interest and fees. Credit risk arises from the impairment of credit assets and contingent liabilities, resulting from worsening of the borrower's credit quality. Credit risk measurement is based on the estimation of credit risk weighted assets, with the relevant risk weights representing both the probability of default and the potential loss given default of the borrower.

Credit risk in BZ WBK Group arises mainly from lending activities on the retail, corporate and interbank markets. This risk is managed as part of the policy approved by the Management Board on the basis of the adopted credit procedures as well as on the basis of discretionary limits allocated to individual credit officers based on their knowledge and experience. The Group's internal system of credit grading and monitoring allows for an early identification of likely defaults that might impair the loan book. Additionally the Group uses large set of credit risk mitigation tools, both collaterals (financial and non-financial) and specific credit provisions and clauses (covenants).

The Group continues to develop and implement risk based methods of grading loans, allocating capital and measuring returns. Risk valuation models are used for all credit portfolios.

The Group is closely looking at the macroeconomic environment and analysing its credit exposure to particular customer segments and economic sectors to respond with an adequate and prompt action and adjust its credit policy parameters accordingly.The year 2016 in this respect was fairly stable and the introduced changes only modified Group's policy.

One of the Group's priorities in 2016 was close monitoring of foreign currency housing loan portfolio. In response to the numerous legislative proposals the Group conducted multivariate analyzes and actively participated in the consultation processes. The Group pays particular attention to credit risk on these portfolios and assesses them as low.

The Group continues to develop and implement processes and procedures of managing and monitoring of credit portfolio risk adjusting them to the revised regulatory requirements, especially to Recommendations of KNF.

Risk Management Forum

The credit risk oversight in BZ WBK Group is performed by Credit Policy Panel (CPP) operating within the Risk Management Forum. Its key responsibilities include development and approval of the best sectoral practice, industry analyses, credit policies as well as implementation of grading and assessment systems aimed at ensuring sustainable growth of the credit portfolio. To align the Group's management processes with the current strategic goals, three sub-committees were established within the CPP with a responsibility for the key customer segments: retail segment, SME segment and the business/corporate segment. The oversight over the credit risk models is the responsibility of the Models and Methodology Panel.

Risk Management Division

The Risk Management Division is responsible for a consolidated credit risk management process, including management and supervision of credit delivery, defining credit policies, providing decision-making tools and credit risk measurement tools, quality assurance of the credit portfolio and provision of reliable management information on the credit portfolio.

Credit Policies

Credit policies refer to particular business segments, loan portfolios and banking products. They contain guidelines for the identification of the areas where specific types of risks manifest themselves, specifying the methods of their measurement and mitigation to the level acceptable to the bank (e.g. "Loan-to-Value" ratios, FX risk in the case of foreign currency loans).

The Group reviews and updates its credit policies on a regular basis, aiming to bring them in line with the Group's strategy, current macroeconomic situation, legal developments and changes in regulatory requirements.

In thousands of PLN

Credit Decision Making Process

The credit decision-making process as a part of the risk management policy is based upon Individual Credit Discretions vested in credit officers, commensurate with their knowledge and experience within the business segments. Credit exposures in excess of PLN 25m are referred to the Credit Committee composed of senior management and top executives. Transactions above PLN 187.5m are additionally ratified by Risk Management Sub-Committee.

The BZ WBK Group continually strives to ensure best quality credit service while satisfying the borrowers' expectations and ensuring security of the credit portfolio. To this end, the credit risk approval function has been segregated from the sales function.

Credit Grading

Intensive work has been undertaken to further develop credit risk assessment tools to conform to the recommendations of the Polish Financial Supervision Authority, the International Accounting Standards/International Financial Reporting Standards and the best practice in the market.

The BZ WBK Group uses credit risk grading models for its key credit portfolios, including corporate customers, SMEs, home loans, property loan, cash loans, credit cards and personal overdrafts.

The Group regularly monitors its credit grading using the rules specified in its Lending Manuals. Additionally, for selected models, automated process of credit grade verification is carried out based on the number of overdue days or an analysis of the customer's behavioural data. Credit grade is also verified at subsequent credit assessments.

Credit Reviews

The Group performs regular reviews to determine the actual quality of the credit portfolio, confirm that adequate credit grading and provisioning processes are in place, verify compliance with the procedures and credit decisions and to objectively assess professionalism in credit management. The reviews are performed by the two specialised units: Credit Review Department and the Control & Quality Assessment Department, which are independent of the risk-taking units.

Collateral

In the Group's security model, the Collateral and Credit Agreements Department is the central unit responsible for creation and maintenance of securities.

The role of the department is to ensure that security covers are duly established and held effective in line with the lending policy for all business segments. The unit is also responsible for developing standardised internal procedures with respect to perfecting and maintaining validity of collateral as well as ensuring that establishment, monitoring and release of security covers is duly effected.

Furthermore, the Collateral and Credit Agreements Department provides assistance to credit units in credit decision making and development of credit policies with respect to collateral. The unit gathers data on collateral and ensures appropriate management information.

The tables below show types of collateral that can be used to secure loans and advances to customers from non-banking sector.

Retail customers

Type of loan	Type of collateral
Cash loan	bills, guarantees, credit insurance
Credit on liquid assets	guaranty deposit, amounts frozen on account, investment funds
Student loan	sureties
Housing loan	mortgage, credit insurance, transfer of claim
Leasing	bills, guarantees, transfer of rights to bank's account; court registered pledge on movables; transfer of ownership, open mortgage, obligation of the leased asset supplier to buy the asset back (buy-back guarantee)

Business customers

Type of loan	Type of collateral
Commercial credit	guaranty deposit, registered pledge, bills
Revolving credit	assignment of credit, bills, guarantees, registered pledge
Building credit	mortgage
Investment credit	mortgage, sureties, warranty
Granted and with supplements	guarantees, warranty
Leasing	bills, guarantees, transfer of rights to bank's account; court registered pledge on movables; transfer of ownership, open mortgage, obligation of the leased asset supplier to buy the asset back (buy-back guarantee)

Collateral management process

Before a credit decision is approved, the Collateral and Credit Agreements Department assesses the collateral quality, a process that includes:

- verification of the security valuation – assessment of the security value,
- assessment of the legal status of the security,
- assessment of the investment process for the properties,
- seeking legal advises on the proposed securities.

The Collateral and Credit Agreements Department actively participates in credit processes, executing tasks including:

- providing draft credit documentation,
- verification and assessment that the signed documentation is accurate and compliant,
- verification of the data in information systems,
- collateral monitoring and reporting,
- releasing of the security.

In managing its receivables, BZ WBK Group carries out the process of collateral execution. Selection of proper action towards execution of specific collateral depends on the type of the collateral (personal or tangible). In principle the Group aims at voluntary proceedings in the course of collateral execution. When there is no evidence of cooperation with a collateral provider, the Group's rights are fulfilled in compliance with the law and internal regulations in the bankruptcy and enforcement proceedings.

Credit risk stress testing

Stress testing is a part of the credit risk management process used to evaluate potential effects of specific events or movement of a set of financial and macroeconomic variables or change in risk profile on BZ WBK Group's condition. Stress tests are composed of assessment of potential changes in credit portfolio quality when faced with adverse conditions. The process also delivers management information about adequacy of agreed limit and internal capital allocation.

Calculation of Impairment

In BZ WBK Group, charges updating impairment are recognised in accordance with the International Accounting Standards/International Financial Reporting Standards (IAS/IFRS). The charges reflect credit impairment, which is recognised if the Group presents objective evidence that such amounts cannot be recovered in line with the signed loan agreement. Objective evidences of impairment were defined in accordance with recommendation of Basel Committee, with the International Accounting Standards (IAS 39) and Recommendation R.

The impairment is calculated on the basis of the estimated recoverable amount. Impairments are analysed using both the individual (for individually significant exposures with objectively evidenced impairment) and collective approach (individually insignificant exposures with objectively evidenced impairment, and exposures of incurred but not reported losses).

Twice a year, the Group compares the assumptions and parameters used for loss calculations with the actual situation. The comparison includes changes of economic conditions, amendments to Group's credit policies and recovery process. The process provides assurance that impairments are recognized correctly. The responsibility for adequate level of charges rests with the Provisions Committee.

The tables below present BZ WBK Group's maximum exposure to credit risk, for presentation purposes grouped by classes, defined by provisions cover.

In thousands of PLN

31.12.2016	Provision cover	Loans and advances to customers	Loans and advances to banks	Financial assets available for sale-debt securities	Financial assets held for trading*	Off-balance sheet exposures
Impaired portfolio						
Individually impaired						
	up to 50%	1 589 115	-	-	-	-
	50% - 70%	274 721	-	-	-	-
	70% - 85%	260 918	-	-	-	-
	over 85%	516 423	-	-	-	-
Gross amount		**2 641 177**	**-**	**-**	**-**	**-**
Impairment		(1 265 943)	-	-	-	-
Net amount		**1 375 234**	**-**	**-**	**-**	**-**
Collectively impaired						
	up to 50%	1 336 407	-	-	-	-
	50% - 70%	698 510	-	-	-	-
	70% - 85%	892 490	-	-	-	-
	over 85%	1 533 042	-	-	-	-
Gross amount		**4 460 449**	**-**	**-**	**-**	**-**
Impairment		(2 921 855)	-	-	-	-
Net amount		**1 538 594**	**-**	**-**	**-**	**-**
IBNR portfolio						
	up to 0,10%	53 906 137	3 513 278	28 423 827	3 171 950	-
	0,10% - 0,30%	18 583 055	-	-	-	-
	0,30% - 0,65%	11 291 310	-	-	-	-
	over 0,65%	16 763 323	-	-	-	-
Gross amount		**100 543 825**	**3 513 278**	**28 423 827**	**3 171 950**	**-**
IBNR		(691 083)	-	-	-	-
Net amount		**99 852 742**	**3 513 278**	**28 423 827**	**3 171 950**	**-**
Other receivables		**301 968**	**-**	**-**	**-**	**-**
Off-balance sheet exposures						
Financing granted		23 243 065	-	-	-	-
Guarantees		4 182 757	-	-	-	-
Nominal value of derivatives - purchased		-	-	-	-	231 245 935
Allowance for impairment		(50 746)	-	-	-	-
Off-balance sheet exposures - total		**27 375 076**	**-**	**-**	**-**	**231 245 935**

*the value of financial assets held for trading (excl. equity securities) includes adjustment of the fair value as described in Note 20

In thousands of PLN

31.12.2015	Provision cover	Loans and advances to customers	Loans and advances to banks	Financial assets available for sale- debt securities	Financial assets held for trading*	Off-balance sheet exposures
Impaired portfolio						
Individually impaired						
	up to 50%	1 843 684	-	-	-	-
	50% - 70%	569 530	-	-	-	-
	70% - 85%	206 632	-	-	-	-
	over 85%	666 603	-	-	-	-
Gross amount		**3 286 449**	**-**	**-**	**-**	**-**
Impairment		(1 487 149)	-	-	-	-
Net amount		**1 799 300**	**-**	**-**	**-**	**-**
Collectively impaired						-
	up to 50%	823 145	-	-	-	-
	50% - 70%	545 530	-	-	-	-
	70% - 85%	876 338	-	-	-	-
	over 85%	1 736 821	-	-	-	-
Gross amount		**3 981 834**	**-**	**-**	**-**	**-**
Impairment		(2 984 318)	-	-	-	-
Net amount		**997 516**	**-**	**-**	**-**	**-**
						-
IBNR portfolio						-
	up to 0,10%	39 355 822	3 580 958	23 463 634	4 140 587	-
	0,10% - 0,30%	24 656 597	-	-	-	-
	0,30% - 0,65%	12 005 852	-	-	-	-
	over 0,65%	16 645 851	-	-	-	-
Gross amount		**92 664 122**	**3 580 958**	**23 463 634**	**4 140 587**	-
IBNR		(659 596)	(1)	-	-	-
Net amount		**92 004 526**	**3 580 957**	**23 463 634**	**4 140 587**	-
						-
Other receivables		**112 542**	**-**	**-**	**-**	-
Off-balance sheet exposures						-
Financing granted		21 917 739	-	-	-	-
Guarantees		4 425 961	-	-	-	-
Nominal value of derivatives - purchased		-	-	-	-	201 106 392
Allowance for impairment		(75 340)	-	-	-	-
Off-balance sheet exposures - total		**26 268 360**	**-**	**-**	**-**	**201 106 392**

*the value of financial assets held for trading (excl. equity securities) includes adjustment of the fair value as described in Note 20

IBNR portfolio

	Loans and advances to customers 31.12.2016	31.12.2015
Non-past due	**94 415 281**	**88 021 474**
Past-due	**6 128 544**	**4 642 648**
1-30 days	5 104 875	3 780 417
31-60 days	709 972	620 103
61-90 days	301 827	228 795
> 90 days	11 870	13 333
Gross amount	**100 543 825**	**92 664 122**

In thousands of PLN

	IBNR	
	31.12.2016	31.12.2015
Loans and advances to enterprises	199 853	191 877
Loans and advances to individuals	483 076	459 924
Loans and advances to public sector	109	217
Other loans	8 045	7 578
	691 083	**659 596**

Allowances for impairment by classes

Provision cover	Loans and advances to customers		Loans and advances to banks	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Individual allowance for impairment				
up to 50%	(404 851)	(361 251)	-	-
50% - 70%	(159 225)	(342 949)	-	-
70% - 85%	(195 226)	(152 007)	-	-
over 85%	(506 641)	(630 942)	-	-
Total individual allowance for impairment	**(1 265 943)**	**(1 487 149)**	**-**	**-**
Collective allowance for impairment				
up to 50%	(293 116)	(278 631)	-	-
50% - 70%	(431 762)	(331 738)	-	-
70% - 85%	(694 776)	(682 498)	-	-
over 85%	(1 502 201)	(1 691 451)	-	-
Total collective allowance for impairment	**(2 921 855)**	**(2 984 318)**	**-**	**-**
IBNR				
up to 0,10%	(20 729)	(13 553)	-	(1)
0,10%-0,30%	(28 271)	(46 675)	-	-
0,30%-0,65%	(58 233)	(58 580)	-	-
over 0,65%	(583 850)	(540 788)	-	-
Total IBNR	**(691 083)**	**(659 596)**	**-**	**(1)**
Total allowance for impairment	**(4 878 881)**	**(5 131 063)**	**-**	**(1)**

Credit risk concentration

Bank Zachodni WBK Group adheres to the standards provided for in the Banking Law with regard to the concentration of risk bearing exposures to a single entity or a group of entities connected in terms of capital or organisation.

As at 31.12.2016, pursuant to art. 71 of the Banking Law Act, the maximum limits for the Group amounted to:

- PLN 4 146 204 k (25% of Group's own funds).

As at 31.12.2015, pursuant to art. 71 of the Banking Law Act, the maximum limits for the Group amounted to:

- PLN 3 995 091 k (25% of Group's own funds).

The policy pursued by the Group aims at minimising the credit concentration risk, by for example applying more rigorous than regulatory rules in this respect. The effect of this policy is maintenance of high level of diversification of exposures towards individual customers.

The analysis of the Group's exposures in terms of sector concentrations, proved that the Group does not have any exposures in excess of the limits imposed by the regulator in 2016.

In thousands of PLN

A list of the 20 largest borrowers (or capital-related group of borrowers) of Bank Zachodni WBK Group (performing loans) as at 31.12.2016 (including exposures of individual customers towards subsidiaries of BZ WBK).

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure incl. towards subsidiaries	Committed credit lines, guarantees, treasury limits and capital investments
61	TELECOMMUNICATION	1 857 349	1 612 419	244 930
06	MINING	1 180 593	15 047	1 165 546
07	MINING	1 173 796	228 506	945 290
47	RETAIL	1 074 502	670 571	403 931
35	POWER INDUSTRY	878 974	295 974	583 000
68	REAL ESTATE SERVICES	792 496	646 988	145 508
35	POWER INDUSTRY	791 261	253 597	537 664
19	RAFINERY	681 806	-	681 806
41	CONSTRUCTION	657 954	591 470	66 484
35	POWER INDUSTRY	564 615	405 657	158 958
68	REAL ESTATE SERVICES	555 243	342 772	212 471
35	POWER INDUSTRY	545 830	329 830	216 000
20	CHEMICAL INDUSTRY	537 789	462 701	75 088
41	CONSTRUCTION	494 001	1	494 000
19	RAFINERY	427 430	163 560	263 870
68	REAL ESTATE SERVICES	414 811	394 328	20 483
86	HEALTHCARE	398 521	327 066	71 455
68	REAL ESTATE SERVICES	392 753	392 753	-
61	TELECOMMUNICATION	387 002	2	387 000
70	CONSULTING	384 922	156 757	228 165
Total gross exposure		**14 191 648**	**7 289 999**	**6 901 649**

A list of the 20 largest borrowers (or capital-related group of borrowers) of Bank Zachodni WBK Group (performing loans) as at 31.12.2015 (including exposures of individual customers towards subsidiaries of BZ WBK).

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure incl. towards subsidiaries	Committed credit lines, guarantees, treasury limits and capital investments
61	TELECOMMUNICATION	1 419 999	1 129 054	290 945
35	POWER INDUSTRY	1 250 988	72 206	1 178 782
35	POWER INDUSTRY	970 115	185 115	785 000
47	RETAIL	935 124	680 160	254 964
07	MINING	840 136	154 719	685 417
19	RAFINERY	761 910	404 167	357 743
19	RAFINERY	656 772	174 921	481 851
35	POWER INDUSTRY	560 329	507 363	52 966
35	POWER INDUSTRY	529 168	480 168	49 000
41	CONSTRUCTION	429 001	1	429 000
20	CHEMICAL INDUSTRY	410 000	143 389	266 611
68	REAL ESTATE SERVICES	407 369	285 831	121 538
61	TELECOMMUNICATION	403 409	-	403 409
33	MACHINE INDUSTRY	399 986	42 601	357 385
68	REAL ESTATE SERVICES	389 978	224 679	165 299
68	REAL ESTATE SERVICES	387 244	385 235	2 009
68	REAL ESTATE SERVICES	379 217	379 217	-
33	MACHINE INDUSTRY	371 631	28 189	343 442
68	REAL ESTATE SERVICES	354 789	226 921	127 868
41	CONSTRUCTION	351 974	351 714	260
Total gross exposure		**12 209 139**	**5 855 650**	**6 353 489**

In thousands of PLN

Industry concentration

The credit policy of Bank Zachodni WBK Group assumes diversification of credit exposures. Risk of particular industry affects value of the exposure limit. In order to ensure adequate portfolio diversification and control the risk of overexposure to a single industry, the Group provides funding to sectors and groups or capital units representing a variety of industries.
As at 31.12.2016, the highest concentration level was recorded in the "distribution" sector (12% of the BZ WBK Group exposure), "manufacturing" (10%) and "property" (8%).

Groups of PKD by industries:

	Industry	Gross exposure	
		31.12.2016	31.12.2015
	Distribution	12 834 912	11 625 207
	Manufacturing	10 892 968	10 753 999
	Property	8 724 541	9 756 912
	Agriculture	2 133 411	2 049 250
	Transportation	3 055 197	2 085 106
	Energy	2 868 057	2 082 326
	Construction	1 291 672	1 169 834
	Financial sector	966 677	1 818 544
	Other industries	8 282 577	6 626 878
A	**Total Business Loans**	**51 050 012**	**47 968 056**
B	**Retail (including mortgage loans)**	**56 595 439**	**51 964 349**
A+B	**BZ WBK Group portfolio**	**107 645 451**	**99 932 405**
C	**Other receivables (commercial bonds)**	**301 968**	**112 542**
A+B+C	**Total BZ WBK Group**	**107 947 419**	**100 044 947**

Forbearance Policy

Pursuant to the definition set out in the draft Implementing Technical Standards of the European Banking Authority, a forbearance measure (i.e. customer debt restructuring) consists of a concession towards a debtor facing financial difficulties or prospect difficulties which threaten the repayment of debt towards BZ WBK Group on the existing contractual terms. The concession may involve a modification of the previous terms and conditions of a debt contract or its total or partial refinancing. The purpose of debt restructuring is to better align repayment terms with the current and projected financial standing of the customer, minimise default risk and/or maximise recovery.

Restructuring does not refer to a technical or operational modification of contractual terms, or changes attributable to other factors than payment difficulties (business or market conditions).

The decision on granting a concession towards a customer with insufficient debt service ability is based on an analysis of its financial standing, assessment of repayment capacity under the new terms, analysis of existing collateral, assessment of the willingness to repay and the relationship history. The concessions depend on the results of the assessment and may involve in particular: moratorium on payments, modification of repayment schedule (reduced payments), interest capitalisation, extension of maturity etc. Such solutions may be applied to both personal and business customers.

Each concession (debt restructuring) is adequately reflected in the systems to allow for identification of debt portfolio under restructuring. Debt/customer is classified as under restructuring throughout the restructuring period, i.e. until the Bank establishes that the customer circumstances are sustainable, restructuring conditions have been met, there are no overdue payments above 30 days and the customer has a satisfactory repayment capacity. In accordance with a prudent approach, customers are reported as "subject to restructuring" for the minimum period of two years.

There are specialised units at the bank whose objective is to ensure a better quality of the credit portfolio through early restructuring and facilitation of debt repayment by customers. The effectiveness of actions taken by the above units and the portfolio subject to restructuring are regularly monitored by relevant Committees.

Accounting principles applicable to financial assets subject to forbearance are the same as in the case of other performing or non-performing assets in the Bank, that is loans and receivables are measured at amortised cost using the effective interest method. If the terms of a loan, receivable or held-to-maturity investment are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, the exposure is measured using the original effective interest rate before the modification of terms (in accordance with IAS 39 AG 84).

In thousands of PLN

		31.12.2016	31.12.2015
Loans and advances to customers- gross amount			
under forebearance measure:		**4 041 684**	**4 348 559**
	corporate exposures	2 575 162	3 080 037
	mortgage exposures	1 260 580	1 099 200
	individuals exposures	205 942	169 322
Allowance for impairment - forbearance clients		**(954 595)**	**(1 363 683)**
of which:	individually impaired	(503 469)	(931 812)
Loans and advances to forebearance clients- net amount		**3 087 089**	**2 984 876**

Analysis of credit quality of financial assets subject to forbearance:

Loans and advances to customers under forebearance	Gross exposure		Collateral value		Allowance for impairment	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Loans and advances -impaired	**2 099 884**	**2 869 493**	**6 985 767**	**4 610 960**	**(875 886)**	**(1 291 777)**
Loans and advances -unimpaired	**1 941 800**	**1 479 066**	**5 378 460**	**3 418 509**	**(78 709)**	**(71 906)**
non-overdue	1 190 359	1 112 524	2 868 868	2 344 532	(43 336)	(42 255)
from 1 to 30 days overdue	609 743	249 801	2 260 936	844 386	(22 813)	(15 124)
from 31 to 60 days overdue	92 091	79 954	115 416	177 125	(6 242)	(8 143)
from 61 to 90 days overdue	49 607	36 787	133 240	52 466	(6 318)	(6 384)
Total gross amount	**4 041 684**	**4 348 559**	**12 364 227**	**8 029 469**	**(954 595)**	**(1 363 683)**

Interest income on assets subject to forbearance was PLN 108,775 k as at 31 December 2016 and PLN 119,732 k as at 31 December 2015.

Loans and advances to customers under forbearance by geographical region (gross amount)	31.12.2016	31.12.2015
Dolnośląskie	344 929	305 051
Kujawsko-Pomorskie	70 613	70 536
Lubelskie	48 282	48 385
Lubuskie	62 642	67 362
Mazowieckie	1 937 784	1 880 807
Małopolskie	122 639	311 123
Opolskie	28 061	25 221
Podkarpackie	35 734	30 510
Podlaskie	34 491	22 897
Pomorskie	191 445	152 685
Warmińsko-Mazurskie	39 366	39 377
Wielkopolskie	188 845	294 016
Zachodniopomorskie	75 893	82 909
Śląskie	570 193	626 978
Świętokrzyskie	195 961	276 448
Łódzkie	94 806	114 254
Total	**4 041 684**	**4 348 559**

In thousands of PLN

Loans and advances to customers under forbearance by industry (gross amount)	31.12.2016	31.12.2015
Construction	274 516	364 526
Distribution	74 408	265 767
Energy	399 368	588 969
Financial sector	341	5 418
Other industries	196 909	593 763
Property	1 360 369	912 205
Manufacturing	227 267	303 185
Agriculture	8 410	8 409
Transportation	33 574	37 795
Individuals	1 466 522	1 268 522
Total	**4 041 684**	**4 348 559**

	31.12.2016	31.12.2015
Net carrying amount at beggining of the period	2 984 876	2 808 753
Allowance for impairment	409 088	(32 740)
Loans and advances derecognised during the period	(758 110)	(33 356)
Loans and advances recognised during the period	1 305 291	1 352 572
Other changes/repayments	(854 056)	(1 110 353)
Net carrying amount at the end of the period	**3 087 089**	**2 984 876**

Market risk

Market risk is defined as an adverse earnings impact of changes in interest rates, FX rates, share quotations, stock exchange indices, etc. It arises in trading activity as well as in the ordinary course of transacting business (exchange rate products, interest rate products, equity linked trackers).

BZ WBK Group is exposed to market risk arising from its activity on money and capital markets and services provided to customers. Additionally the Group undertakes the market risk related to the active management of balance sheet structure (assets and liabilities management).

The activity and strategies on market risk management are directly supervised by the Risk Management Forum.

General principles of market risk management

The key objective of the market risk policy pursued by the Group is to reduce the impact of interest and FX rate changes on the Group's profitability and market value as well as to grow income within the strictly defined risk limits while ensuring the Group's liquidity.

BZ WBK Group's market risk policies establish a number of measurement and risk limitation parameters in the form of limits, mandatory and monitoring ratios. Risk limits are periodically reviewed to align them with the Group's strategy and the current objectives of the Group.

Interest rate and FX risks linked to the banking business is managed centrally by the Financial Management Division. The Division is also responsible for acquiring funding, managing liquidity and making transactions on behalf of ALCO. This activity is controlled by the measures and limits approved from time to time by the Risk Management Forum, the bank's Management Board and the Supervisory Board.

The debt securities and the interest rate derivatives portfolio is managed by ALCO, which takes all decisions on the portfolio's value and structure.

The market risk on the trading portfolio is managed by the Global Corporate Banking Division, which is also responsible for the activities of the Brokerage Services Office. The Group's trading activity is subject to a system of measures and limits, including Value at Risk, stop loss, position limits and sensitivity limits. This limits are approved by the Risk Management Forum, the bank's Management Board and the Supervisory Board.

In thousands of PLN

The Financial Risk Department within the Risk Management Division is responsible for ongoing assessment of the current risk, implementation of control procedures and risk monitoring and reporting. The Department is also responsible for shaping the market risk policy, proposing risk assessment methodologies and ensuring consistency of the risk management process across the Group. Owing to the fact that the Department is a part of the Risk Management Division, the risk assessment and monitoring processes are separate from the risk-taking units.

The market risk of equity instruments held by Brokerage Office (shares, index-linked securities) is managed by the Brokerage Office itself and supervised by BZ WBK Risk Management Forum.

Assessment methods

BZ WBK Group uses several methods to assess its market risk exposure. The methods employed for the banking portfolio are the MVE and NII sensitivity measures, while the methods used for the trading portfolio include: Value at Risk (VaR), stop loss, sensitivity measures (PV01) and stress tests. The risk assessment methodology is subject to an independent initial and periodic validation, the results of which are presented for approval to the Models and Methodology Panel (part of the Risk Management Forum).

VaR is determined by means of a statistical modelling process as a difference between the mark-to-market value of positions and the market values based on the most severe movements in market rates from a determined observation window. VaR is calculated separately for interest rate risk, FX risk and the repricing risk of the equity instruments portfolio of Brokerage Office.

Due to the limitations of the VaR methodology, the Group augments it by stress tests and by sensitivity measurement that shows how position value changes in reaction to price/profitability movements.

Interest rate risk in the banking book

The interest rate risk in the banking book is the risk of adverse impact of interest rate changes on the Group's income and the value of its assets and liabilities. The main source of interest rate risk are transactions entered in the bank's branches and in the business and corporate centres, as well as the transactions made in the money market by the Financial Management Division. Additionally, interest rate risk can be generated by transactions concluded by other units, e.g. through acquisition of municipal/commercial bonds, or the bank's borrowings from the interbank market. However, all positions that generate a repricing risk are transferred for management to the Financial Management Division, where the bank's dealers enter into transactions in the interbank markets so as to manage the overall interest rate risk profile according to the approved risk strategy and in compliance with the allocated risk limits.

The bank's subsidiaries also mitigate their exposure to the interest rate risk. If there is a mismatch between the repricing of assets and liabilities, the company enters into appropriate transactions via the standard bank accounts held with the Bank or makes derivative transactions with the bank, which from the transaction date manages the risk as part of the global limit of BZ WBK Group.

The interest rate risk in the banking book is managed based on the following limits:

- NII sensitivity limit (i.e. sensitivity of the net interest income to a parallel shift of the yield curve by 100 bp);
- MVE sensitivity limit (i.e. sensitivity of the market value of equity to a parallel shift of the yield curve by 100 bp).

The sensitivity measures for 2016 and 2015 are presented in the table below.

	NII Sensitivity		**MVE Sensitivity**	
1 day holding period	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
Maximum	218	118	250	215
Average	184	97	198	186
as at the end of the period	218	116	218	215
Limit	**280**	**170**	**340**	**220**

In 2016, the global NII and MVE limits for the banking book were not exceeded.

In thousands of PLN

Interest rate risk in the trading book

The trading book contains securities and derivatives held by the Global Corporate Banking Division for trading purposes. The instruments are marked to market each day, and any changes in their value are reflected in the profit and loss.

The key methods of measurement of the interest rate risk in the banking books include the VaR methodology, stop loss, PV01 sensitivity measurement and stress tests.

The VaR is calculated for the open positions of the Global Corporate Banking by establishing the difference between the market valuation of the interest rate transactions based on the current yield curves, and the valuation based on the “worst case” yield curve, which is calculated based on the fluctuations in the interest rates.

The “stop-loss” mechanism is used for managing the risk of losses on the items covered by the rules of fair valuation through profit and loss.

Stress tests are used in addition to these measures by providing an estimate of the potential losses in the event of materialisation of the stressed conditions in the market. The assumptions of stress scenarios are based on sensitivity reports and on extreme market rate movement scenarios set using the highest daily and monthly changes in interest rates.

The table below shows risk measures at the end of 2016 and 2015 for 1-day position holding period.

Interest rate risk	VAR	
1 day holding period	**31.12.2016**	**31.12.2015**
Average	1 706	1 643
Maximum	3 681	5 534
Minimum	659	375
as at the end of the period	1 509	837
Limit	**7 523**	**5 852**

In 2016, the VaR limit for the interest rate risk has not been exceeded.

FX risk

FX risk is the risk that adverse movements in foreign exchange rates will have an impact on results (and result in losses). This risk is managed by the VaR limit for the open currency positions in the Group’s trading portfolio and by Brokerage Office which has been granted an FX VaR limit, used for managing the open positions linked to the market maker activity. Stress tests are used in addition to this measure by providing an estimate of the potential losses in the event of materialisation of the stressed conditions in the market. Stress tests use the currency exposure and the scenarios of extreme movements in currency rates based on historical data. Furthermore, the stop loss mechanism is used for managing the risk of losses on the trading positions.

In accordance with its policy, the Group does not maintain open positions on currency options. Transactions made with clients are immediately closed in the wholesale market thus limiting the bank’s exposure to the market risk on the currency options portfolio.

Open positions of subsidiaries are negligible and are not included in the daily risk assessment.

The table below illustrates the risk measures at the end of December 2016 and 2015.

FX risk	VAR	
1 day holding period	**31.12.2016**	**31.12.2015**
Average	393	636
Maximum	3 096	3 411
Minimum	30	52
as at the end of the period	319	846
LIMIT	**3 134**	**1 951**

In 2016, the VAR limit for the fx risk has not been exceeded.

In thousands of PLN

FX Balance Sheet

In 2016, the share of assets in foreign currencies in the bank's balance sheet decreased compared to the level observed in 2015. A slight decrease fall in amounts receivable in EUR and in amounts receivable in CHF were observed as a result of continued amortisation of mortgage loans.

As a result of increased funding from the wholesale market, the mismatch between EUR assets and liabilities became less pronounced. The resulting funding gap was closed by entering into a swap transaction in the FX market.

The tables below present the Group's key FX positions as at 31 December 2016 and in the comparable period.

31.12.2016	PLN	EUR	CHF	USD	Other	Total
ASSETS						
Cash and balances with central banks	4 420 741	221 877	18 083	48 073	66 886	4 775 660
Loans and advances to banks	474 505	2 712 604	23 120	204 939	98 110	3 513 278
Loans and advances to customers	70 939 453	17 835 604	13 466 073	675 748	151 660	103 068 538
Financial assets available for sale	27 870 140	995 506	-	442 232	-	29 307 878
Selected assets	**103 704 839**	**21 765 591**	**13 507 276**	**1 370 992**	**316 656**	**140 665 354**
LIABILITIES						
Deposits from banks	1 306 701	1 223 688	-	29 928	964	2 561 281
Deposits from customers	95 131 257	13 251 280	302 495	2 941 889	895 536	112 522 457
Subordinated liabilities	-	440 457	-	-	-	440 457
Selected liabilities	**96 437 958**	**14 915 425**	**302 495**	**2 971 817**	**896 500**	**115 524 195**

31.12.2015	PLN	EUR	CHF	USD	Other	Total
ASSETS						
Cash and balances with central banks	5 900 563	202 996	16 367	64 028	45 899	6 229 853
Loans and advances to banks	509 761	2 687 425	17 029	170 653	196 089	3 580 957
Loans and advances to customers	62 999 792	16 916 558	13 901 092	925 643	170 799	94 913 884
Financial assets available for sale	23 386 981	1 026 241	-	208 856	-	24 622 078
Selected assets	**92 797 097**	**20 833 220**	**13 934 488**	**1 369 180**	**412 787**	**129 346 772**
LIABILITIES						
Deposits from banks	701 074	167 186	-	197 423	1 080	1 066 763
Deposits from customers	87 720 886	9 781 898	689 799	2 444 533	608 070	101 245 186
Subordinated liabilities	100 127	426 507	-	-	-	526 634
Selected liabilities	**88 522 087**	**10 375 591**	**689 799**	**2 641 956**	**609 150**	**102 838 583**

Equity investment risk

The unit responsible for equity price risk management is Brokerage Office which now operates within the Financial Markets Area. The source of this risk are transactions conducted on Brokerage Office own account via stock exchanges and MS CTO (shares, futures).

This risk is measured using a Value at Risk model based on the historical method.

The market risk management in Brokerage Office is supervised by BZ WBK Risk Management Forum. The Forum sets the VaR limit for the Brokerage Office, approves changes in the risk measurement methodology and oversees the risk management process.

The table below presents the risk measures in 2016 and 2015:

Equity risk	VAR Brokerage Office	
1 day holding period	**31.12.2016**	**31.12.2015**
Average	301	429
Maximum	742	1 057
Minimum	50	90
as at end of the period	77	230
LIMIT	**4 346**	**4 057**

Liquidity risk

Liquidity risk is the risk that the bank fails to meet its contingent and non-contingent obligations towards customers and counterparties as a result of a mismatch of financial cash flows.

Liquidity Risk Management

The BZ WBK Group Liquidity Management Policy is designed to:

- ensure the ability to finance assets and satisfy claims, both current and future, in a timely manner and at an economic price;
- manage the maturity mismatch between assets and liabilities;
- set a scale of the liquidity risk in the form of various internal limits;
- ensure proper organization of the liquidity management process within the Group;
- prepare the organization for emergence of adverse factors, either external or internal;
- ensure compliance with regulatory requirements, both qualitative and quantitative.

The general principle adopted by the Group in its liquidity management process is that all expected outflows occurring within 1 month in respect of deposits, current funds, loan drawdowns, guarantee payments and transaction settlements should be at least fully covered by the anticipated inflows or Qualified Liquid Assets (QLA) assuming normal or predictable conditions for the bank's operations. The QLA category includes: cash on hand, cash deposited with NBP (National Bank of Poland), securities which may be sold or pledged under repo transactions or NBP lombard loans.

The purpose of the policy is also to ensure an adequate structure of funding the growing scale of Bank Zachodni WBK's business by maintaining liquidity ratios at pre-defined levels.

The bank uses a suite of additional watch limits and indicators with respect to the following:

- loan-to-deposit ratio;
- structural funding ratio, which measures the amount of long-term funding relative to non-liquid assets;
- ratios of reliance on wholesale funding, which are used to assess the concentration of foreign currency funding from the wholesale market;
- concentration of deposit funding;
- regulatory liquidity ratios calculated in accordance with KNF Resolution no. 386/2008;
- ratios laid down in CRD IV/CRR - LCR and NSFR;
- survival horizon under stressed conditions.

As at 31 December 2016, LCR ratio was at 144.6% and NSFR ratio was at 115.0%.

The internal liquidity limits, including the limits established in the Risk Appetite Statement, are set on the basis of both historical values of the selected liquidity ratios as well as their future values which are estimated against a financial plan. The limits also take into account the results of stress tests.

Management Process

The responsibility for supervision over the liquidity risk management process rests on the Assets and Liabilities Committee (ALCO), which also provides advice to the Management Board. ALCO prepares management strategies and recommends to the Management Board appropriate actions with regard to strategic liquidity management.

Day-to-day management of liquidity is delegated to the Financial Management Division. The Assets and Liabilities Management Department, which is a part of the Division, is responsible for developing and updating the relevant liquidity management strategies.

The Group has a scenario-based contingency plan approved by the Management and Supervisory Board to cater for unexpected liquidity problems, whether caused by external or internal factors. The plan also contains stress test with system and idiosyncratic scenarios. ALCO supervises liquidity risk management process in subsidiaries.

Risk Measurement and Reporting

The responsibility for assessment and reporting of the liquidity risk rests on the Risk Management Division, specifically the Financial Risk Department. The role of the Department is to draft liquidity management policies, carry out stress tests and to measure and report on risk.

Liquidity is measured by means of the modified liquidity gap, which is designed separately for the PLN and currency positions. The reported contract positions are subject to modifications based on: statistical analyses of the deposit and credit base behaviour, evaluation of the possibility to liquidate State Treasury securities by selling or pledging them in repo transactions or the lombard loan with NBP, evaluation of transaction rolling in the interbank market.

When measuring liquidity risk, the bank additionally analyses the degree of liquidity outflows arising from potential margin calls due to changes in the value of derivatives transactions and collateral needs related to secured financing transactions resulting from the downgrade of the bank's credit rating, among other things.

In thousands of PLN

Concurrently, liquidity is measured in accordance with KNF Resolution no. 386/2008 on setting liquidity standards for banks, and with the requirements laid down in CRD IV / CRR.

The results of liquidity risk measurement are reported on a daily basis to persons in charge of operational management of the bank's liquidity and to persons responsible for liquidity risk management (information about intraday and current liquidity, including FX funding ratios) and - on a monthly basis - to senior executives (other liquidity ratios, including regulatory ratios).

Stress tests and the contingency plan

In order to establish a detailed risk profile, the Group conducts stress tests using the following scenarios:

- Baseline scenario, which assumes non-renewability of wholesale funding;
- Idiosyncratic liquidity crisis scenarios (specific to the bank);
- Local systemic liquidity crisis scenario;
- Global systemic liquidity crisis scenario;
- Combined liquidity crisis scenario (idiosyncratic crisis and local systemic crisis);
- Deposit outflows in a one-month horizon.

For each of the above scenarios, BZ WBK Group estimates the minimum survival horizon. For selected scenarios, the bank sets survival horizon limits which are subsequently included in the liquidity risk appetite.

In addition, the Group performs stress tests for intraday liquidity as well as reverse stress tests.

BZ WBK Group has the Contingency Liquidity Plan in place to ensure that there are mechanisms enabling to take adequate and effective actions in response to unexpected external or internal liquidity problems. The Plan allows the bank to:

- identify threats to the bank's liquidity on the basis of a set of early warning ratios which are subject to ongoing monitoring;
- effectively manage liquidity / funding, using a set of possible remedial actions and the management structure adjusted to the stressed conditions;
- communicate with customers, key market counterparties, shareholders and regulators.

In 2016, as in 2015, BZ WBK Group focused on keeping its loan-to-deposit ratio at a comfortable level (which totalled 92% as at 31 December 2016) and controlling key short- and long-term liquidity measures.

In 2016 and in the comparable period, all key supervisory measures applicable to the Group were maintained at the required levels.

Economic Liquidity Gap Analysis as at 31.12.2016 and in comparable period:

31.12.2016	A'vista	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years
Economic liquidity gap	12 681 182	6 267 741	(8 945 412)	(4 763 837)	931 488	3 890 399	3 959 170	(14 020 732)
Cumulative economic liquidity gap	12 681 182	18 948 923	10 003 511	5 239 674	6 171 162	10 061 561	14 020 731	(1)

31.12.2015	A'vista	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years
Economic liquidity gap	15 325 329	(1 489 742)	(9 045 449)	(4 486 001)	2 506 687	4 401 822	4 172 754	(11 385 400)
Cumulative economic liquidity gap	15 325 329	13 835 587	4 790 138	304 137	2 810 824	7 212 646	11 385 400	-

Liquidity Policy Report - Modified Liquidity Gap (excluding Santander Consumer Group):

Liquidity risk	<1W	<1M	>1M
31.12.2016			
Qualifying Liquid Assets	25 208 949	185 000	5 749 534
Treasury inflows	3 544 628	2 926	-
Other inflows	10 556 297	7 260 699	147 026 492
Treasury outflows	(638 164)	(27 000)	(178 662)
Other outflows	(11 433 127)	(16 161 516)	(166 408 418)
GAP	**27 238 583**	**(8 739 891)**	**(13 811 054)**
Cumulative GAP	**27 238 583**	**18 498 692**	**4 687 638**

In thousands of PLN

Liquidity risk	<1W	<1M	>1M
31.12.2015			
Qualifying Liquid Assets	21 728 281	441 227	6 124 214
Treasury inflows	3 663 745	-	942 880
Other inflows	10 904 761	7 270 239	142 518 779
Treasury outflows	(3 954 473)	(473 625)	(629 791)
Other outflows	(11 001 957)	(15 145 062)	(157 330 479)
GAP	**21 340 357**	**(7 907 221)**	**(8 374 397)**
Cumulative GAP	**21 340 357**	**13 433 136**	**5 058 739**

As Santander Consumer Bank Group is conducting independently measurement of their liquidity position, their Liquidity Policy Report as at 31 December 2016 and 2015 is presented underneath:

Liquidity risk	<1W	<1M	>1M
31.12.2016			
Qualifying Liquid Assets	1 072 039	430 469	1 448 461
Treasury inflows	384 969	92 421	366 000
Other inflows	388 223	1 164 670	14 203 663
Treasury outflows	(20 000)	(52 926)	(5 927 324)
Other outflows	(330 940)	(992 821)	(12 226 905)
GAP	**1 494 291**	**641 813**	**(2 136 105)**
Cumulative GAP	**1 494 291**	**2 136 104**	**-**

Liquidity risk	<1W	<1M	>1M
31.12.2015			
Qualifying Liquid Assets	750 000	22 759	1 231 000
Treasury inflows	345 993	-	-
Other inflows	354 970	1 064 910	14 082 298
Treasury outflows	(21 193)	(130 639)	(5 354 742)
Other outflows	(304 199)	(912 595)	(11 128 562)
GAP	**1 125 571**	**44 435**	**(1 170 006)**
Cumulative GAP	**1 125 571**	**1 170 006**	**-**

Operational Risk

Bank Zachodni WBK Group adopted the operational risk definition of the Basel Committee on Banking Supervision, which says that: operational risk is the risk of a loss resulting from inadequate or failed internal processes, people and systems or from external events.

The objective of the operational risk management is to minimise the likelihood and/or reduce the impact of unexpected adverse events.

BZ WBK Group has implemented an integrated risk management framework to ensure that all risks which have a significant impact on BZ WBK business are identified, measured, monitored and controlled. Operational risk management in BZ WBK Group involves employees at all levels of the organisation and consists of a number of interrelated concepts. Operational risk is inherent in all the Group’s business processes, including the outsourced functions or services delivered jointly with third parties.

BZ WBK Group has defined “the Operational Risk Management Strategy” as well as other relevant policies regulating operating risk issues. In addition, detailed procedures and guidelines are used to define how risks are identified, estimated, monitored and mitigated.

The Operational Risk Management Committee (ORMCo) established by the Management Board is responsible for setting operational risk management standards for BZ WBK Group. ORMCo is the main forum for discussions on operational risk. It sets out the strategic direction for operational risk management, determines and monitors objectives for managing operational risk, including business continuity, information security, outsourcing / insourcing and money laundering risk in all business areas of BZ WBK. Within the ORMCo Committee several bodies (Forums) were established to address specific aspects of operational risk e.g. Crime Prevention Forum and the Forum of Insurance. The effects of this work are reported to the Risk Control Committee.

As a result of high and rising cyber risk worldwide new Cyber Risk Committee has been set up. It is a forum for direct cooperation and communication among all organisational units involved in the processes related to cyber security, to ensure effective supervision of the cyber security strategy.

BZ WBK Group uses the following tools:

- Identification and assessment of operational risk

Primary tool for identification and assessment of operational risk is self-assessment. In the self-assessment process, BZ WBK Group identifies the risks it may be exposed to when delivering its functions, assesses inherent and residual risks in terms of their likelihood and impact, and evaluates efficiency of the existing controls. In addition, action plans are devised to improve the efficiency of the existing and/or new controls.

The process of identification and assessment of operational risk is additionally supported by other tools dedicated to specific risk aspects such as: scenario analyses, business impact analyses, analysis of risk in new initiatives.

- Reporting on operational incidents and lessons learned

Each organisational unit is required to report operational incidents on a monthly basis. For significant operational incidents there is the path for prompt notification to senior management. The Group runs a database of operational incidents identified across BZ WBK Group. The data are used to analyse the root cause and consequences of the incidents, capture lessons learned and take preventive and corrective measures.

The Group also makes inputs to the external database of operational events run by the Polish Banks Association and uses information about external events from a number of sources. The analysis of external events allows for benchmarking and lesson learning from events identified outside the Group.

- Analysis of risk indicators

Primary tool for monitoring of operational risk are risk indicators. BZ WBK Group monitors risk indicators, both financial and operational ones. Risk indicators provide early warning of emerging threats and operational losses and depict the risk level present in the Group. Monitoring is based both on financial and technological and operational meters.

- Business continuity management (BCM)

Each organisational unit is required to develop and update its business continuity management plans to ensure that critical business processes remain uninterrupted following an unplanned disruption. BCM plans are tested on a regular basis to provide assurance to BZ WBK Group that critical business processes may be restored at the required service level and within the agreed timeframe. BZ WBK Group has backup locations in place where critical processes can be restored and continued should an incident occur.

- Insurance

For the purpose of operational risk mitigation, BZ WBK Group has an insurance scheme in place which covers financial risks, motor, property and professional indemnity insurance.

- Regular reporting to the Risk Management Committee and Supervisory Board

The aim of operational risk reporting is to provide up-to-date adequate information to the management. Operational risk reports cover, inter alia: operational risk incidents and losses, risk indicators and risk mitigants.

The Group's Information Security Management System has a certificate of compliance with ISO 27001:2005 standard.

Legal and Compliance Risk

Legal and regulatory (compliance) risk is defined in line with the Basel Committee recommendation.

As an universal bank providing a wide array of financial services to retail and business customers, a parent company in a capital group providing a number of additional specialised financial services, and as an important member of the Polish banking system, BZ WBK is exposed to the legal and compliance risk mainly in the following areas:

- generally applicable laws regarding the employment law, health and safety at work, taxes, accounting, personal data protection etc. which are binding for all enterprises operating in Poland;
- domestic and international (mainly: EU) trade regulations in the area of reporting, prudential standards, functioning on capital and investment market, prevention of money laundering and terrorist financing etc.;

- domestic an international regulations concerning the type of offered products and service delivery methods applied by the bank and the BZ WBK Group (in particular: the legislation on consumer and competition protection, capital markets, financial markets etc.);
- good practice codes and other regulations implemented by the Group, including in connection with membership in domestic or international trade associations.

In Bank Zachodni WBK Group, individual processes for the legal and compliance risk are managed by relevant units.

Responsibilities of the Legal and Compliance Division relate to the “conduct of business” compliance obligations, in particular with regard to: protection of consumer rights, implementation of new products, prevention of money laundering, ethical issues, protection of sensitive information and protection of personal data, conflict of interests management.

The identification, interpretation and communication roles relating to other legal and regulatory obligations for the bank as a legal entity (non-conduct of business) have been assigned to functions with specialist knowledge in those areas:

- compliance with employment law – the Business Partnership Division;
- compliance with taxation law and reporting requirements – Financial Accounting and Control Division;
- compliance with prudential regulations – Risk Management Division;
- compliance with health and safety regulations – the Business Partnership Division.

The Bank’s Management Board adopted a policy statement on compliance with legal and regulatory obligations, which was approved by the Supervisory Board. The policy provides the Compliance Area operating within the Legal and Compliance Division, with the relevant mandate to support senior managers in effective management of the compliance risk. The Compliance Area escalates all issues to the Risk Management Committee and Audit and Compliance Committee of the Supervisory Board which ensure the fulfilment of regulatory obligations and approve the internal control principles and compliance policy framework, so that the Compliance Area may operate independently from business units and has relevant resources to perform its tasks.

The Audit and Compliance Committee regularly reviews key compliance issues identified by the Compliance Area as well as Anti-Money Laundering Department:

- as part of monitoring of new products;
- as part of compliance monitoring;
- as part of the monitoring of proprietary transactions effected by employees;
- based on the information on regulators’ activity;
- as part of the review of upcoming legislative initiatives;
- as part of the review of anti-money laundering initiatives;
- as part of the review of ethical issues;
- as part of the review of customers’ complaints.

The major responsibilities of the Compliance Area and Anti-Money Laundering Department include: prevention of legal and compliance risk, maintenance of appropriate relations with business units and market regulators, providing support to the Bank management and BZ WBK Group companies in the strategic decision-making process regarding compliance, coordination (under the applicable laws) of the implementation of compliance management standards by compliance units operating in the Group companies. These tasks are delivered through:

- independent identification, assessment and monitoring of compliance risk that the Group is exposed to (with the focus on new products and services, prevention of money laundering and terrorist financing, protection of confidential information, conflicts of interest or private account shares dealing by employees;
- prevention of using the financial system for money laundering and terrorist financing;
- providing advice and reporting to the Risk Management Committee, bank’s Management Board and Audit and Compliance Committee on the effectiveness of the processes established to ensure compliance with laws and regulations within its area of responsibility;
- publication of policies and procedures, providing the management and staff with guidance on compliance risk and adequate risk management policies and procedures;

- centralisation of contacts with market regulators (KNF, UOKiK, GIIF, GIODO);
- centralisation of the approval of new products;
- coordination and support for compliance processes regarding the model of sale of investment products and MiFID Directive;
- strengthening of the principles regarding ethical business conduct as well as health and safety at work, as well as building the corporate governance culture in the organisation.

Beside the above-mentioned operational units, BZ WBK Group also has specialised committees supporting the management of the compliance risk in specific areas. These committees consist of the representatives of key business units and risk management units who are competent and duly authorised to make informed decisions and provide high-quality advice. The Compliance Area together with Anti-Money Laundering Department coordinate and support the work of individual committees which are chaired by the Management Board member in charge of the Legal and Compliance Division. These committees include:

- Compliance Committee;
- Product Marketing and Monitoring Committee;
- Volcker Local Steering Committee;
- Anti-Money Laundering and Terrorism Financing Committee;
- Business Ethics Commission.

Reputation Risk Management

Reputation risk is defined as the risk arising from negative perception of the bank and other companies from Bank Zachodni WBK Group by customers, counterparties, shareholders or investors.

The potential sources of the risk are internal and external operational incidents, such as adverse publicity, dissemination of negative feedback from customers e.g. on the Internet, in social media and other mass media. They may refer directly to the BZ WBK Group and its products as well as the bank's shareholders and the entire banking and financial sectors (domestic and international ones).

The elements of the reputation risk include customer complaints and claims related to the process of offering banking products, including complaints about sufficient (i.e. complete, true, reliable and non-misleading) information about products and related risks, complexity of products, improper sales practices or loss of capital.

The owner of the reputation risk is the Corporate Communication and Marketing Area (CC&MA) and Compliance Area (CA).

The objective of the reputation risk management process is to protect the image of Bank Zachodni WBK Group and to limit and eliminate negative events which affect the image and financial results of Bank Zachodni WBK Group.

Key risk mitigation measures:

- BZ WBK Information Policy;
- Daily, constant monitoring of local, nationwide and certain international mass media sources (Corporate Communication and Marketing Area);
- Daily monitoring of social media sources (in particular: Facebook, Twitter) in the context of references to BZ WBK (Corporate Communication and Marketing Area);
- Collection and analysis of image-sensitive information by the Press Office (Corporate Communication and Marketing Area);
- Response to information which poses a threat to public perception of the BZ WBK Group's image (Corporate Communication and Marketing Area);
- Keeping the representatives of nationwide and local media up to date about new products and changes to the regulations regarding the existing products;
- Customer satisfaction index (Corporate Communication and Marketing Area);
- Preparation and control by relevant Bank Zachodni WBK units of all important communiqués and reports for the shareholders, the Polish Financial Supervision Authority (KNF) and the Warsaw Stock Exchange and timely publication of such communiqués and reports;

- Evaluation of new products or their modifications, procedures, commercial materials, processes and other bank initiatives (promotions, contests), training materials for sales staff - in respect of their compliance with the regulations and the regulatory guidelines (Compliance Area);
- Participation in the process of handling customer complaints, especially those addressed to the regulators (Compliance Area);
- Supervision of the after-sales control of investment products (Compliance Area);
- Mystery shopping surveys for investment products (Compliance Area);
- Regular monitoring of the reputation risk associated with the products offered by Bank Zachodni WBK Group through the analysis of customer complaints, sales volumes, number of customers and rate of return(Compliance Area).

5. Capital management

Introduction

It is the policy of the Bank Zachodni WBK Group to maintain the level of capital adequate to the type and scale of operations and the level of risk. The level of own funds required to ensure safe operations of BZ WBK Group and capital requirements estimated for the unexpected loss is determined in accordance with the CRD IV / CRR package implemented on 1 January 2014 by the European Parliament and European Banking Authority (EBA), plus KNF recommendations regarding national options.

The Management Board is accountable for capital management, calculation and maintenance processes, including assessment of capital adequacy vis a vis different economic conditions and evaluations of stress tests results and their impact on internal capital and capital adequacy. Responsibility for general oversight over estimation of internal capital rests with the Supervisory Board.

The Management Board delegated on-going capital management to Capital Committee. Capital Committee conducts regular assessment of capital adequacy of the Bank and the Group, also in extreme conditions, monitors the actual and required capital levels and initiates transactions affecting these levels (e.g. by recommending the value of dividends to be paid). The Credit Committee is the first body in the bank to define capital policy and rules for assessment of capital adequacy both for the Bank and the Group. Any ultimate decisions regarding increase or decrease of capital are taken by relevant authorities of the bank and subsidiaries in accordance with the applicable law and the Bank's Statutes.

Pursuant to the bank's information strategy, details about the level of own funds and capital requirements are presented in the annual report entitled "Information on capital adequacy of the bank and BZ WBK Group as at 31 December 2016".

In 2016, Bank Zachodni WBK Group met all regulatory requirements regarding capital management.

Capital Policy

Pursuant to CRR, institutions must at all times satisfy the following own funds requirements:

- a Common Equity Tier 1 capital ratio of 4.5%;
- a Tier 1 capital ratio of 6%;
- a total capital ratio of 8%.

As at 31 December 2016, the minimum capital ratios both of the Bank and BZ WBK Group satisfying the regulatory recommendations and additional own fund requirements under Pillar 2 were as follows:

- a Tier 1 capital ratio of 11.22%;
- a total capital ratio of Bank Zachodni WBK of 14.37%;
- a total capital ratio of Bank Zachodni WBK Group of 14.38%.

The above-mentioned capital ratios take into account the KNF recommendation on an additional capital requirement related to home mortgages and an additional capital buffer in connection with the identification of Bank Zachodni WBK as other systemically important institution, plus a conservation buffer.

In thousands of PLN

Pursuant to the KNF decision of 15 December 2016, Bank Zachodni WBK Group maintains own funds at the level sufficient to cover an additional capital requirement for risk attaching to foreign currency home mortgages (0.63 p.p. above the total capital ratio). At the level of the Bank, the capital buffer amounts to 0.62 p.p. and should be composed of at least 75% of the Tier 1 capital (which in case of Bank Zachodni WBK corresponds to the capital requirement of 0.47 p.p. above the Tier 1 capital ratio) and at least 56% of the Common Equity Tier 1 capital (which in the case of Bank Zachodni WBK corresponds to the capital requirement of 0.35 p.p. above the Common Equity Tier 1 capital).

The Act of 5 August 2015 on macroprudential oversight of the financial system and crisis management in the financial sector transposes CRD IV into the Polish law with regard to, among other things, additional capital buffers to be maintained by banks. As of 1 January 2016, the minimum capital ratios for the banking sector in Poland will be increased by 1.25 p.p. due to introduction of a conservation buffer.

On 4 October 2016, KNF identified Bank Zachodni WBK as other systemically important institution and imposed an additional capital buffer of 0.5 p.p.

Regulatory Capital

The capital requirement for Bank Zachodni WBK Group is determined in accordance with Part 3 of Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) no. 648/2012 (CRR), which formed a legal basis as at 31 December 2016.

Bank Zachodni WBK uses the standardised approach to calculate the capital requirement for credit risk, market risk and operational risk. According to this approach, the total capital requirement for credit risk is calculated as the sum of risk-weighted exposures multiplied by 8%. The exposure value for these assets is equal to the balance sheet total, while the value of off-balance sheet liabilities corresponds to their balance sheet equivalent. Risk-weighted exposures are calculated by means of applying risk weights to all exposures in accordance with the CRR.

Calculation of capital ratio for Bank Zachodni WBK Group as at 31.12.2016 and 31.12.2015

		31.12.2016	31.12.2015
I	**Total Capital requirement (Ia+Ib+Ic+Id)**, of which:	**8 816 625**	**8 745 248**
Ia	- due to credit risk & counterparty credit risk	7 713 572	7 508 111
Ib	- due to market risk	93 321	152 863
Ic	- due to credit valuation ajdustment risk	42 739	120 250
Id	- due to operational risk	966 993	964 024
II	Total own funds*	19 179 697	18 902 570
III	Reductions	2 594 883	2 922 207
IV	**Own funds after reductions (II-III)**	**16 584 814**	**15 980 363**
V	**CAD [IV/(I*12.5)]**	**15,05%**	**14,62%**
VI	**Tier 1 ratio**	**14,56%**	**14,10%**

* On 30.09.2016, the bank included current year profit of PLN 688,513k for the period between 1.01.2016 and 30.06.2016 to own funds as permitted by KNF.

Internal Capital

Notwithstanding the regulatory methods for measuring capital requirements, Bank Zachodni WBK Group carries out an independent assessment of current and future capital adequacy as part of the internal capital adequacy process (ICAAP). The purpose of the process is to ensure that the level and nature of own funds guarantee the solvency and stability of the bank's and the Group's operations.

The capital adequacy assessment is one of the fundamental elements of the Group's strategy, the process of defining risk appetite and the process of planning.

The Group uses assessment models based on the statistical loss estimation for measurable risks, such as credit risk, market risk and operational risk and its own assessment of capital requirements for other material risks not covered by the model, e.g. reputational risk and compliance risk.

The internal capital is estimated on the basis of risk parameters including the probability of default of BZ WBK Group customers (PD - probability of default) and loss given default (LGD loss given default).

In thousands of PLN

Bank Zachodni WBK Group performs an internal assessment of capital requirements, including under stressed conditions, taking into account different macroeconomic scenarios.

Internal capital estimation models are assessed and reviewed annually to adjust them to the scale and profile of the Group's business and to take account of any new risks and the management judgement.

The review and assessment is the responsibility of the Group's risk management committees, including: Capital Committee and the Models and Methodology Panel, which is part of the Risk Management Forum.

Subordinated liabilities

In 2016, the bank amended the agreement under which subordinated registered bonds were issued on 5 August 2010 and taken up by the European Bank for Reconstruction and Development. The amendments included the extension of maturity until 5 August 2025, among other things. Pursuant to the KNF decision of 18 May 2016, the foregoing subordinated bonds of EUR 100m were allocated to the Tier 2 capital.

Furthermore, on 2 December 2016, the bank issued EUR 120m worth of bonds as part of the strategy aimed at increasing the Tier 2 capital. On 5 December 2016, the bank requested a consent from KNF to allocate the above bonds to the Tier 2 capital.

Detailed information on subordinated liabilities is presented in Note 33.

6. Net interest income

Interest income	01.01.2016-31.12.2016	01.01.2015-31.12.2015
Loans and advances to enterprises	1 635 420	1 573 719
Loans and advances to individuals, of which:	3 221 059	2 958 356
Home mortgage loans	*932 067*	*841 186*
Debt securities incl.:	614 764	629 607
Investment portfolio available for sale	*582 458*	*597 025*
Trading portfolio	*32 306*	*32 582*
Leasing agreements	194 467	165 422
Loans and advances to banks	63 753	62 525
Public sector	6 929	7 865
Reverse repo transactions	8 957	9 602
Interest recorded on hedging IRS	315 571	301 733
Total	**6 060 920**	**5 708 829**
Interest expenses	**01.01.2016-31.12.2016**	**01.01.2015-31.12.2015**
Deposits from individuals	(632 301)	(744 172)
Deposits from enterprises	(382 886)	(356 696)
Repo transactions	(36 728)	(58 967)
Deposits from public sector	(48 081)	(58 465)
Deposits from banks	(38 660)	(29 482)
Subordinated liabilities and issue of securities	(151 892)	(151 896)
Total	**(1 290 548)**	**(1 399 678)**
Net interest income	**4 770 372**	**4 309 151**

As at 31.12.2016 net interest income includes interest on impaired loans of PLN 268,084 k (as at 31.12.2015 - PLN 334,801 k).

In thousands of PLN

7. Net fee and commission income

Fee and commission income	01.01.2016-31.12.2016	01.01.2015-31.12.2015
eBusiness & payments	578 420	540 965
Current accounts and money transfer	338 374	338 547
Asset management fees	256 270	277 876
Foreign exchange commissions	320 003	312 907
Credit commissions	267 195	286 963
Insurance commissions	282 723	293 356
Brokerage activities	71 580	70 087
Credit cards	161 371	147 435
Off-balance sheet guarantee commissions	63 770	42 175
Finance lease commissions	15 041	12 982
Issue arrangement fees	15 104	14 878
Distribution fees	6 035	7 585
Other commissions	12 578	12 316
Total	**2 388 464**	**2 358 072**
Fee and commission expenses	**01.01.2016-31.12.2016**	**01.01.2015-31.12.2015**
eBusiness & payments	(201 454)	(173 807)
Distribution fees	(22 695)	(26 948)
Brokerage activities	(10 368)	(11 579)
Credit cards	(39 827)	(43 611)
Credit commissions paid	(58 018)	(57 564)
Insurance commissions	(37 919)	(23 365)
Finance lease commissions	(25 124)	(25 137)
Asset management fees and other costs	(6 107)	(6 959)
Other	(72 232)	(51 002)
Total	**(473 744)**	**(419 972)**
Net fee and commission income	**1 914 720**	**1 938 100**

Included above is fee and commission income on credits, credits cards, off-balance sheet guarantees and finance leases of PLN 507 377 k (31.12.2015: PLN 489 555 k) and fee and commission expenses on credit cards, finance leases and paid to credit agents of PLN (122 969) k (31.12.2015: PLN (126 312) k) other than fees included in determining the effective interest rate, relating to financial assets and liabilities not carried at fair value through profit and loss.

8. Dividend income

Dividend income	01.01.2016-31.12.2016	01.01.2015-31.12.2015
Dividends from equity financial assets available for sale	96 051	103 899
Dividends income from equity financial assets at fair value through profit or loss	531	1 379
Total	**96 582**	**105 278**

In thousands of PLN

9. Net trading income and revaluation

Net trading income and revaluation	01.01.2016-31.12.2016	01.01.2015-31.12.2015
Derivative instruments and interbank fx transactions	254 446	231 511
Other FX related income	20 204	18 977
Profit on equity instruments	(1 710)	(10 273)
Profit on debt instruments	7 880	(16 573)
Total	**280 820**	**223 642**

Net trading income and revaluation includes the change of the value of derivative instruments in the amount of PLN (5,817) k for 2016 and the write-back of change in the amount of PLN 7,049 k for 2015. The amounts included CVA and DVA adjustments which in 2016 and 2015 totaled PLN (2 748) k and PLN 6 584 k respectively.

10. Gains (losses) from other financial securities

Gains (losses) from other financial securities	01.01.2016-31.12.2016	01.01.2015-31.12.2015
Profit on sale of equity shares available for sale	317 828	11 579
Profit on sale of debt securities available for sale	93 184	272 048
Charge due to impairment losses	(10 398)	(1 734)
Total profit (losses) on financial instruments	**400 614**	**281 893**
Change in fair value of hedging instruments	57 112	46 294
Change in fair value of underlying hedged positions	(54 952)	(50 837)
Total profit (losses) on hedging and hedged instruments	**2 160**	**(4 543)**
Total	**402 774**	**277 350**

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.

In 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.

11. Other operating income

Other operating income	01.01.2016-31.12.2016	01.01.2015-31.12.2015
Income on sale of services	15 769	12 051
Reimbursements of BGF charges	54 215	39 683
Release of provision for legal cases and other assets	14 830	26 652
Settlements of leasing agreements	4 470	2 986
Recovery of other receivables	6 919	5 823
Profit on sales or liquidation of fixed assets, intangible assets and assets for disposal	6 680	16 530
Income from net insurance activities	-	26 296
Received compensations, penalties and fines	1 296	892
Other	36 585	32 694
Total	**140 764**	**163 607**

In thousands of PLN

12. Impairment losses on loans and advances

Impairment losses on loans and advances	01.01.2016-31.12.2016	01.01.2015-31.12.2015
Collective and individual impairment charge	(828 170)	(926 315)
Incurred but not reported losses charge	(27 015)	22 813
Recoveries of loans previously written off	45 166	80 381
Off-balance sheet credit related facilities	25 429	12 429
Total	**(784 590)**	**(810 692)**

13. Employee costs

Employee costs	01.01.2016-31.12.2016	01.01.2015-31.12.2015
Salaries and bonuses	(1 246 336)	(1 269 071)
Salary related costs	(205 215)	(212 766)
Staff benefits costs	(37 736)	(37 374)
Professional trainings	(20 057)	(20 786)
Retirement fund, holiday provisions and other employee costs	(1 020)	(3 997)
Total	**(1 510 364)**	**(1 543 994)**

14. General and administrative expenses

General and administrative expenses	01.01.2016-31.12.2016	01.01.2015-31.12.2015
Maintenance and rentals of premises	(355 529)	(378 775)
Marketing and representation	(146 587)	(187 837)
IT systems costs	(197 510)	(193 892)
Bank Guarantee Fund, Polish Financial Supervision Authority and National Depository for Securities	(281 383)	(468 999)
Postal and telecommunication costs	(48 068)	(55 893)
Consulting fees	(60 398)	(44 376)
Cars, transport expenses, carriage of cash	(67 847)	(68 707)
Other external services	(94 130)	(99 175)
Stationery, cards, cheques etc.	(31 741)	(29 478)
Sundry taxes	(33 469)	(34 990)
Data transmission	(15 763)	(20 284)
KIR, SWIFT settlements	(26 242)	(26 070)
Security costs	(25 470)	(20 198)
Costs of repairs	(17 504)	(10 168)
Other	(23 224)	(25 865)
Total	**(1 424 865)**	**(1 664 707)**

In thousands of PLN

15. Other operating expenses

Other operating expenses	01.01.2016-31.12.2016	01.01.2015-31.12.2015
Charge of provisions for legal cases and other assets	(110 481)	(75 760)
Impairment loss on property, plant, equipment and intangible assets	(12 306)	(10 767)
Costs of purchased services	(2 775)	(1 703)
Other memebership fees	(896)	(977)
Paid compensations, penalties and fines	(3 889)	(4 164)
Donations paid	(4 338)	(5 569)
Other	(20 587)	(14 648)
Total	**(155 272)**	**(113 588)**

16. Corporate income tax

Corporate income tax	01.01.2016-31.12.2016	01.01.2015-31.12.2015
Current tax charge	(865 938)	(680 090)
Deferred tax	127 976	36 349
Total	**(737 962)**	**(643 741)**

Corporate total tax charge information	01.01.2016-31.12.2016	01.01.2015-31.12.2015
Profit before tax	3 122 054	3 178 292
Tax rate	19%	19%
Tax calculated at the tax rate	(593 190)	(603 875)
Non-tax-deductible expenses	(50 093)	(32 530)
Tax on financial institutions	(73 568)	-
Sale of receivables	(43 223)	(29 110)
Non-tax income	18 122	20 973
Non-tax deductible bad debt provisions	(8 023)	(4 860)
Adjustment of prior year tax	8 385	10 431
Consolidation adjustments	6 834	(5 567)
Other	(3 206)	797
Total income tax expense	**(737 962)**	**(643 741)**

Deferred tax recognised directly in equity	31.12.2016	31.12.2015
Relating to equity securities available-for-sale	(122 523)	(185 180)
Relating to debt securities available-for-sale	35 033	(42 592)
Relating to cash flow hedging activity	25 251	45 889
Relating to valuation of defined benefit plans	(1 913)	(610)
Total	**(64 152)**	**(182 493)**

In thousands of PLN

17. Earnings per share

Earnings per share	01.01.2016-31.12.2016	01.01.2015-31.12.2015
Profit for the period attributable to ordinary shares	2 166 847	2 327 273
Weighted average number of ordinary shares	99 234 534	99 234 534
Earnings per share (PLN)	**21,84**	**23,45**
Profit for the period attributable to ordinary shares	2 166 847	2 327 273
Weighted average number of ordinary shares	99 234 534	99 234 534
Weighted average number of potential ordinary shares	155 947	167 928
Diluted earnings per share (PLN)	**21,80**	**23,41**

The weighted average number of potential ordinary shares takes into account the number of share options granted under the incentive scheme described in Note 51.

18. Cash and balances with central banks

Cash and balances with central banks	31.12.2016	31.12.2015
Cash	2 134 971	2 026 206
Current accounts in central banks	2 538 686	4 203 647
Term deposits	102 003	-
Total	**4 775 660**	**6 229 853**

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 was 3.5% as at 31.12.2016 and 31.12.2015.
In accordance with the applicable regulations, the amount of the calculated provision is reduced by the equivalent of EUR 500 k.

19. Loans and advances to banks

Loans and advances to banks	31.12.2016	31.12.2015
Loans and advances	795 140	603 360
Current accounts	2 718 138	2 977 598
Gross receivables	**3 513 278**	**3 580 958**
Impairment write down	-	(1)
Total	**3 513 278**	**3 580 957**

Fair value of loans and advances to banks is presented in Note 43.

In thousands of PLN

20. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading	31.12.2016 Assets	31.12.2016 Liabilities	31.12.2015 Assets	31.12.2015 Liabilities
Trading derivatives	**1 859 361**	**1 728 931**	**2 065 688**	**2 011 486**
Interest rate operations	**970 357**	**898 100**	**1 296 009**	**1 261 947**
Forward	6	20	-	-
Options	17 744	17 743	9 638	9 639
IRS	945 715	873 241	1 282 734	1 247 065
FRA	6 892	7 096	3 637	5 243
Transactions on equity instruments	**12 032**	**12 032**	**13 099**	**13 099**
Options	12 032	12 032	13 099	13 099
FX operations	**876 972**	**818 799**	**756 580**	**736 440**
CIRS	210 135	245 130	117 879	171 575
Forward	69 838	61 693	35 472	36 408
FX Swap	429 814	352 967	392 673	324 068
Spot	1 561	2 041	1 913	1 704
Options	156 718	156 718	202 503	202 503
Other	8 906	250	6 140	182
Debt and equity securities	**1 321 624**	**-**	**2 099 823**	**-**
Debt securities	**1 312 589**	**-**	**2 074 899**	**-**
Government securities:	612 233	-	2 073 995	-
- bonds	612 233	-	2 073 995	-
Central Bank securities:	699 883	-	-	-
- bills	699 883	-	-	-
Commercial securities:	473	-	904	-
- bonds	473	-	904	-
Equity securities:	**9 035**	**-**	**24 924**	**-**
- listed	9 035	-	24 924	-
Short sale	**-**	**80 129**	**-**	**524 198**
Total financial assets/liabilities	**3 180 985**	**1 809 060**	**4 165 511**	**2 535 684**

Financial assets and liabilities held for trading - trading derivatives include the change in the value of counterparty risk in the amount of PLN 9,525 k as at 31.12.2016 and PLN 14,214 k as at 31.12.2015.

Interest income from debt instruments and other fixed rate instruments is disclosed under "interest income".

Profit and loss from fair value changes of financial assets and liabilities held for trading are disclosed under net trading income and revaluation in the consolidated income statement.

All financial assets measured at fair value through profit and loss are assigned to this category due to the trading character of the transactions. At 31.12.2016 and in comparable period there were no cases of instruments designated to financial assets measured at fair value through profit and loss at initial recognition.

Offsetting financial assets and financial liabilities

The Group does not set off or present financial assets and financial liabilities as a net amount. Consequently, in accordance with IFRS 7, the information below refers only to financial assets and financial liabilities arising from forward and derivative transactions effected under master agreements such as ISDA Master Agreement or other master agreements providing for the possibility to terminate and settle the transaction with a counterparty in the event of default on the basis of a net amount of mutual receivables and payables.

The table below presents fair value amounts of derivative instruments (both held for trading and designated as hedging instruments under hedge accounting) and cash collateral covered by mandate agreements providing for the right of set-off under specific circumstances.

In thousands of PLN

Offsetting financial assets and financial liabilities	31.12.2016		31.12.2015	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Fair value measurements of derivative instruments	1 916 422	3 690 509	2 222 250	4 035 297
Value of collateral accepted/provided	(232 591)	(2 131 485)	(201 634)	(2 293 837)
Assets and liabilities subject to set-offs under a mandate agreement	**1 683 831**	**1 559 024**	**2 020 616**	**1 741 460**
Maximum amount of potential set-off	(924 984)	(924 984)	(1 492 632)	(1 492 632)
Assets and liabilities subject to set-offs under a mandate agreement, taking into account the maximum amount of potential set-off	**758 847**	**634 040**	**527 984**	**248 828**

The table below presents derivatives' nominal values.

	Derivatives' nominal values	31.12.2016	31.12.2015
1.	**Term derivatives (hedging)**	**32 810 487**	**37 200 049**
a)	Single-currency interest rate swap	2 881 319	2 115 615
b)	Macro cash flow hedge -purchased (IRS)	2 242 000	3 498 747
c)	Macro cash flow hedge -purchased (CIRS)	12 714 713	15 012 938
d)	Macro cash flow hedge -sold (CIRS)	14 402 131	16 572 749
e)	FX Swap cash flow hedge -purchased (FX)	284 172	-
f)	FX Swap cash flow hedge-sold (FX)	286 152	-
2.	**Term derivatives (trading)**	**289 441 541**	**250 073 754**
a)	Interest rate operations	170 149 579	147 668 316
	Single-currency interest rate swap	146 126 096	130 621 773
	FRA - purchased amounts	16 680 000	13 375 000
	Options	7 314 133	3 671 543
	Forward- purchased amounts	27 090	-
	Forward- sold amounts	2 260	-
b)	FX operations	119 291 962	102 405 438
	FX swap – purchased amounts	30 143 163	22 949 839
	FX swap – sold amounts	30 025 420	22 881 247
	Forward- purchased amounts	5 580 260	4 872 628
	Forward- sold amounts	5 620 242	4 899 101
	Cross-currency interest rate swap – purchased amounts	12 916 870	9 061 073
	Cross-currency interest rate swap – sold amounts	12 961 985	9 118 586
	FX options -purchased CALL	5 398 974	6 972 190
	FX options -purchased PUT	5 623 037	7 339 292
	FX options -sold CALL	5 398 974	6 972 190
	FX options -sold PUT	5 623 037	7 339 292
3.	**Currency transactions- spot**	**1 540 212**	**3 022 127**
	Spot-purchased	769 621	1 511 171
	Spot-sold	770 591	1 510 956
4.	**Transactions on equity financial instruments**	**1 335 679**	**1 485 063**
	Derivatives contract - purchased	664 431	731 883
	Derivatives contract - sold	671 248	753 180
	Total	**325 127 919**	**291 780 993**

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

In thousands of PLN

21. Hedging derivatives

Hedging derivatives	31.12.2016 Assets	31.12.2016 Liabilities	31.12.2015 Assets	31.12.2015 Liabilities
Derivatives hedging fair value	3 232	140 338	116	192 392
Derivatives hedging cash flow	64 413	1 883 006	164 661	1 887 413
Total hedging derivatives	**67 645**	**2 023 344**	**164 777**	**2 079 805**

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

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

22. Loans and advances to customers

Loans and advances to customers	31.12.2016	31.12.2015
Loans and advances to enterprises	45 179 803	43 307 122
Loans and advances to individuals, of which:	56 291 404	51 950 070
Home mortgage loans	*37 008 380*	*33 720 581*
Finance lease receivables	6 098 499	4 545 711
Loans and advances to public sector	195 900	235 177
Other	181 813	6 867
Gross receivables	**107 947 419**	**100 044 947**
Impairment write down	(4 878 881)	(5 131 063)
Total	**103 068 538**	**94 913 884**

As at 31.12.2016 the fair value adjustment due to hedged risk on individual loans was PLN 2,948 k.

In December 2015, Bank Zachodni WBK stopped applying fair value macro hedge accounting for a hedge of interest rate risk on fixed interest rate cash loans in PLN (6 relationships in total). By the time the Bank stopped using the hedge accounting, the accumulated fair value adjustment for the hedged position recognized in the balance sheet was PLN 7 148 k. This amount is amortized against the profit & loss account according to the tenors originally agreed for individual hedging relationships. PLN 5,687k was recognised in the income statement for 2016 and PLN 1,461k will be reflected in the income statement by the end of 2018.

Finance lease receivables are presented in Note 46. Fair value of loans and advances to customers is presented in Note 43.

In thousands of PLN

Movements on impairment losses on loans and advances to customers	31.12.2016	31.12.2015
Individual and collective impairment		
As at the beginning of the period	(4 471 467)	(4 446 507)
Individual and collective impairment acquired in a business combination	(11 548)	-
Charge/write back of current period	(828 170)	(926 317)
Write off/Sale of receivables	1 110 443	873 273
Transfer	26 631	36 393
F/X differences	(13 687)	(8 309)
Balance at the end of the period	**(4 187 798)**	**(4 471 467)**
IBNR		
As at the beginning of the period	(659 596)	(679 903)
IBNR acquired in a business combination	(1 947)	-
Charge/write back of current period	(27 015)	22 761
Sale of receivables	3 182	-
Transfer	558	193
F/X differences	(6 265)	(2 647)
Balance at the end of the period	**(691 083)**	**(659 596)**
Allowance for impairment	**(4 878 881)**	**(5 131 063)**

In September 2015, Santander Consumer Bank (SCB) 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 15-1 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 244,973 k granted by SCB to SPV2, which is subordinated to senior secured bonds. Interest on the loan is fixed and paid with cascading payments, that is executed in a specific order, from SPV2 funds, while the principal will be repaid upon the full redemption of bonds.

In August 2016, SCB 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 37,397 k granted by SCB to SPV3, which is subordinated to senior secured bonds. Interest on the loan is fixed and paid with cascading payments, that is executed in a specific order, from SPV3 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 31.12.2016, SCB recognised the securitised assets of PLN 2,108,436 k net under Loans and advances to customers, and liability of PLN 2,561,486 k under Deposits from customers in respect of cash flows on account of securitisation.

In May 2016, SCB 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 transaction was completed after the purchase of all the issued bonds and by using the procedure provided for in the agreement – an option to repurchase. Under the procedure, SCB took over from SPV rights to the remaining outstanding debt, which allowed for the complete settlement of the transaction. The net value of the securitisation portfolio at the repurchase date was PLN 391,684 k.

The financial result achieved by all SPV's is 0, because SPV's will absorb all costs achieved and revenue in model of settlements with SCB. In this model SPV allocate all payments received from SCB for certain types of payments, including other settlements with SCB, according to the specified priority order established in the contract.

In thousands of PLN

Mortgage loans – currency analysis

Mortgage portfolio of Bank Zachodni consist credit exposures denominated both in PLN and foreign currencies. From the perspective of exposure to currency risk the most important category of retail FX loans are loans denominated in CHF. Bank Zachodni WBK Group actively manages the CHF position using derivative instruments (swaps) and direct financing including loans and repo transactions. As at the end of December 2016, the volume of the above instruments added up to CHF 2.8 bn and CHF 0.5 bn, respectively.

The table below presents the PLN equivalent of the mortgage loan-book value of Bank Zachodni WBK Group as at 31 December 2016 and 31 December 2015:

Gross mortgage loans by currency	31.12.2016	31.12.2015
CHF denominated mortgage loans, of which:	13 458 166	13 853 060
Bank Zachodni WBK	*10 507 854*	*10 809 116*
Santander Consumer Bank	*2 950 312*	*3 043 944*
Mortgage loans denominated in other currencies, of which:	23 550 214	19 867 521
in PLN	*21 287 359*	*17 536 095*
Total	**37 008 380**	**33 720 581**

Risk profile of CHF-indexed/denominated loans

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

Average LTV ratio and NPL ratio amounted to 116% and 1.4%, respectively. As at 31 December 2016, 99% of CHF loans were sanctioned before 2009.

23. Financial assets available for sale

Financial assets available for sale	31.12.2016	31.12.2015
Available for sale investments - measured at fair value		
Debt securities	**28 423 828**	**23 463 634**
Government securities:	23 429 089	18 621 755
- bonds	23 429 089	18 621 755
Central Bank securities:	2 849 694	2 599 243
- bills	2 849 694	2 599 243
Commercial securities:	2 145 045	2 242 636
-bonds	2 145 045	2 242 636
Equity securities	**884 050**	**1 149 147**
- listed	34 473	43 232
- unlisted	849 577	1 105 915
Investment certificates	**-**	**9 297**
Total	**29 307 878**	**24 622 078**

As at 31.12.2016 fixed interest rate debt securities measured at fair value amount to PLN 19,649,445 k, variable interest rate securities amount to PLN 8,774,383 k.

As at 31.12.2015 fixed interest rate debt securities measured at fair value amount to PLN 17,149,239 k, variable interest rate securities amount to PLN 6,314,395 k.

As at 31.12.2016 fair value adjustment resulting from fair value hedge on available for sale debt securities totaled PLN 132,512 k (as at 31.12.2015 PLN 177,761 k).

Unlisted equity investments classified as available-for-sale for which no active market exists are recognized at cost and tested for impairment or their fair value is assessed based on valuation models. The Group performs the review of the fair value of its unlisted available-for-sale financial instruments at each balance sheet date.

Fair value of „Financial assets available for sale" is presented in Note 43.

In thousands of PLN

Movements on financial assets available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2016	**23 463 634**	**1 158 444**	**24 622 078**
Additions	49 889 981	80 284	49 970 265
Disposals (sale and maturity)	(44 608 851)	(17 749)	(44 626 600)
Fair value adjustment	(453 803)	(326 531)	(780 334)
Movements on interest accrued	80 715	-	80 715
Allowances for impairment	-	(10 398)	(10 398)
F/X differences	52 152	-	52 152
As at 31 December 2016	**28 423 828**	**884 050**	**29 307 878**

Movements on financial assets available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2015	**26 152 181**	**904 912**	**27 057 093**
Additions	124 520 434	6 805	124 527 239
Disposals (sale and maturity)	(126 454 096)	(21 346)	(126 475 442)
Fair value adjustment	(416 286)	269 807	(146 479)
Movements on interest accrued	(37 741)	-	(37 741)
Allowances for impairment	-	(1 734)	(1 734)
F/X differences	34 657	-	34 657
Financial assets adjustment due to loss of control over BZ WBK-Aviva insurance companies.	(335 515)	-	(335 515)
As at 31 December 2015	**23 463 634**	**1 158 444**	**24 622 078**

24. Investments in associates

Investments in associates	31.12.2016	31.12.2015
Associates	871 491	831 142
Total	**871 491**	**831 142**

Movements on investments in associates	31.12.2016	31.12.2015
Balance as at 1 January	**831 142**	**42 792**
Share of profits/(losses)	55 439	27 711
Dividends	(10 827)	(5 721)
Reclassification *	-	766 360
Other	(4 263)	-
Balance at the end of the period	**871 491**	**831 142**

* 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.").

Fair value of "Investment in associates" is presented in Note 43.

In thousands of PLN

25. Intangible assets

Intangible assets	Licences, patents		Licences, patents	
Year 2016	etc.	Other	etc.	Total
Gross value - beginning of the period	**1 307 659**	**429 027**	**170 653**	**1 907 339**
Intangible assets acquired in a business combination	**745**	**-**	**-**	**745**
Additions from:				
- purchases	-	-	159 181	**159 181**
- intangible assets taken for use	132 505	7 503	-	**140 008**
- transfers	335	3	6 173	**6 511**
Disposals from:				
- liquidation	(53 956)	(6 640)	(107)	**(60 703)**
- intangible assets taken for use	-	-	(140 009)	**(140 009)**
- transfers	-	-	(507)	**(507)**
Gross value - end of the period	**1 387 288**	**429 893**	**195 384**	**2 012 565**
Accumulated depreciation - beginning of the period	**(1 122 378)**	**(319 274)**	**-**	**(1 441 652)**
Accumulated depreciation acquired in a business combinations	**(676)**	**-**	**-**	**(676)**
Additions/disposals from:				
- current year	(113 416)	(30 491)	-	**(143 907)**
- liquidation, sale	53 441	6 535	-	**59 976**
- transfers	8 145	(8 145)	-	**-**
Write down/Reversal of impairment write down	107	349	-	**456**
Accumulated depreciation- end of the period	**(1 174 777)**	**(351 026)**	**-**	**(1 525 803)**
Balance sheet value				
Purchase value	1 387 288	429 893	195 384	**2 012 565**
Accumulated depreciation	(1 174 777)	(351 026)	-	**(1 525 803)**
As at 31 December 2016	**212 511**	**78 867**	**195 384**	**486 762**

In thousands of PLN

Intangible assets Year 2015	Licences, patents etc.	Other	Licences, patents etc.	Total
Gross value - beginning of the period	**1 206 042**	**562 406**	**185 900**	**1 954 348**
Additions from:				
- purchases	-	-	165 691	**165 691**
- intangible assets taken for use	150 855	20 630	-	**171 485**
- transfers	(396)	-	3 941	**3 545**
Disposals from:				
- liquidation	(45 631)	(1 352)	(17)	**(47 000)**
- intangible assets taken for use	-	-	(171 485)	**(171 485)**
- transfers	6	767	(13 377)	**(12 604)**
- loss of control over BZ WBK-Aviva insurance companies	(3 217)	(153 424)	-	**(156 641)**
Gross value - end of the period	**1 307 659**	**429 027**	**170 653**	**1 907 339**
Accumulated depreciation - beginning of the period	**(1 089 574)**	**(359 389)**	**-**	**(1 448 963)**
Additions/disposals from:				
- current year	(99 381)	(37 420)	-	**(136 801)**
- liquidation	45 525	585	-	**46 110**
- transfers	18 138	(3 324)	-	**14 814**
- loss of control over BZ WBK-Aviva insurance companies	2 914	90 783	-	**93 697**
Write down/Reversal of impairment write down	-	(10 509)	-	**(10 509)**
Accumulated depreciation- end of the period	**(1 122 378)**	**(319 274)**	**-**	**(1 441 652)**
Balance sheet value				
Purchase value	1 307 659	429 027	170 653	**1 907 339**
Accumulated depreciation	(1 122 378)	(319 274)	-	**(1 441 652)**
As at 31 December 2015	**185 281**	**109 753**	**170 653**	**465 687**

26. Goodwill

As at 31 December 2016 and in the corresponding period, the goodwill covered the following item:

- PLN 1,688,516k - goodwill arising from the merger of Bank Zachodni WBK and Kredyt Bank on 4 January 2013.

In accordance with MSSF 3 the goodwill was calculated as the surplus of the cost of acquisition over the fair value of assets and liabilities acquired.

Test for impairment of goodwill arising from the merger between Bank Zachodni WBK and Kredyt Bank

In 2016 and in the corresponding period, the Group conducted tests for impairment of goodwill arising from the merger with Kredyt Bank on 4 January 2013. The carrying amount as at 31 December 2016 was PLN 1,688,516 (the same as at 31 December 2015).

Recoverable amount based on value in use

The recoverable amount of cash-generating units is the higher of fair value less costs of disposal and value in use. Value in use which is higher than the fair value less costs of disposal is measured on the basis of a discounted cash flow model relevant for banks and other financial institutions. The future expected cash flows generated by business segments of Bank Zachodni WBK are in line with the 3-year financial projections of the Group's management for 2017-2019.

Taking into account the stability of Bank Zachodni WBK Group and sustainable financial performance, and comparing the value in use with the carrying amount of the cash-generating unit, no impairment was identified.

In thousands of PLN

Key assumptions for measuring value in use

For the purposes of goodwill impairment testing Bank applies the following allocation of goodwill to historical business segments. The alocation results from the initial recognition as at acquisition date:

	Retail Banking	Business and Corporate Banking	Global Banking and Markets	ALM and Centre	Total
Goodwill	764 135	578 808	222 621	122 952	**1 688 516**

Due to accepted valuation model, assumptions used to determine the value in use for the individual segments are the same.

Financial projection

The financial projection for 2017-2019 was prepared taking into account strategic and operational plans for 2017-2019 and available macroeconomic and market forecasts. According to the macroeconomic forecasts for 2017-2019 underlying the goodwill impairment test, the average GDP growth is projected at 2.5%. Interest rates are expected to continue at the low level at least until the end of 2017 and grow thereafter. The financial projection assumes the continued expansion of products and services, with a special focus on an increase in the main product lines and on services to retail and SME customers who use financing and savings products and transactional banking services.

Discount rate

The discount rate in the dividend discount model, depending on the time horizon, is 9.9% - 10.8%. The discount rate equal to the rate of return was calculated on the basis of the Capital Assets Pricing Model, taking into account: risk-free rate, beta coefficient for the banking sector and equity risk premium. The risk-free rate ranges from 3.60% to 4.53% and is based on the yield on treasury securities commensurate with the discount period. Cash flows beyond the 3-year financial projection are discounted using yield on 10-year treasury securities. At the end of 2016, the equity risk premium was estimated at 5.5%.

Growth rate in the period beyond the financial projections

The extrapolation of cash flows exceeding the 3-year period of financial projections (residual value) was based on an annual growth rate of 2.5%, i.e. the projected long-term GDP growth rate.

Minimum solvency ratio imposed by the regulator

An increase in the required capital amount results in a decrease in the amount of capital available for distribution as part of the test. In Q4 2015, higher capital requirements became effective pursuant to the applicable Polish laws: additional capital requirements for risk associated with FX mortgage loans (0.62 pp), an additional conservation buffer of 1.25 pp and an increase of 3.0 pp in the additional capital requirement enabling dividend payment. All the above factors have a negative impact on the capital available for distribution and, consequently, on the results of the goodwill impairment test.

In view of the above, the minimum solvency ratio assumed in the 3-year projection period is 14.37% and is equal to the minimum ratio imposed by KNF.

Whereas higher capital requirements ensure stability and safety of Bank Zachodni WBK Group as they increase the capital base, they reduce the amount of dividends attributable to the shareholders, which in turn affect the value in use of the cash-generating unit.

In thousands of PLN

27. Property, plant and equipment

Property, plant & equipment Year 2016	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value - beginning of the period	985 451	625 042	120 374	310 922	132 927	2 174 716
Property, plant and equipment acquired in a business combination	429	1 740	1 722	997	-	4 888
Additions from:						
- purchases	-	-	-	-	194 802	194 802
- leasing	-	-	30 680	-	-	30 680
- fixed assets taken for use	26 243	101 509	30 435	11 541	-	169 728
- transfers	58	18 728	4 390	676	922	24 774
Disposals from:						
- sale, liquidation, donation	(51 314)	(46 520)	(13 041)	(27 014)	-	(137 889)
- fixed assets taken for use	-	-	-	-	(169 727)	(169 727)
- transfers	(504)	(884)	(29 353)	(18 728)	(6 265)	(55 734)
Gross value - end of the period	960 363	699 615	145 207	278 394	152 659	2 236 238
Accumulated depreciation - beginning of the period	(613 329)	(433 400)	(34 664)	(262 830)	-	(1 344 223)
Accumulated depreciation acquired in a business combinations	(180)	(1 605)	(101)	(975)	-	(2 861)
Additions/disposals from:						
- current year	(35 062)	(64 752)	(20 508)	(12 991)	-	(133 313)
- sale, liquidation, donation	39 433	46 508	6 878	25 517	-	118 336
- transfers	27	(15 074)	16 241	15 061	-	16 255
Write down/Reversal of impairment write down	(12 320)	-	-	186	-	(12 134)
Accumulated depreciation- end of the period	(621 431)	(468 323)	(32 154)	(236 032)	-	(1 357 940)
Balance sheet value						
Purchase value	960 363	699 615	145 207	278 394	152 659	2 236 238
Accumulated depreciation	(621 431)	(468 323)	(32 154)	(236 032)	-	(1 357 940)
As at 31 December 2016	338 932	231 292	113 053	42 362	152 659	878 298

In thousands of PLN

Property, plant & equipment Year 2015	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value - beginning of the period	**1 056 026**	**728 128**	**90 590**	**361 115**	**93 439**	**2 329 298**
Additions from:						
- purchases	-	-	-	-	184 431	**184 431**
- leasing	39 480	-	40 113	-	-	**79 593**
- fixed assets taken for use	25 772	89 217	12 087	11 564	-	**138 640**
- transfers	1 374	35 379	2 255	(10 978)	11	**28 041**
Disposals from:						
- sale, liquidation, donation	(137 201)	(203 351)	(8 142)	(49 890)	(1 837)	**(400 421)**
- fixed assets taken for use	-	-	-	-	(138 640)	**(138 640)**
- transfers	-	(23 909)	(15 290)	-	(4 441)	**(43 640)**
companies	-	(422)	(1 239)	(889)	(36)	**(2 586)**
Gross value - end of the period	**985 451**	**625 042**	**120 374**	**310 922**	**132 927**	**2 174 716**
Accumulated depreciation - beginning of the period	**(660 770)**	**(570 174)**	**(33 422)**	**(307 982)**	**-**	**(1 572 348)**
Additions/disposals from:						
- current year	(34 728)	(54 200)	(15 812)	(15 020)	-	**(119 760)**
- sale, liquidation, donation	82 593	203 133	5 462	46 841	-	**338 029**
- transfers	(424)	(12 476)	8 580	10 717	-	**6 397**
companies	-	317	538	419	-	**1 274**
Write down/Reversal of impairment write down	-	-	(10)	2 195	-	**2 185**
Accumulated depreciation- end of the period	**(613 329)**	**(433 400)**	**(34 664)**	**(262 830)**	**-**	**(1 344 223)**
Balance sheet value						
Purchase value	985 451	625 042	120 374	310 922	132 927	**2 174 716**
Accumulated depreciation	(613 329)	(433 400)	(34 664)	(262 830)	-	**(1 344 223)**
As at 31 December 2015	**372 122**	**191 642**	**85 710**	**48 092**	**132 927**	**830 493**

In thousands of PLN

28. Net deferred tax assets

Deferred tax assets	31.12.2016	Changes to equity*	Changes to financial result	Changes in temporary differences	31.12.2015
Provisions for impairment of loans and advances	650 432	-	41 699	41 699	608 733
Valuation of derivative financial instruments	718 212	-	(49 632)	(49 632)	767 844
Cash flow hedges valuation	25 252	(20 637)	-	(20 637)	45 889
Other provisions	146 140	-	3 215	3 215	142 925
Deferred income	442 412	-	35 685	35 685	406 727
Differences between carrying and tax value of lease	297 655	-	106 734	106 734	190 921
Unrealised interest expense on loans, deposits and securities	91 612	-	1 715	1 715	89 897
Other negative temporary differences	13 019	-	(2 388)	(2 388)	15 407
Total assets of deferred tax	**2 384 734**	**(20 637)**	**137 028**	**116 391**	**2 268 343**

Deferred tax liabilities	31.12.2016	Changes to equity*	Changes to financial result	Changes in temporary differences	31.12.2015
Revaluation of financial instruments available for sale	(87 491)	140 283	-	140 283	(227 774)
Provisions for retirement allowances	(1 914)	(1 304)	-	(1 304)	(610)
Valuation of derivative financial instruments	(367 545)	-	56 063	56 063	(423 608)
Unrealised interest income on loans, securities and interbank deposits	(210 498)	-	(27 838)	(27 838)	(182 660)
Prepayments regarding amortization of applied investment relief	(1 876)	-	327	327	(2 203)
Difference between balance sheet and taxable value of non-financial assets	5 126	-	2 951	2 951	2 175
Unrealised FX translation differences from b/s valuation of receivables and liabilities	(9 282)	-	(790)	(790)	(8 492)
Valuation of shares / interests in subsidiaries	(147 782)	-	4 882	4 882	(152 664)
Other positive temporary differences	(29 150)	-	(8 451)	(8 451)	(20 699)
Total liabilities deferred tax	**(850 412)**	**138 979**	**27 144**	**166 123**	**(1 016 535)**
Net deferred tax assets	**1 534 322**	**118 342**	**164 172**	**282 514**	**1 251 808**

*The changes carried in equity do not reflect the deferred tax effect in relation to the item recognised in non-controlling interests.

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

In thousands of PLN

Deferred tax assets	31.12.2015	Changes to equity*	Changes to financial result	Changes in temporary differences	31.12.2014
Provisions for impairment of loans and advances	608 733	-	(23 688)	(23 688)	632 421
Valuation of derivative financial instruments	767 844	-	86 638	86 638	681 206
Cash flow hedges valuation	45 889	20 148	-	20 148	25 741
Other provisions	142 925	-	38 475	38 475	104 450
Deferred income	406 727	-	49 405	49 405	357 322
Differences between carrying and tax value of lease	190 921	-	42 261	42 261	148 660
Unrealised interest expense on loans, deposits and securities	89 897	-	(97 105)	(97 105)	187 002
Other negative temporary differences	15 407	-	(3 486)	(3 486)	18 893
Total assets of deferred tax	**2 268 343**	**20 148**	**92 500**	**112 648**	**2 155 695**

Deferred tax liabilities	31.12.2015	Changes to equity*	Changes to financial result	Changes in temporary differences	31.12.2014
Revaluation of financial instruments available for sale	(227 774)	22 031	-	22 031	(249 805)
Provisions for retirement allowances	(610)	(1 889)	-	(1 889)	1 279
Valuation of derivative financial instruments	(423 608)	-	(11 733)	(11 733)	(411 875)
Unrealised interest income on loans, securities and interbank deposits	(182 660)	-	19 327	19 327	(201 987)
Prepayments regarding amortization of applied investment relief	(2 203)	-	1 024	1 024	(3 227)
Difference between balance sheet and taxable value of non-financial assets	2 175	-	3 122	3 122	(947)
Unrealised FX translation differences from b/s valuation of receivables and liabilities	(8 492)	-	(2 264)	(2 264)	(6 228)
Valuation of shares / interests in subsidiaries	(152 664)	-	(67 984)	(67 984)	(84 680)
Other positive temporary differences	(20 699)	-	(4 084)	(4 084)	(16 615)
Total liabilities deferred tax	**(1 016 535)**	**20 142**	**(62 592)**	**(42 450)**	**(974 085)**
Net deferred tax assets	**1 251 808**	**40 290**	**29 908**	**70 198**	**1 181 610**

*The changes carried in equity do not reflect the deferred tax effect in relation to the item recognised in non-controlling interests.

As at 31.12.2015 the assets in the calculation of deferred tax assets do not include purchased receivables in the amount of gross PLN 11,893 k and provisions for loans that do not become tax expense in the amount of gross PLN 91,615 k.

Movements on net deferred tax	31.12.2016	31.12.2015
As at the beginning of the period	1 251 808	1 181 610
Changes on net deferred tax in a business combination	35 387	-
Changes recognised in income statement	127 976	36 349
Changes recognised in other comprehensive income	118 342	39 681
Transfer	809	(5 832)
Balance at the end of the period	**1 534 322**	**1 251 808**

Temporary differences recognised in equity comprise deferred tax on available for sale securities, cash flow hedges and provisions for retirement allowances.

Temporary differences recognised in the income statement comprise allowance for impairment of loans and receivables and assets in the course of business.

29. Assets classified as held for sale

Assets classified as held for sale	31.12.2016	31.12.2015
Land and buildings	608	638
Other fixed assets	21	931
Total	**629**	**1 569**

In thousands of PLN

30. Other assets

Other assets	31.12.2016	31.12.2015
Interbank and interbranch settlements	106 829	120 024
Sundry debtors	443 476	353 994
Prepayments	125 164	133 667
Repossessed assets	24 567	37 364
Settlements of stock exchange transactions	21 385	23 508
Other	4 293	4 608
Total	**725 714**	**673 165**
of which financial assets*	571 690	497 526

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

31. Deposits from banks

Deposits from banks	31.12.2016	31.12.2015
Term deposits	98 531	179 260
Loans from other banks	1 945 101	574 693
Current accounts	517 649	312 810
Total	**2 561 281**	**1 066 763**

As at 31.12.2016 fair value adjustment for hedged deposit totaled PLN nil (as at 31.12.2015 – PLN nil).

Fair value of “Deposits from banks” is presented in Note 43.

32. Deposits from customers

Deposits from customers	31.12.2016	31.12.2015
Deposits from individuals	**63 547 942**	**59 200 715**
Term deposits	23 711 846	26 967 411
Current accounts	39 650 731	32 087 123
Other	185 365	146 181
Deposits from enterprises	**45 709 065**	**38 787 658**
Term deposits	22 608 733	20 119 828
Current accounts	18 464 132	14 957 442
Loans	4 075 897	3 002 047
Other	560 303	708 341
Deposits from public sector	**3 265 450**	**3 256 813**
Term deposits	1 504 136	1 476 264
Current accounts	1 747 709	1 668 272
Other	13 605	112 277
Total	**112 522 457**	**101 245 186**

As at 31.12.2016 deposits held as collateral totaled PLN 289,695 k (as at 31.12.2015 - PLN 505,528 k).

Fair value of “Deposits from customers” is presented in Note 43.

In thousands of PLN

33. Subordinated liabilities

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

Movements in subordinated liabilities	31.12.2016	31.12.2015
As at the beginning of the period	**526 634**	**1 539 967**
Increase (due to):	**31 671**	**168 913**
- interest on subordinated loan	18 919	45 260
- FX differences	12 752	123 653
Decrease (due to):	**(117 848)**	**(1 182 246)**
- subordinated loans repayment	(100 000)	(1 138 338)
- interest repayment	(17 848)	(43 908)
Subordinated liabilities - as at the end of the period	**440 457**	**526 634**
Short-term	1 604	2 285
Long-term (over 1 year)	438 853	524 349

Other details on these liabilities are disclosued in Note 5.

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.

34. Debt securities in issue

Debt securities in issue	ISIN	Nominal value	Currency	Redemption date	31.12.2016
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	
SCB00037	not quoted	40 000	PLN	02.12.2019	
SCB00033	not quoted	50 000	PLN	26.02.2020	
SCB00034	not quoted	140 000	PLN	05.05.2020	
SCB00035	not quoted	82 000	PLN	29.05.2020	
SCB00036	not quoted	100 000	PLN	10.08.2020	
Securitized bonds Float sale	XS1275288295	1 051 125	PLN	19.08.2025	
Securitized bonds Float sale	not quoted	1 225 000	PLN	16.09.2026	
Series E	PLBZ00000226	120 000	EUR	03.12.2026	
Debt securities in issue - as at the end of the period					**5 529 187**

In thousands of PLN

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**

Movements in debt securities in issue	31.12.2016	31.12.2015
As at the beginning of the period	**4 320 891**	**3 373 374**
Increase (due to:)	**2 894 670**	**2 217 617**
- debt securities in issue	2 762 880	2 111 125
- interest on debt securities in issue	131 790	106 492
Decrease (due to):	**(1 686 374)**	**(1 270 100)**
- debt securities redemption	(1 554 700)	(1 159 567)
- interest repayment	(131 674)	(110 533)
As at the end of the period	**5 529 187**	**4 320 891**

In thousands of PLN

35. Provisions

Provisions	31.12.2016	31.12.2015
Provisions for off-balance sheet credit facilities	50 746	75 340
Provisions for legal claims	74 396	48 582
Provisions for restructuring *	4 986	8 648
Total	**130 128**	**132 570**

* Provision acquired as a result of the acquisition of control over Santander Consumer Bank on July 1, 2014 in the amount of PLN 15,547 k (as at 31.12.2016 in the amount of PLN 4 986 k) referred to:

- restructuring of employment in the bank PLN 3,323 k (as at 31.12.2016 in the amount of PLN 2 023 k),
- liquidation of branches PLN 12,224 k. (as at 31.12.2016 in the amount of PLN 2 963 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 2017-2019.

Change in provisions 31.12.2016	Provisions for legal claims	Provisions for off balance sheet credit facilities	Provisions for restructuring	Total
As at the beginning of the period	**48 582**	**75 340**	**8 648**	**132 570**
Provision charge	93 280	93 586	377	187 243
Utilization	(66 157)	835	-	(65 322)
Write back	(1 309)	(119 015)	(4 000)	(124 324)
Other changes	-	-	(39)	(39)
Balance at the end of the period	**74 396**	**50 746**	**4 986**	**130 128**
Short-term	74 396	41 752	4 986	121 134
Long-term	-	8 994	-	8 994

Change in provisions 31.12.2015	Provisions for legal claims	Provisions for off balance sheet credit facilities	Provisions for restructuring	Total
As at the beginning of the period	**53 128**	**87 517**	**11 721**	**152 366**
Provision charge	12 320	115 734	1 805	129 859
Utilization	(7 628)	252	-	(7 376)
Write back	(9 238)	(128 163)	(4 878)	(142 279)
Other changes	-	-	-	-
Balance at the end of the period	**48 582**	**75 340**	**8 648**	**132 570**
Short-term	48 582	60 944	11 954	121 480
Long-term	-	14 396	-	14 396

In thousands of PLN

36. Other liabilities

Other liabilities	31.12.2016	31.12.2015
Settlements of stock exchange transactions	25 314	25 376
Interbank and interbranch settlements	585 606	202 317
Employee provisions	375 959	380 724
Other provisions	3 300	3 306
Sundry creditors	512 010	342 341
Other deferred and suspended income	250 059	232 127
Public and law settlements	86 298	52 119
Accrued liabilities	436 249	429 113
Finance lease related settlements	72 901	78 866
Other	866	229
Total	**2 348 562**	**1 746 518**
of which financial liabilities *	2 011 339	1 462 043

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

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

Change in provisions 31.12.2015	Employee provisions*	Other provisions	Total
As at the beginning of the period	**365 083**	**1 077 745**	**1 442 828**
Provision charge	297 134	6	297 140
Utilization	(236 171)	-	(236 171)
Write back	(45 639)	(1 074 445) **	(1 120 084)
Other changes	317	-	317
Balance at the end of the period	**380 724**	**3 306**	**384 030**
Short-term	317 515	3 306	320 821
Long-term	63 209	-	**63 209**

*Employee related provisions and accruals consists of items outlined in Note 50.

**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

37. Share capital

31.12.2016

Series/issue	Type of share	Type of preferences	Limitation of rights to shares	Number of shares	Nominal value of series/issue in PLN k
A	bearer	none	none	5 120 000	51 200
B	bearer	none	none	724 073	7 241
C	bearer	none	none	22 155 927	221 559
D	bearer	none	none	1 470 589	14 706
E	bearer	none	none	980 393	9 804
F	bearer	none	none	2 500 000	25 000
G	bearer	none	none	40 009 302	400 093
H	bearer	none	none	115 729	1 157
I	bearer	none	none	1 561 618	15 616
J	bearer	none	none	18 907 458	189 075
K	bearer	none	none	305 543	3 055
L	bearer	none	none	5 383 902	53 839
				99 234 534	**992 345**

Nominal value of one share is 10 PLN. All shares in issue are fully paid.

The shareholders having minimum 5% of the total number of votes at the BZ WBK General Meeting of Shareholders were Banco Santander with a controlling stake of 69.41% stake and Nationale-Nederlanden OFE with a share of 5.15%.

31.12.2015

Series/issue	Type of share	Type of preferences	Limitation of rights to shares	Number of shares	Nominal value of series/issue in PLN k
A	bearer	none	none	5 120 000	51 200
B	bearer	none	none	724 073	7 241
C	bearer	none	none	22 155 927	221 559
D	bearer	none	none	1 470 589	14 706
E	bearer	none	none	980 393	9 804
F	bearer	none	none	2 500 000	25 000
G	bearer	none	none	40 009 302	400 093
H	bearer	none	none	115 729	1 157
I	bearer	none	none	1 561 618	15 616
J	bearer	none	none	18 907 458	189 075
K	bearer	none	none	305 543	3 055
L	bearer	none	none	5 383 902	53 839
				99 234 534	**992 345**

Nominal value of one share is 10 PLN. All shares in issue are fully paid.

The shareholders having minimum 5% of the total number of votes at the BZ WBK General Meeting of Shareholders were Banco Santander with a controlling stake of 69.41% stake and Nationale-Nederlanden OFE with a share of 5.15%.

In thousands of PLN

38. Other reserve capital

Other reserve capital	31.12.2016	31.12.2015
General banking risk fund	649 810	649 810
Share premium	7 035 424	7 035 424
Other reserves of which:	8 106 321	7 000 685
Reserve capital	*7 879 974*	*7 028 781*
Supplementary capital	*890 172*	*635 729*
Adjustment to equity from acquisition of controlling interest in Santander Consumer Bank	*(663 825)*	*(663 825)*
Total	**15 791 555**	**14 685 919**

Share (issue) premium is created from surplus over the nominal value of shares sold less costs of share issuance and constitutes the Bank's supplementary capital.

Reserve capital as at 31.12.2016 includes share scheme charge of PLN 120 750 k and reserve capital as at 31.12.2015 includes share scheme charge of PLN 104 537 k.

Other movements of other reserve capital are presented in "movements on consolidated equity" for 2016 and 2015.

Statutory reserve (supplementary) capital is created from profit allocations in line with the prevailing banking legislation and the Bank's Statute. The capital is not subject to split and is earmarked for covering balance sheet losses. Allocations from profit for the current year to reserve capital should amount to at least 8% of profit after tax and are made until supplementary capital equals at least one third of the Bank's share capital. The amount of allocations is adopted by the General Meeting of Shareholders.

Reserve capital is created from profit allocations in the amount adopted by the General Meeting of Shareholders. The decision on reserve capital use is taken by the General Meeting of Shareholders.

39. Revaluation reserve

Revaluation reserve 31.12.2016	Total gross	Deferred tax adjustment	Total nett
Opening balance, of which:	959 153	(182 239)	776 914
Debt and equity securities	1 197 303	(227 489)	969 814
Valuation related to cash flow hedge	(241 359)	45 859	(195 500)
Actuarial gains/losses on retirement allowances	3 209	(609)	2 600
Change in valuation of debt and equity securities available for sale investments	(459 368)	87 280	(372 088)
Decrease in revaluation reserve related to sale of investments	(272 701)	51 813	(220 888)
Change of cash flow hedges valuations	131 726	(25 028)	106 698
Decrease in revaluation reserve related to sale of cash flow hedges	(24 649)	4 683	(19 966)
Change of actuarial gains/losses on retirement allowances	6 695	(1 272)	5 423
Closing balance, of which:	340 856	(64 763)	276 093
Debt and equity securities	465 234	(88 396)	376 838
Valuation related to cash flow hedge	(134 282)	25 514	(108 768)
Actuarial gains/losses on retirement allowances	9 904	(1 881)	8 023

In thousands of PLN

Revaluation reserve 31.12.2015	Total gross	Deferred tax adjustment	Total nett
Opening balance, of which:	1 174 747	(223 201)	951 546
Debt and equity securities	1 315 065	(249 862)	1 065 203
Valuation related to cash flow hedge	(133 582)	25 381	(108 201)
Actuarial gains/losses on retirement allowances	(6 734)	1 280	(5 454)
Change in valuation of debt and equity securities available for sale investments	(115 412)	(30 136)	(145 548)
Decrease in revaluation reserve related to sale of investments	(2 350)	52 509	50 159
Change of cash flow hedges valuations	(100 067)	19 011	(81 056)
Decrease in revaluation reserve related to sale of cash flow hedges	(7 710)	1 466	(6 244)
Change of actuarial gains/losses on retirement allowances	9 943	(1 889)	8 054
Closing balance, of which:	959 153	(182 239)	776 914
Debt and equity securities	1 197 303	(227 489)	969 814
Valuation related to cash flow hedge	(241 359)	45 859	(195 500)
Actuarial gains/losses on retirement allowances	3 209	(609)	2 600

40. Non - controlling interests

Name of the subsidiary	Country of incorporation and place of business	Percentage share of non-controlling interests in share capital / voting rights		Net profit for the period attributable to non-controlling interests		Accumulated non-controlling interests	
		31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	50,00	50,00	24 634	20 930	46 802	31 788
BZ WBK Asset Management S.A.	Poland	-	50,00	1 763	8 985	-	40 707
Santander Consumer Bank S.A.	Poland	40,00	40,00	190 848	174 062	1 190 847	1 103 606
BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A. *	Poland	-	-	-	3 301	-	-
Total				**217 245**	**207 278**	**1 237 649**	**1 176 101**

* As at 31.12.2015 BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych were associates.

In thousands of PLN

The table below presents condensed financial information regarding subsidiaries which have a significant contribution to the Group:

	BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.		BZ WBK Asset Management S.A.		Santander Consumer Bank S.A.	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Loans and advances to banks	86 904	70 377	-	65 718	111 871	66 407
Loans and advances to customers	-	-	-	-	13 370 604	13 284 496
Investments in subsidiaries	-	-	-	14 129	157 552	96 199
Financial assets available for sale	-	750	-	-	2 959 214	2 120 371
Net deferred tax assets	1 573	1 040	-	590	425 644	361 430
Other items	29 457	28 530	-	5 255	357 384	458 035
Total assets	**117 934**	**100 697**	**-**	**85 692**	**17 382 269**	**16 386 938**
Deposits from banks	-	-	-	-	73 339	1 302 644
Deposits from customers	-	-	-	-	10 889 396	8 920 340
Sell-buy-back transactions	-	-	-	-	1 632 613	1 250 505
Debt securities in issue	-	-	-	-	1 466 769	1 570 351
Other items	24 331	22 993	-	4 278	615 118	645 269
Total liabilities	**24 331**	**22 993**	**-**	**4 278**	**14 677 235**	**13 689 109**
Income	258 932	276 932	8 648	81 137	1 735 893	1 650 974
Profit (loss) for the period	49 267	41 860	3 525	59 585	451 408	434 586
Dividends paid to non-controlling interests	29 847	-	22 344	16 593	173 834	-

Name of associate	Country of incorporation and place of business	The Group's share in capital / voting power		Valuation method	Scope of business
		2016	2015		
BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poland	49,00	49,00	Equity method	life insurance
BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Poland	49,00	49,00	Equity method	property and personal insurance

In thousands of PLN

The table below presents condensed financial information regarding associates which have a significant contribution to the Group:

	BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A.		BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	
	2016 *	2015 *	2016 *	2015 *
Loans and advances to banks	29 667	57 595	10 137	3 827
Financial assets held for trading	18 166	22 024	1 273	2 601
Financial assets available for sale	240 673	147 801	327 600	261 350
Deferred tax assets	750	95	1 060	(961)
Net life insurance assets where the deposit (investment) risk is incurred by the insuring party	538 517	615 798	-	-
Other settlements	66 013	12 359	81 129	18 825
Prepayments	129 269	79 536	12 875	28 929
Other items	1 119	688	924	441
Total assets	**1 024 174**	**935 896**	**434 998**	**315 012**
Technical insurance provisions	839 675	854 252	175 593	190 194
Reinsurers' share in provisions	(6 059)	(6 502)	(114 575)	(74 642)
Estimated recourses and recoveries (negative value)	-	-	(724)	(436)
Other liabilities	93 858	6 859	103 240	17 093
Prepayments and accruals	1 453	2 340	68 202	44 732
Special funds	15	18	31	38
Total liabilities	**928 942**	**856 967**	**231 767**	**176 979**
Income	191 223	239 430	153 558	164 415
Profit (loss) for the period	40 727	30 688	71 573	40 312
Dividends paid to BZ WBK	10 827	5 721	-	-

* data are based on estimates of companies.

41. Hedge accounting

Bank Zachodni WBK Group applies hedge accounting in line with the risk management assumptions described in Note 4 of the annual consolidated financial statements.

Fair value hedges

Bank Zachodni WBK Group uses fair value hedge accounting with respect to the following classes of financial instruments:

- Debt securities with a fixed interest rate, denominated in PLN and EUR;
- Loans with a fixed interest rate denominated in PLN.

Fair value hedges include Interest Rate Swaps and Overnight Indexed Swap, where the bank pays a fixed rate and receives a variable rate. The transactions hedge the risk of changes in the fair value of an instrument or a portfolio as a result of movements in market interest rates. The transactions do not hedge fair value changes on account of credit risk.

Hedging items are measured at fair value. Hedged items are measured at amortised cost taking into account fair value adjustments on account of the risk being hedged.

The tables below contain details about individual groups of hedge transactions as at 31.12.2016 and 31.12.2015:

31.12.2016	Bonds	Loans
Nominal value of hedging position	1 982 240	300 000
Measurement to fair value of hedging instrument	(128 789)	4 358
Fair value adjustment of hedged instrument due to hedged risk asset/(liability)	132 512	(4 409)
Hedged risk	Interest rate risk	Interest rate risk
Period over which the instruments have an impact on the bank's results	up to 2025	up to 2021

31.12.2015	Bonds
Nominal value of hedging position	2 115 615
Measurement to fair value of hedging instrument	(181 935)
Fair value adjustment of hedged instrument due to hedged risk asset/(liability)	177 761
Hedged risk	Interest rate risk
Period over which the instruments have an impact on the bank's results	up to 2023

Since January 2016, Bank Zachodni WBK has used portfolio-based hedge accounting for the fair value of interest rate risk with respect to the portfolio of fixed interest rate cash loans denominated in PLN. The fair value hedges are Interest Rate Swaps for which the bank pays a fixed rate and receives a variable rate. The purpose of the hedge is to eliminate the risk of changes in the fair value of the fixed interest rate cash loans resulting from movements in market interest rates. Credit margin is excluded from the hedging relationship.

In December 2015, Bank Zachodni WBK S.A. stopped applying fair value macro hedge accounting for a hedge of interest rate risk on fixed interest rate cash loans in PLN (6 relationships in total). By the time the Bank stopped using the hedge accounting, the accumulated fair value adjustment for the hedged position recognized in the balance sheet was PLN 7,148 k. This amount is amortized against the profit & loss account according to the terms originally agreed for individual hedging relationships. PLN 5,687k was recognised in the income statement for 2016 and PLN 1,461k will be reflected in the income statement by the end of 2018.

The hedging item is measured at fair value. The hedged item is measured at amortised cost adjusted to fair value to account for the risk being hedged.

Details of the hedging transaction of BZ WBK Leasing S.A. as at 31 December 2016 are presented in the table below:

31.12.2016	BZ WBK Leasing S.A.
Nominal value of hedging position	599 079
Measurement to fair value of hedging instrument	(392)
Fair value adjustment of hedged instrument due to hedged risk asset/(liability)	392
Hedged risk	Interest rate risk
Period over which the instruments have an impact on the bank's results	up to 2022

As at 31.12.2015, the leasing companies did not have any instruments covered by hedge accounting.

Cash flow hedging

Bank Zachodni WBK Group uses hedge accounting for its future cash flows with respect to credit portfolios based on a variable interest rate, denominated in PLN or in EUR, USD and CHF.

The Group’s hedging strategies are designed to protect the Group’s exposures against the risk of changes in the value of future cash flows resulting from adverse interest rate movements or – in the case of credit portfolios denominated in foreign currency – from currency fluctuations.

Hedging relationships are created using Interest Rate Swaps, FX Swaps and Cross-Currency Interest Rate Swaps. The Bank uses the hypothetical derivative approach whereby the hedged credit portfolio is reflected by a derivative transaction with specific characteristics.

Hedged items are measured at amortised cost, while hedging items are measured at fair value. Subject to fulfilment of the criteria for effectiveness of hedging relationships, changes in the fair value of hedging instruments are recognised in equity.

As of 31 December 2016, the nominal value of the hedging item was PLN 16,644,130 k (31 December 2015 – PLN 20,071,496 k). Measurement to fair value of the hedging instrument was PLN (134 281) k (31 December 2015 – PLN (241,359 k); the same amount, less deferred tax, is recognised in comprehensive income and accumulated in the Bank’s equity under revaluation reserve. Hedging instruments have been concluded for a period of time until 2028. The non-effective portion of measurement of the cash flow hedge was PLN 11 170 k as of 31.12.2016 and PLN (11,582) k as of 31.12.2015. It was taken to the ‘Net trading income and revaluation’ line of the profit and loss account.

As of 31 December 2016, the nominal value of the hedging for SCB Group item was PLN 1,320,818 k (31 December 2015 – PLN 1,163,954 k). Measurement to fair value of the hedging instrument was PLN (4 854) k (31 December 2015 – PLN (1,003 k); the same amount, less deferred tax, is recognised in comprehensive income and accumulated in the Bank’s equity under revaluation reserve. Hedging instruments have been concluded for a period of time until 2022.

The non-effective portion of fair value of the cash flow hedge was PLN (1 686) k as of 31.12.2016 and PLN 26 k as of 31.12.2015. It was taken to the ‘Net trading income and revaluation’ line of the profit and loss account.

In thousands of PLN

42. Sell-buy-back and buy-sell-back transactions

The Group raises funds by selling financial instruments under agreements to repurchase these instruments at future dates at a predetermined price.
Repo and sell-buy back transactions may cover securities from the Group's balance sheet portfolio.

	31.12.2016	31.12.2015
	Balance sheet value	Balance sheet value
Liabilities valued at amortised cost (contains sell-buy-back)	1 632 613	5 258 031
Fair value of securities held as collateral for sell-buy-back/repo transactions	1 827 329	5 187 346
Buy-sell-back transactions	-	289 260
Fair value of securities held for buy-sell-back/reverse repo transactions	-	289 697

Buy-sell-back transactions	31.12.2016	31.12.2015
Buy-sell-back transactions to banks	-	272 300
Buy-sell-back transactions to customers	-	16 960
Total	**-**	**289 260**
Sell-buy-back transactions	**31.12.2016**	**31.12.2015**
Sell-buy-back transactions from banks	1 632 613	4 637 841
Sell-buy-back transactions from customers	-	620 190
Total	**1 632 613**	**5 258 031**

The foregoing items are not removed from the balance sheet, because the Group retains all rewards (i.e. interest income on pledged securities) and risks (interest rate risk and the issuer's credit risk) attaching to these assets.

All of the above-mentioned risks and costs related to the holding of the underlying debt securities in the sell-buy-back transactions remain with the Group, as well as power to dispose them.

The Group also effects reverse repo and buy-sell-back transactions at the same price increased by the pre-determined amount of interest.

Financial instruments covered by reverse repo and buy-sell-back transactions are not recognised in the balance sheet, because the Group does not retain any rewards or risks attaching to these assets.
These instruments represent a security cover accepted by the Group which may sell or pledge these assets.

Financial instruments held as security for (reverse repo) repurchase agreements may be sold or repledged under standard agreements, under the obligation to return these to the counterparty on maturity of the transaction.

As at 31.12.2016, SCB had financial instruments with total amount of PLN 1,827,329 k place serving as collateral for repo transactions whose maturity period is shorter than that of the underlying transaction. As at 31.12.2015, SCB had no financial instruments in place serving as collateral for repo transactions whose maturity period is shorter than that of the underlying transaction.

In thousands of PLN

43. Fair value

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

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

	31.12.2016		31.12.2015	
Assets	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Cash and balances with central banks	4 775 660	4 775 660	6 229 853	6 229 853
Loans and advances to banks	3 513 278	3 513 278	3 580 957	3 580 957
Financial assets held for trading	3 180 985	3 180 985	4 165 511	4 165 511
Hedging derivatives	67 645	67 645	164 777	164 777
Loans and advances to customers	103 068 538	102 882 533	94 913 884	95 598 939
Financial assets available for sale	29 307 878	29 307 878	24 622 078	24 622 078
Investments in associates	871 491	871 491	831 142	831 142
Liabilities				
Deposits from banks	2 561 281	2 561 281	1 066 763	1 066 763
Hedging derivatives	2 023 344	2 023 344	2 079 805	2 079 805
Financial liabilities held for trading	1 809 060	1 809 060	2 535 684	2 535 684
Subordinated liabilities	440 457	564 402	526 634	603 709
Deposits from customers	112 522 457	112 548 047	101 245 186	101 270 892

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

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

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

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

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

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

In thousands of PLN

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

As at 31.12.2016 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 Level III:

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

are made semi-annually by specialized units of the Bank using income methods based on discounted cash flows, where the most important variables of the model are the level of forecasted dividends and the risk free rate. During the reporting period revaluation of above equity investments has been made in the total amount of (57.8 million PLN). This write-off, net of tax, was recognized in the revaluation reserve.

As at 31.12.2016 and in the comparable periods the Group classified its financial instruments to the following fair value levels:

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

31.12.2015	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**

In thousands of PLN

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

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

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	*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**	**-**

44. Contingent liabilities

Significant court proceedings

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

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

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

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

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 35.

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.

In thousands of PLN

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 claims was 48,582 k, including for significant cases against the Bank was PLN 27,373 k. In 8 cases against the Bank, where the claim value was high, a provision of PLN 25,000 k was raised.

Off-balance sheet liabilities

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

Contingent liabilities - sanctioned	31.12.2016	31.12.2015
Liabilities sanctioned		
- financial	**23 243 064**	**21 917 738**
- credit lines	19 134 360	18 496 024
- credit cards debits	3 419 031	2 980 925
- import letters of credit	655 624	437 988
- term deposits with future commencement term	34 049	2 801
- guarantees	**4 182 758**	**4 425 962**
Allowance for impairment	**(50 746)**	**(75 340)**
Total	**27 425 822**	**26 343 700**

45. Assets and liabilities pledged as collateral

Assets securing funds to cover the BGF are debt securities.

In order to calculate the contribution to the deposit protection fund, Bank Zachodni WBK and Santander Consumer Bank applied 0.55% (i.e. the same rate as in 2015) of funds deposited in all accounts with the bank, being the basis for calculating the obligatory reserve.

As at 31.12. 2016, assets allocated to that end totalled PLN 597,789 k compared with PLN 557,977 k a year before.

In 2016, deposits opened with financial institutions to secure the value of transactions totalled PLN 2,190,757 k (PLN 2,345,259 k as at 31.12. 2015).

In 2016, the Group accepted PLN 232,670 k worth of deposits securing transactions (vs. PLN 202,918 k in 2015).

Other assets pledged and liabilities accepted as collateral are disclosed in Notes 32 and 42.

In thousands of PLN

46. Finance and operating leases

Finance leases

Lease agreements where the Group acts as a lessor

Bank Zachodni WBK Group operates on the leasing market through leasing companies BZ WBK Leasing S.A., BZ WBK Lease S.A., Santander Consumer Multirent Sp. z o.o. and PSA Finance Polska sp. z o.o. which specialise in funding vehicles, machines and equipment for businesses and personal customers and property.

The item "Loans and advances to customers" contains the following amounts relating to the finance lease obligations:

Finance leases gross receivables - maturity	31.12.2016	31.12.2015
less than 1 year	2 340 974	1 763 670
between 1 and 5 years	4 041 964	2 997 371
over 5 years	128 190	133 967
Total	**6 511 128**	**4 895 008**

Present value of minimum lease payments - maturity	31.12.2016	31.12.2015
less than 1 year	2 257 106	1 708 814
between 1 and 5 years	3 749 807	2 748 416
over 5 years	91 586	88 481
Total	**6 098 499**	**4 545 711**

Reconciliation between the gross investment and the present value of minimum lease payments	31.12.2016	31.12.2015
Finance lease gross receivables	6 511 128	4 895 008
Unearned finance income	(412 629)	(349 297)
Impairment of finance lease receivables	(76 416)	(79 952)
Present value of minimum lease payments, net	**6 022 083**	**4 465 759**

Lease agreements where the Group acts as a lessee

The BZ WBK Group companies also avail of lease arrangements as lessees, however as the leases are between related entities they were eliminated from the consolidated statement of financial position and profit and loss account.

Operating leases

The BZ WBK leases offices in compliance with operational leasing agreements. As a standard, agreements are concluded for 5-10 years. A small part of the offices is subleased outside the Group. In 2016 and 2015 rentals totalled PLN 236,412 k and PLN 262,979 k, respectively. These payments are presented in the profit and loss account under "operating expenses".

The majority of lease agreements signed by SCB were concluded for a definite period of time ranging from three to five years. As regards the premises for mobile units, the lease agreements were entered for an indefinite period subject to one up to three months' notice.

PSA Finance Polska Sp. z o.o. lease mainly the office spaces on the basis on Lease Agreement concluded for the period of 5 years and in force till September 2017. On December 2016, PSA Finance Polska Sp. z o.o. acting together with its subsidiary PSA Consumer Finance Poland Sp. o.o., extended the above-mentioned Agreement from September 2017 for a period of 4 years. The PSA Finance Polska Sp. z o.o. and PSA Consumer Finance Polska sp. z o.o. Companies lease from Banque PSA Finance SA printers/scanners for a standard period of 4 years, laptops for 3 years and dekstop workstations for 4 years.

The table below shows the total obligations under irrevocable operating lease agreements concluded by the Group (including the value of perpetual usufruct of land).

In thousands of PLN

Payments - maturity	31.12.2016	31.12.2015
less than 1 year	235 737	254 653
between 1 and 5 years	494 489	472 574
over 5 years	467 632	421 770
Total	**1 197 858**	**1 148 997**

The table below shows future minimum lease fees due to irrecoverable operating lease.

Future minimum lease fees due to irrecoverable operating lease	31.12.2016	31.12.2015
less than 1 year	8 534	4 836
between 1 and 5 years	6 802	5 464
over 5 years	-	-
Total	**15 336**	**10 300**

47. Consolidated statement of cash flows- additional information

The table below specifies components of cash balances of BZ WBK Group.

Cash components	31.12.2016	31.12.2015
Cash and balances with central banks	4 775 660	6 229 853
Receivables from interbank deposits*	3 513 206	3 848 596
Debt securities held for trading*	699 883	
Debt securities available for sale*	2 849 694	2 599 243
Cash acquired	356	-
Total	**11 838 799**	**12 677 692**
The impact of changes in currency exchange rates during the financial year on cash and cash equivalents	84 951	12 930

* financial assets with initial maturity below three months.

Bank Zachodni WBK and Santander Consumer Bank have restricted cash in the form of a mandatory reserve held on account with the Central Bank.

In the periods presented in the financial statement Bank Zachodni WBK Group has received and made interest payments in the following amounts:

Interests received and interests paid	01.01.2016-31.12.2016	01.01.2015-31.12.2015
Interests received, including:	**6 214 338**	**5 816 036**
- operating activities	5 595 969	5 110 024
- investing activities	618 369	706 012
Interests paid, including:	**(1 267 431)**	**(1 192 773)**
- operating activities	(1 087 084)	(1 012 869)
- financing activities	(180 347)	(179 904)

48. Related parties

The tables below present intercompany transactions. They are effected between associates and parent entity. Most of the transactions are banking transactions made as part of ordinary business activities and mainly include loans, deposits and guarantees, leases. Intercompany transactions effected by the bank and its subsidiaries have been eliminated during the consolidation process. In the case of internal transactions, a transfer pricing documentation is prepared.

In thousands of PLN

Transactions with associates	31.12.2016	31.12.2015
Assets	**70**	**68**
Other assets	70	68
Liabilities	**78 706**	**60 351**
Deposits from customers	78 414	60 075
Other liabilities	292	276
Income	**18 393**	**49 561**
Fee and commission income	18 393	49 561
Expenses	**10 924**	**7 689**
Interest expense	1 313	1 237
Fee and commission expense	3 230	3 480
Operating expenses incl.:	6 381	2 972
General and administrative expenses	*6 381*	*2 972*
Contingent liabilities	**-**	**407**
Sanctioned:	-	407
- guarantees	-	*407*

In thousands of PLN

Transactions with Santander Group	with the parent company		with other entities	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Assets	**981 961**	**684 477**	**3 674**	**13 376**
Loans and advances to banks, incl:	594 042	337 099	274	1 391
loans and advances	*353 911*	*252 132*	-	-
current accounts	*240 131*	*84 967*	*274*	*1 391*
Financial assets held for trading	387 727	343 790	3 371	11 982
Hedging derivatives	-	1 529	-	-
Other assets	192	2 059	29	3
Liabilities	**633 941**	**401 482**	**262 160**	**125 302**
Deposits from banks incl.:	271 312	102 590	174 617	9 193
current accounts	*271 312*	*102 590*	*3 683*	*9 193*
loans from other banks		-	*170 934*	-
Hedging derivatives	54 503	22 065	-	-
Financial liabilities held for trading	308 126	276 696	7 365	7 220
Deposits from customers	-	-	71 079	105 202
Other liabilities	-	131	9 099	3 687
Income	**2 265 606**	**736 899**	**(2 126)**	**473**
Interest income	14 268	13 035	28	11
Fee and commission income	2 096	2 220	239	63
Other operating income	-	-	27	614
Net trading income and revaluation	2 249 242	721 644	(2 420)	(215)
Expenses	**1 721**	**1 083**	**26 479**	**16 452**
Interest expense	446	116	2 211	1 034
Fee and commission expense	1 106	967	281	192
Operating expenses incl.:	169	-	23 987	15 226
Bank's staff, operating expenses and management costs	-	-	*23 987*	*15 016*
Other operating expenses	*169*	-	-	*210*
Contingent liabilities	**10 706**	**280**	**-**	**-**
Sanctioned:	10 706	280	-	-
- financial	*10 706*	*280*	-	-
- *guarantees*	-	-	-	-
Derivatives' nominal values	**57 761 351**	**48 521 643**	**634 312**	**2 059 430**
Cross-currency interest rate swap – purchased amounts	5 645 125	3 704 776	-	-
Cross-currency interest rate swap – sold amounts	5 424 101	3 586 042	-	-
Single-currency interest rate swap	16 517 900	11 991 876	633 412	1 591 418
FRA - purchased amounts	-	1 600 000	-	-
Options	7 285 846	3 626 907	-	-
FX swap – purchased amounts	5 363 317	4 412 806	-	-
FX swap – sold amounts	5 344 715	4 401 243	-	-
FX options -purchased CALL	2 643 269	3 563 906	-	-
FX options -purchased PUT	2 798 804	3 751 086	-	-
FX options -sold CALL	2 755 705	3 408 284	-	-
FX options -sold PUT	2 824 233	3 588 205	-	-
Spot-purchased	162 456	144 011	-	-
Spot-sold	162 876	143 917	-	-
Forward- purchased amounts	101 365	165 120	-	-
Forward- sold amounts	74 665	169 671	900	-
Capital derivatives contract - purchased	656 974	263 793	-	468 012

In thousands of PLN

Transactions with Members of Management and Supervisory Boards

Remuneration of Bank Zachodni WBK Management Board Members, Supervisory Board Members and key management BZ WBK Group's.
Loans and advances made by the Banks to the key management personnel

As at 31.12.2016 and 31.12.2015 members of the Management Board were bound by the non-compete agreements which remain in force after they step down from their function. If a Member of the Management Board is removed from their function or not appointed for another term, he/she is entitled to a once-off severance pay. The severance pay does not apply if the person accepts another function in the Bank.

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

Remuneration of Management Board Members and Key Management	Management Board Members 2016	Management Board Members 2015	Key Management 2016	Key Management 2015
Renumeration	10 162	11 743	40 600	29 845
Additional benefits (e.g among others, life insurance cover without pension option, medical cover, accommodation, travel expenses and school fees)	894	973	1 061	1 642
The awards paid in 2016 and 2015 *	6 910	6 475	12 669	8 677
Equivalent paid for unused annual leave	199	1 056	155	209
Additional compensation for termination of the contract and the non-competition clause	1 092	1 108	-	-
Loans and advances made by the Bank to the Members of the Management Board/Key Management and to their relatives	7 158	5 160	25 697	21 904
Deposits from The Management Board and their relatives/Key management	13 312	16 091	14 199	18 276
Provisions for retirement benefits and provision for unused holidays in the amount	584	868	2 902	2 356
The number of conditional rights to shares	17 671	17 918	31 415	30 350

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

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

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

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

In 2016, the total remuneration paid to the Supervisory Board Members of Bank Zachodni WBK totalled PLN 1,712 k.
Mr John Power received remuneration of PLN 35 k from subsidiaries for his membership in their Supervisory Boards.

In 2015, the total remuneration paid to the Supervisory Board Members of Bank Zachodni WBK totalled PLN 1,535 k. In addition, Mr John Power received remuneration for the supervision of the merger process of BZ WBK and Kredyt Bank on behalf of the Supervisory Board in the amount of PLN 1,050 k. Mr John Power received remuneration of PLN 31 k from subsidiaries for his membership in their Supervisory Boards.

In thousands of PLN

49. Acquisitions and disposals of investments in subsidiaries and associates

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

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 consolidated financial statements of Bank Zachodni WBK Group for the period ended 31.12.2016, 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.

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	735 482	141
Intangible assets	66	3
Property, plant and equipment	2 027	-
Net deferred tax assets	35 386	1
Other assets	11 828	13
Total assets	**785 107**	**196**
LIABILITIES		
Deposits from banks	(476 864)	-
Deposits from customers	(96 731)	-
Current income tax liabilities	(6 060)	-
Other liabilities	(70 220)	-
Total liabilities	**(649 875)**	-
Fair value of identifiable net assets	**135 232**	**196**

as at	01.10.2016
Goodwill	
Total consideration	61 353
Non-controlling interests	74 075
Less: fair value of identifiable net assets	(135 428)
Total	-

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

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

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

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

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

Metrohouse Franchise S.A. shares sale transaction

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

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 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.

In thousands of PLN

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
Less: book value of identifiable net assets	(172 105)
Less: derecognition of goodwill	(853 809)
Other consolidation adjustments	(2 622)
Gain on sale of subordinated entities	**522 995**
Other adjustments related to loss of control	38 226
Total	**561 221**

50. Employee benefits

Staff benefits include the following categories:

- Short-term benefits (remuneration, social security contributions, paid leaves, profit distributions and bonuses and non-cash benefits). Value of short-term employee benefits are undiscounted,
- Post-employment benefits (retirement benefits and similar payments, life insurance or medical care provided after the term of employment).

Within these categories, the companies of the BZ WBK Group create the following types of provisions:

Provisions for unused holidays

Liabilities related to unused holidays are stated in the expected amount (based on current salaries) without discounting.

Provisions for employee bonuses

Liabilities related to bonuses are stated in the amount of the probable payment without discounting.

Provisions for retirement allowances

Based on internal regulations in respect to remuneration, the employees of the Bank are entitled to defined benefits other than remuneration:

a) retirement benefits,

In thousands of PLN

b) retirement pension.

The present value of such obligations is measured by an independent actuary using the projected unit credit method.

The amount of the retirement benefits and death-in-service benefits is dependent on length of service and amount of remuneration. The expected present value of the benefits is calculated, taking into account the financial discount rate and the probability of an individual get to the retirement age or die while working respectively. The financial discount rate is determined by reference to up-to-date market yields of government bonds. The probability of an individual get to the retirement age or die while working is determined using the multiple decrement model, taking into consideration the following risks: possibility of dismissal from service, risk of total disability to work and risk of death.

These defined benefit plans expose the Group to actuarial risk, such as:

- interest rate risk – the decrease in market yields on government bonds would increase the defined benefit plans obligations,
- remuneration risk – the increase in remuneration of the Bank's employees would increase the defined benefit plans obligations,
- mobility risk – changes in the staff rotation ratio,
- longevity risk – the increase in life expectancy of the Bank's employees would increase the defined benefit plans obligations.

The principal actuarial assumptions as at 31 December 2016 are as follows:

- the discount rate at the level of 3.6% (3.1% as at 31 December 2015),
- the future salary growth rate at the level of 2.0% (2,0% as at 31 December 2015),
- the probable number of leaving employees calculated on the basis of historical data concerning personnel rotation in the Group,
- the mortality adopted in accordance with Life Expectancy Tables for men and women, published the Central Statistical Office, adequately adjusted on the basis of historical data of the Bank.

Reconciliation of the present value of defined benefit plans obligations

The following table presents a reconciliation from the opening balances to closing balances for the present value of defined benefit plans obligations.

	31.12.2016	31.12.2015
As at the beginning of the period	**63 209**	**69 778**
Provision acquired in a business combination	747	-
Current service cost	1 073	1 790
Interest expense	2 228	1 585
Actuarial (gains) and losses	(6 860)	(9 944)
Balance at the end of the period	**60 397**	**63 209**

Sensivity analysis

The following table presents how the impact on the defined benefits obligations would have increased (decreased) as a result of a change in the respective actuarial assumptions by one percent as at 31 December 2016.

Defined benefit plan obligations	1 percent increase	1 percent decrease
Discount rate	10,86%	-11,94%
Future salary growth rate	-12,10%	9,51%

The following table presents how the impact on the defined benefits obligations would have increased (decreased) as a result of a change in the respective actuarial assumptions by one percent as at 31 December 2015.

Defined benefit plan obligations	1 percent increase	1 percent decrease
Discount rate	12,26%	-13,51%
Future salary growth rate	-13,57%	12,42%

In thousands of PLN

Other staff-related provisions

These are provisions for the National Fund of Rehabilitation of the Disabled, redundancies, overtime and staff training. These liabilities are stated at the amounts of expected payment without discounting.

The balances of the respective provisions are shown in the table below:

Provisions	31.12.2016	31.12.2015
Provisions for unused holidays	63 948	63 465
Provisions for employee bonuses	237 745	240 073
Provisions for retirement allowances	60 397	63 209
Other staff-related provisions	13 869	13 977
Total	**375 959**	**380 724**

Detailed information about movements on staff-related provisions is available in additional Note 36.

51. Share based incentive scheme

On the 30th of June 2014, Annual General Meeting of the Shareholders of Bank Zachodni WBK S.A. implemented three-year Incentive Scheme no. V which participants are employees of the Bank Zachodni WBK Group (including Members of the Management Board), however not more than 500 individuals.

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

In every single year annual award not exceeding one third on total award will be considered. Shares will vest on a linear pattern between 25% and 100% contingent on profit after tax (PAT) growth. The range of the scale requires PAT growth between 7% and 11% in first year and between 17% and 26% in second and third year of duration of scheme.

Additionally, after 3 years cumulative award will be considered. Shares will vest on a linear pattern between 25% and 100% contingent on PAT compound annual growth rate in 3 years' time between 13.6% and 20.8%. If number of shares resulting from cumulative assessment will be higher than sum of annual awards vested to date, additional shares will be allocated to individuals up to the amount resulting from cumulative assessment.

Persons who are covered by the EU's regulations on variable remuneration components and have a significant impact on the risk profile of the Group are additionally required to achieve a stated RoRWA ratio in the respective years of the programme.

The Black Scholes model has been used to value awards granted at the grant date. The expected volatility of the values of shares is based on an analysis of historical volatility of share prices based on 160 sessions preceding the grant date. The following table details the assumptions used, and the resulting fair value.

Share based payments granted in 2014:

	2014
Number of share	177 336
Share price (PLN)	363,30
Excercise price	10
Vesting period	2,8 years
Expected volatility of share prices	26,40%
Award life	3 years
Discounted risk free rate	2,29%
Fair value per award	PLN 322.39
Dividend yield	2,75%

In thousands of PLN

The following table summarizes the share based payments activity:

	12 months of 2016 payments	12 months of 2015 payments
Outstanding at 1 January	168 784	177 336
Granted	-	-
Exercised	-	-
Forfeited	(11 530)	(8 552)
Expired	-	-
Outstanding at 31 December	157 254	168 784
Exercisable at 31 December	**-**	**-**

Exercise price for all share based payments amounts to PLN 10.

For the share based payments outstanding as at 31.12.2016 and 31.12.2015 the average remaining contractual life is approximately 0.5 year years and 1.5 year respectively.

The total expense recognized in profit and loss account with corresponding increase in equity (reserve capital) for 12 months of 2016, 2015 to amounts to PLN 16 213 k, and PLN 18 754 k respectively.

The table below presents information about the number of conditional rights to shares vested in BZ WBK Management Board members under the 5th Incentive Scheme. The rights may be exercised only in part depending on the future performance of the Group. Information about the rights exercised in full or in part will be provided in the future reports.

No. of awards	2016	2015
Outstanding at 1 January	17 918	24 073
Awarded before assumption of the duties of Management Board Member	1 253	2 500
Termination of appointment	(1 500)	(4 798)
Resignation from the Management Board President function	-	(3 857)
As at 31 December	**17 671**	**17 918**

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

No. of awards	2016	2015
Outstanding at 1 January	30 350	25 293
Change due to inclusion in key management personnel	1 065	12 345
Change due to exclusion from key management personnel	-	(7 288)
As at 31 December	**31 415**	**30 350**

52. Dividend per share

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

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 878,105 k to be allocated to the reserve capital and the remainder of PLN 175,621k to be left undistributed and 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.

53. Events which occurred subsequently to the end of the period

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

Signatures of Members of the Management Board			
Date	**Name**	**Function**	**Signature**
14.02.2017	Michał Gajewski	President	
14.02.2017	Andrzej Burliga	Member	
14.02.2017	Artur Chodacki	Member	
14.02.2017	Eamonn Crowley	Member	
14.02.2017	Michael McCarthy	Member	
14.02.2017	Carlos Polaino Izquierdo	Member	
14.02.2017	Juan de Porras Aguirre	Member	
14.02.2017	Marcin Prell	Member	
14.02.2017	Mirosław Skiba	Member	
14.02.2017	Feliks Szyszkowiak	Member	

Signature of a person who is responsible for maintaining the book of account			
Date	**Name**	**Function**	**Signature**
14.02.2017	Wojciech Skalski	Financial Accounting Area Director	