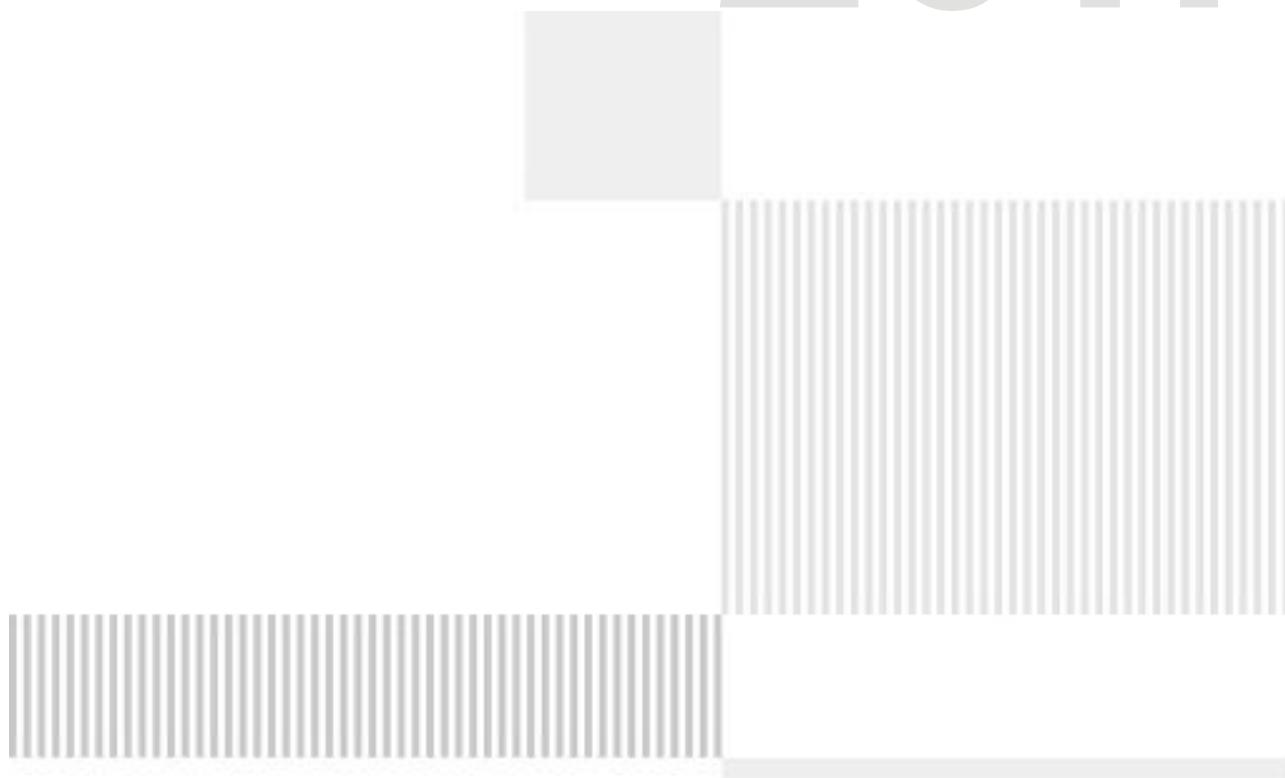


MANAGEMENT BOARD REPORT ON BANK ZACHODNI WBK GROUP PERFORMANCE IN 2017

(including Management Board Report on Bank Zachodni WBK Performance)

2017



Bank Zachodni WBK

 Grupa Santander

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I. Overview of Bank Zachodni WBK and BZ WBK Group Performance in 2017

The present „Management Board Report on Bank Zachodni WBK Group Performance in 2017” includes information scope required of the Management Board Report on Bank Zachodni WBK.

This section provides an overview of the activity of Bank Zachodni WBK (BZ WBK/the bank) and Bank Zachodni WBK Group (BZ WBK Group/the Group) in 2017. It presents the financial, business and organisational performance compared with the previous year, and reports on the internal and external factors affecting the Group's activities.

Financial and Business Highlights of Bank Zachodni WBK Group

Key Financial and Business Highlights of BZ WBK Group for 2017	
Total income	<ul style="list-style-type: none"> Total income of Bank Zachodni WBK Group for 2017 increased by 2.1% YoY to PLN 7,763.6m. Excluding the remuneration arising from the settlement of the acquisition of Visa Europe Ltd. by Visa Inc. from the base period's figure, the underlying total income increased by 6.5% YoY.
Total costs	<ul style="list-style-type: none"> Total costs amounted to PLN 3,372.4m, and remained stable, with a decrease of 3.4% YoY in general and administrative expenses, and an increase of 3.5% YoY in staff expenses.
Profit	<ul style="list-style-type: none"> Profit before tax amounted to PLN 3,335.2m, up 6.8% YoY. Adjusting income as above, the underlying profit before tax increased by 18.9% YoY. Profit attributable to the shareholders of Bank Zachodni WBK was PLN 2,213.1m and 2.1% higher YoY (15.8% YoY higher on a comparable basis).
Capital ratio	<ul style="list-style-type: none"> Capital ratio stood at 16.69% (15.05% as at 31 December 2016), ensuring security of operations and stable growth.
ROE	<ul style="list-style-type: none"> Return on Equity of 12.2% (12.8% as at 31 December 2016).
Costs/Income	<ul style="list-style-type: none"> Cost to income ratio (C/I) was 43.4% (46.2% for 2016, adjusted for the one-off item).
Net impairment losses	<ul style="list-style-type: none"> Net impairment losses on loans and advances amounted to PLN 690.5m compared with PLN 784.6m in 2016.
Credit quality	<ul style="list-style-type: none"> NPL ratio was 5.8% (6.6% as at 31 December 2016), while the ratio of impairment losses to the average gross credit volumes was 0.63% (0.75% as at 31 December 2016).
Loans and advances to customers	<ul style="list-style-type: none"> Gross loans to customers increased by 4.4% YoY to PLN 112,686.0m due to the growth of 2.7% YoY in personal loans and 5.8% YoY in loans to enterprises and the public sector to PLN 57,822.4m and PLN 48,005.2m, respectively.
Deposits from customers	<ul style="list-style-type: none"> Deposits from customers were relatively stable and amounted to PLN 111,481.1m as a result of an increase of 2.3% YoY in personal deposits to PLN 64,987.7m and a decline of 5.1% YoY in deposits from enterprises and the public sector to PLN 46,493.4m.
Loans/Deposits	<ul style="list-style-type: none"> Customer loans to deposit ratio was 96.7% as at 31 December 2017 compared with 91.6% as at 31 December 2016.
Net assets under management	<ul style="list-style-type: none"> Net value of assets in mutual funds and portfolios managed by BZ WBK Towarzystwo Funduszy Inwestycyjnych totalled PLN 16.4bn, up 19.8% YoY.
Electronic banking	<ul style="list-style-type: none"> The number of customers using BZWBK24 electronic banking services totalled 3.4m (+5.2% YoY), including over 1m customers with access to mobile services (+26.7% YoY). The number of "digital" customers (those who use BZWBK24 at least once a month) was 2.1m (+4.5% YoY). The BZ WBK Group payment card base (excluding prepaid cards) included more than 3.6m debit cards (+6.2% YoY) and nearly 1.3m credit cards of BZ WBK and SCB (+4.1% YoY).
Customer base	<ul style="list-style-type: none"> The total customer base was close to 6.5m, including 4.4m BZ WBK customers.

Financial and Business Highlights of Bank Zachodni WBK

Key Financial and Business Highlights of BZ WBK for 2017	
Total income	<ul style="list-style-type: none"> Total income of Bank Zachodni WBK (BZ WBK) for 2017 decreased by 3.0% YoY to PLN 6,123.0m. Excluding the remuneration arising from the settlement of the acquisition of Visa Europe Ltd. by Visa Inc. from the last year's figure, the underlying total income increased by 2% YoY. Further adjusting for dividend income, total income went up by 4.6% YoY.
Total costs	<ul style="list-style-type: none"> Total costs declined by 1.6% YoY to PLN 2,679.3m, including a decrease of 6.2% in general and administrative expenses.
Profit	<ul style="list-style-type: none"> Profit before tax amounted to PLN 2,515.3m, down 5.1% YoY. Adjusting for the results of the acquisition of Visa Ltd., the underlying profit before tax increased by 7.3% YoY and by 16.4% excluding dividend income. Profit for 2017 was PLN 1,916.2m and 8.0% lower YoY. On a comparable basis, profit increased by 4.5% YoY (including dividend income) and 15.9% (excluding dividend income).
Capital ratio	<ul style="list-style-type: none"> Capital ratio stood at 18.95% (16.52% as at 31 December 2016), ensuring security of operations and stable growth.
ROE	<ul style="list-style-type: none"> Return on Equity was 11.0% (12.6% as at 31 December 2016).
Costs/Income	<ul style="list-style-type: none"> Cost to income ratio was 43.8% (45.3% in 2016), excluding one-off items.
Net impairment losses	<ul style="list-style-type: none"> Net impairment losses on loans and advances amounted to PLN 540.4m compared with PLN 583.5m in 2016.
Credit quality	<ul style="list-style-type: none"> NPL ratio was 5.0% (6.0% as at 31 December 2016), while the ratio of impairment losses to the average gross credit volumes was 0.59% (0.67% as at 31 December 2016).
Loans and advances to customers	<ul style="list-style-type: none"> Gross loans to customers increased by 3.8% YoY to PLN 93,569.1m due to the growth of 3.1% YoY in personal loans and 4.7% YoY in loans to enterprises and the public sector to PLN 44,322.8m and PLN 49,239.0m, respectively.
Deposits from customers	<ul style="list-style-type: none"> Deposits from customers decreased by 1.2% YoY to PLN 102,155.5m as a result of an increase of 2.5% YoY in personal deposits to PLN 59,310.8m and a decline of 5.9% in deposits from enterprises and the public sector to PLN 42,844.7m.
Loans/Deposits	<ul style="list-style-type: none"> Customer loans to deposit ratio was 88.6% as at 31 December 2017 compared with 84.3% as at 31 December 2016.
Electronic banking	<ul style="list-style-type: none"> The number of customers using BZWBK24 electronic banking services totalled 3.4m (+5.2% YoY), including over 1m customers with access to mobile services (+26.7% YoY). The number of "digital" customers (those who used the BZWBK24 platform at least once a month) was 2.1m (+4.5% YoY). The BZ WBK payment card base (excluding prepaid cards) included 3.4m debit cards (+6.1% YoY) and 803.2k credit cards (+3.0% YoY).
Customer base	<ul style="list-style-type: none"> The BZ WBK customer base was more than 4.4m customers.

Impact of Macroeconomic Developments in 2017

Key Macroeconomic Factors Impacting Financial and Business Performance of the Group in 2017	
Economic growth	<ul style="list-style-type: none"> Surprisingly high economic growth despite a low contribution from investments (in the first three quarters). Private consumption grew by nearly 5% YoY with consumer confidence at record-high levels. Economic growth recovery and the surprisingly high improvement in business moods in eurozone countries gave strong support to Polish exports.
Labour market	<ul style="list-style-type: none"> The exceptionally good situation in the labour market with record-low unemployment and accelerating wage growth in support of private consumption. Shortage of workforce, making it difficult for companies to expand. Growing labour costs.
Monetary policy	<ul style="list-style-type: none"> NBP interest rates remaining at historical lows, with subdued expectations regarding future rate hikes despite the United States and, in our region, the Czech Republic and Romania, already increasing interest rates.
Credit and deposit markets	<ul style="list-style-type: none"> Stabilisation of credit growth in the banking sector. Benefiting from the 500+ programme, households were in a position to pay off their debts faster. A decrease in term deposits, a faster increase in current account balances, the high growth of cash in circulation (suggesting that households seek higher returns than those offered by banking products).
Financial markets	<ul style="list-style-type: none"> Changes of mood in international financial markets influenced by the expected policy orientation of the main central banks (Federal Reserve, ECB), incoming macroeconomic data, worries about the geopolitical situation, including concerns about the results of negotiations between the UK and the EU, and about the outcome of various elections in Europe. Appreciation of the zloty versus the main currencies (USD and CHF) and a further drop in Polish T-bond yields.

Key Developments and Achievements

Major Corporate Events in 2017	
January	<ul style="list-style-type: none"> Implementation of a new staff performance management process in Bank Zachodni WBK.
February	<ul style="list-style-type: none"> Execution of a guarantee agreement with the European Investment Bank providing security for lending up to EUR 300m to be granted by BZ WBK (10 February 2017). Resignation of Mr Eamonn Crowley as a member of the bank's Management Board (16 February 2017). Appointment of Mr Maciej Reluga as a Management Board member in charge of the Financial Management Division (16 February 2017). Issuance of series D certificates of deposit in a total amount of PLN 420m as part of the Issuance Programme (17 February 2017). Consent granted by the Polish Financial Supervision Authority (KNF) to allocate 10-year bonds with a total nominal value of EUR 120m issued by Bank Zachodni WBK on 2 December 2016 to subordinated debt (24 February 2017).
March	<ul style="list-style-type: none"> Appointment of Mr Arkadiusz Przybył as a new Management Board member and nomination of the existing Management Board members as Vice Presidents of the Management Board: Mr Andrzej Burliga, Mr Michael McCarthy, Mr Juan de Porras Aguirre, Mr Mirosław Skiba and Mr Feliks Szyszkowski (10 March 2017). Issuance of series E certificates of deposit in a total amount of PLN 250m as part of the Issuance Programme, with a maturity date of 17 October 2017 (17 March 2017).
April	<ul style="list-style-type: none"> Take-up of the position of a Management Board member by Ms Dorota Strojewska based on the nomination of 14 December 2016, following the expiry of her previous employment commitments (1 April 2017). Execution of an agreement between SCB and PSA Finance Polska re sale of 10% of shares of the latter for the purpose of their cancellation (5 April 2017). The cancellation of own shares purchased by PSA Finance Polska from both shareholders (SCB and Banque PSA Finance) did not result in any changes in the company's ownership structure.

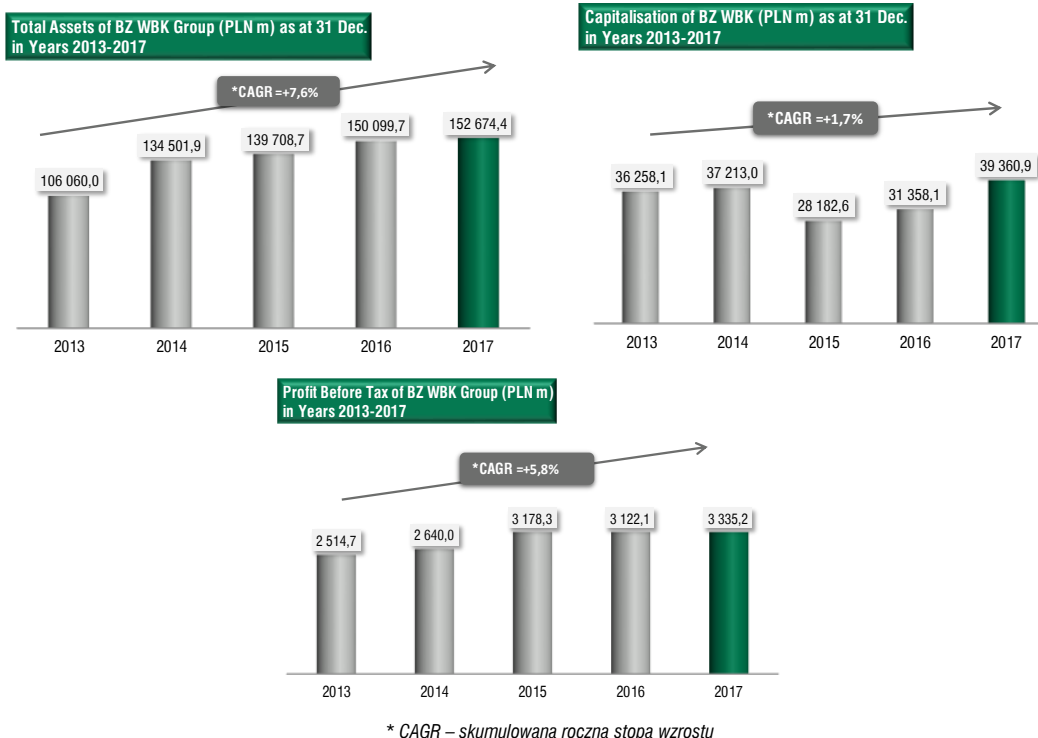
Major Corporate Events in 2017 (continued)	
May	<ul style="list-style-type: none"> • Convening of the Annual General Meeting of Shareholders of Bank Zachodni WBK (AGM) which approved the distribution of the bank's profit for 2016 and pay-out of dividend of PLN 5.40 per share from the retained earnings for 2014 and 2015, appointed the Supervisory Board members for a new term of office, agreed the remuneration for the Supervisory Board members and a higher maximum ratio of fixed and variable remuneration for persons holding managerial positions, and decided to increase share capital and launch the 6th Incentive Programme (17 May 2017). • Issuance of subordinated debt in the form of green bonds in a total amount of EUR 137.1m (equivalent of USD 150m), which were taken up by the International Finance Corporation (IFC) (22 May 2017).
June	<ul style="list-style-type: none"> • Execution of an agreement between BZ WBK Leasing and the Council of Europe Development Bank providing for EUR 100m financing for investments and growth of small and medium companies (1 June 2017). • Private subscription of series M shares of BZ WBK as part of the 5th Incentive Programme, under which 98,947 shares of a nominal value of PLN 10 each were allocated to 426 eligible participants (19 May – 20 June 2017).
July	<ul style="list-style-type: none"> • Registration of changes to the BZ WBK Statutes adopted by the bank's AGM on 17 May 2017 with the National Court Register (26 July 2017). The changes related to electronic services.
August	<ul style="list-style-type: none"> • Registration of a change to the BZ WBK Statutes of BZ WBK adopted by the bank's AGM on 17 April 2017 with the National Court Register (3 August 2017). The change related to an increase of PLN 989,470 in share capital to PLN 993,334,810 as part of the private subscription of series M shares taken up by the participants of the 5th Incentive Programme. • Settlement of the sale of 29,496 shares of Bank Zachodni WBK by Nationale-Nederlanden OFE, resulting in a reduction in the shareholding to 4,962,413 shares and in the share of the capital and voting power at the General Meeting of Shareholders of Bank Zachodni WBK below 5%. • Issuance of series F certificates of deposit in a total amount of PLN 750m (18 August) as part of the Issuance Programme with a maturity date of 17 October 2017.
September	<ul style="list-style-type: none"> • Registration of 98,947 series M ordinary bearer shares, with a nominal value of PLN 10 each, with the Central Securities Depository of Poland (KDPW) (14 September 2017). • Expansion of the range of products and services to include a new Account As I Want It (Konto Jakiej Chce) in accordance with the brand promise: Bank As You Want It (21 September 2017).
October	<ul style="list-style-type: none"> • Change of the name of BZ WBK Nieruchomości to BZ WBK F24 and expansion of the company's business profile to include lending activities (18 October 2017). • Issuance by BZ WBK Faktor of floating bonds with a nominal value of PLN 700m and maturity date of 18 February 2018 in order to acquire proceeds to reduce the overdraft credit (18 October 2017). • Receipt of the KNF consent to allocate the green bonds of EUR 137.1m to BZ WBK Tier 2 capital (19 October 2017). • Affirmation of BZ WBK's rating by Fitch Ratings (20 October 2017).
November	<ul style="list-style-type: none"> • Receipt of the KNF requirement (28 November 2017) for the bank to maintain own funds at the level sufficient to cover an additional capital requirement for risk related to foreign currency home mortgages at 0.54 p.p. above the total capital ratio (previously: 0.62 p.p). • Stock swap between Bank Zachodni WBK and BZ WBK Finanse: in-kind contribution of BZ WBK F24 shares to BZ WBK Finanse in exchange for shares of BZ WBK Finanse (24 November 2017). • Removal of AKB Marketing Services in liquidation, member of Santander Consumer Group, from the court register (20 November 2017). • Approval of the liquidation of Gieldokracja by the company's Extraordinary General Meeting (29 November 2017).
December	<ul style="list-style-type: none"> • Admission of series M shares of Bank Zachodni WBK to trading on the main floor of the Warsaw Stock Exchange (1 December 2017) starting from 19 December 2017 (as agreed on 18 December 2017). • Execution of the following agreements with Deutsche Bank AG (DB AG) (14 December 2017): <ul style="list-style-type: none"> ✓ a transaction agreement providing for the purchase of a part of Deutsche Bank Polska (DBPL) enterprise, including retail banking, private banking, business banking (SME) and DB Securities; ✓ a pre-demerger agreement setting out the terms of cooperation between the bank and DBPL to close the deal. • Receipt of a letter from the KNF (15 December 2017) including: <ul style="list-style-type: none"> ✓ a requirement for the bank to maintain own funds at the level sufficient to cover an additional capital requirement for risk related to foreign currency home mortgages at 0.44 p.p. above the total capital ratio for BZ WBK Group; ✓ results of the analyses conducted by the KNF as part of stress tests, concluding that in the case of Bank Zachodni WBK an individual add-on (ST) used in dividend policies of commercial banks to measure sensitivity to an adverse macroeconomic scenario is equal to 0.71 p.p.

Development of Bank Zachodni WBK Group Over Five Previous Years

The table presents selected data illustrating performance of Bank Zachodni WBK Group over 5 previous years, i.e. from 2013 to 2017.

Selected Financial Data (PLN m)	2017	2016	2015	2014 ²⁾	2013 ¹⁾
Total Assets	152 674,4	150 099,7	139 708,7	134 501,9	106 060,0
Net Loans and Advances to Customers ³⁾	107 839,9	103 068,5	94 913,9	85 820,5	68 091,4
Deposits from Customers ³⁾	111 481,1	112 522,5	101 245,2	94 824,7	78 376,0
Total Equity	23 343,6	21 018,5	20 568,1	18 051,7	14 482,9
Profit Before Tax	3 335,2	3 122,1	3 178,3	2 640,0	2 514,7
Profit Attributable to Owners of BZ WBK	2 213,1	2 166,8	2 327,3	1 914,7	1 982,3
Selected Ratios	2017	2016	2015	2014	2013
Cost to Income Ratio ⁴⁾	43,4%	46,2%	48,4%	47,3%	47,0%
Capital Ratio	16,7%	15,1%	14,6%	12,9%	13,9%
NPL Ratio	5,8%	6,6%	7,3%	8,4%	7,9%
Earnings per Share (PLN)	22,3	19,4 ⁴⁾	20,7 ⁴⁾	19,9	21,2
Net Book Value per Share (PLN)	235,0	211,8	207,3	181,9	154,8
Selected Non-Financial Data	2017	2016	2015	2014	2013
Number of Branches	735	821	890	961	830
Number of FTEs	14 383	14 772	14 218	14 835	12 612
Dividend per Share Paid-out (PLN)	5,4 ⁵⁾	13,0 ⁶⁾	- ⁷⁾	10,7	7,6
Number of Shares at the Year-End	99 333 481	99 234 534	99 234 534	99 234 534	93 545 089
Closing Share Price at the Year-End (PLN)	396,25	316,00	284,00	375,00	387,60

- 1) Financial and non-financial data for 2013 and onwards include Kredyt Bank following the merger with BZ WBK on 4 January 2013.
- 2) Financial and non-financial data for 2014 and onwards (excluding dividend, number of shares and share price) include SCB Group following the acquisition of a controlling stake in SCB by BZ WBK on 1 July 2014.
- 3) Loans and advances to customers and deposits from customers do not include repurchase transactions due to changes to the presentation of these operations starting from 30 June 2016. Data for the previous reporting periods have been adjusted accordingly to ensure comparability.
- 4) The calculations of the C/I and basic EPS ratios for 2015 and 2016 use the Group's total income, total costs and profit (as applicable) adjusted for one-off items (gains on interest in Visa Europe Ltd. and BZ WBK-Aviva companies, and 2015 contributions under the deposit guarantee scheme).
- 5) The AGM of 17 May 2017 decided to allocate PLN 535.9m of undistributed net profit earned by Bank Zachodni WBK in 2014 and 2015 for dividend payment. The dividend totalled PLN 5.40 per share.
- 6) The AGM of 20 April 2016 decided to allocate PLN 702.5m of net profit earned by Bank Zachodni WBK in 2015 and PLN 587.6m of undistributed net profit for 2014 for dividend payment. The dividend totalled PLN 13.00 per share.
- 7) Pursuant to the KNF requirement of 1 April 2015 to retain the entire profit for 2014 until the regulator determines an additional capital requirement for the bank, BZ WBK AGM of 23 April 2015 left PLN 952.7m of net profit undistributed after allocating the remaining portion of the profit to reserve capital.



II. Basic Information about Bank Zachodni WBK and BZ WBK Group

1. History, Ownership Structure and Profile

History and Profile of Bank Zachodni WBK as a Parent Entity

2001

Set-up of BZ WBK
by way of merger

Bank Zachodni WBK S.A. (Bank Zachodni WBK, BZ WBK) was established following the merger of Bank Zachodni with Wielkopolski Bank Kredytowy. The Wrocław-based entity was entered into the business register in the National Court Register on 13 June 2001 and on 25 June 2001 it debuted on the Warsaw Stock Exchange.

2011

Change of the majority
shareholder to Banco
Santander

Bank Zachodni WBK was originally a member of AIB Group together with the controlling shareholder – AIB European Investments Ltd. – which on 1 April 2011 sold their entire stake in the bank (70.36% of share capital and voting power) to Banco Santander with its registered office in Santander, Spain.

Banco Santander finalised the purchase of Bank Zachodni WBK in the tender for 100% of the bank's shares. As a result, Banco Santander acquired an interest representing 95.67% of share capital and voting power in the bank.

2013

Merger with
Kredyt Bank

On 4 January 2013, Bank Zachodni WBK merged with Kredyt Bank pursuant to the Investment Agreement of 27 February 2012 between Banco Santander and KBC Bank NV. The merger by acquisition was completed by way of a transfer of all assets and liabilities of Kredyt Bank to Bank Zachodni WBK in exchange for newly issued series J shares with a nominal value of PLN 189.1m allotted to all of the existing shareholders of Kredyt Bank at the agreed exchange ratio.

2014

Acquisition of a
controlling stake in SCB

Pursuant to the Investment Agreement of 27 November 2013 between Bank Zachodni WBK, Santander Consumer Finance and Banco Santander, on 1 July 2014 Bank Zachodni WBK acquired ordinary and preference shares in Santander Consumer Bank with its registered office in Wrocław (SCB), representing 60% of the share capital of SCB and 67% of votes at the General Meeting of SCB. In exchange for an in-kind contribution of SCB shares, the bank issued series L shares with the total nominal value of PLN 53.8m.

2017

Acquisition of
a carve-out of Deutsche
Bank Polska

On 14 December 2017, Bank Zachodni WBK and Banco Santander signed a transaction agreement with Deutsche Bank AG (DB AG) to purchase a part of Deutsche Bank Polska (DBPL) business, consisting of retail banking, private banking, SME banking and DB Securities. DBPL's corporate and investment banking business and foreign-currency mortgage portfolio are excluded from the transaction and will remain in DBPL (retained business).

Structure of Share Capital of Bank Zachodni WBK.

The table below presents the entities with significant holdings of Bank Zachodni WBK shares as at 31 December 2016 and 31 December 2017.

Shareholder	Number of Shares Held		% in the Share Capital & Voting Power at AGM	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Banco Santander S.A.	68 880 774	68 880 774	69,34%	69,41%
Nationale Nederlanden OFE	n/a	5 110 586	n/a	5,15%
Others	30 452 707	25 243 174	30,66%	25,44%
Total	99 333 481	99 234 534	100,0%	100,0%

As at 31 December 2017, Banco Santander was the only shareholder holding more than 5% of the share capital and the total number of votes at the BZ WBK General Meeting of Shareholders, with shareholding of 69.34%. To the best of the BZ WBK Management Board's knowledge, this fact did not change until the submission of the report for approval (12 February 2018).

Compared with 31 December 2016, the shareholder structure of Bank Zachodni WBK changed as follows:

- The share of Banco Santander in the share capital and voting power at the BZ WBK General Meeting was diluted from 69.41% to 69.34% as a result of an increase in the bank's share capital by way of issuance of series M shares as part of the 5th Incentive Programme. In effect, 98,947 series M shares with a nominal value of PLN 10 were allocated to the eligible programme participants. The increase of PLN 989,470 in the share capital (to PLN 993,334,810) took effect on 3 August 2017 after a relevant entry had been made in the court register.
- Nationale Nederlanden OFE was removed from the list of shareholders holding a significant interest in the bank following the settlement of the sale of 29,496 shares on 7 August 2017. As a result of the transaction, the fund's stake in the share capital and voting power of the bank decreased below 5%.

Scope of Activities of Bank Zachodni WBK and BZ WBK Group

Bank Zachodni WBK is a universal bank which provides a full range of services for personal customers, SMEs, large companies and institutions. The bank's offering is modern, comprehensive and satisfies diverse customer needs with regard to current/personal accounts, credit, savings, investment, settlement, insurance and card products. The financial services of Bank Zachodni WBK include cash management, payments, trade finance and transactions in the capital, money, FX and derivative markets, as well as underwriting, brokerage and custody services.

The bank's own product range is complemented by specialist products offered by its group of related companies, including: BZ WBK Towarzystwo Funduszy Inwestycyjnych (BZ WBK TFI), BZ WBK Leasing, BZ WBK Faktor, BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych (BZ WBK-Aviva TUO) and BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie (BZ WBK-Aviva TUnŻ). Through all these companies, the bank offers its customers access to investment fund units and asset portfolios as well as insurance, leasing and factoring products.

The bank continually develops its product range to ensure that solutions offered to customers are transparent, simple, digital, flexible and available in self-service channels. Customers are provided with comprehensive services in traditional sales channels and, increasingly, via remote channels.

Santander Consumer Bank, which was incorporated into the structure of Bank Zachodni WBK Group on 1 July 2014, specialises in consumer finance and term deposit accounts for personal and business customers.

As at 31 December 2017, Bank Zachodni WBK Group provided services to 6.5 million customers, including more than 2 million customers of Santander Consumer Bank.

Business Model of Bank Zachodni WBK Group

Operating structure

Bank Zachodni WBK

Bank Zachodni WBK together with its non-banking subsidiaries carries on its operations through the following central units: Retail Banking Division, SME Banking Division, Business and Corporate Banking Division and Global Corporate Banking Division.

Retail Banking Division

The Retail Banking Division offers services to personal customers who are divided into Standard, Premium, VIP or Private Banking customer segments, taking into account their diverse needs and expectations. Retail customers interact with the bank via an extensive network of branches and remote channels, e.g. telephone banking, internet banking and mobile banking (BZWBK24 electronic banking platform and the Multichannel Communication Centre).

Private Banking and VIP customers benefit from a personalised service model under which they may use the support of a specialised advisor and the Affluent Customer Centre operating as part of the Multichannel Communication Centre, which offers support via telephone. Premium customers are serviced by dedicated advisors as part of their individual portfolios, based on a personalised approach and regular contacts aimed at strengthening relationship and customer loyalty. The personalised approach towards other retail customers is reflected in relationship building, sales and after-sales contacts.

SME Banking Division

The SME Banking Division is focused on services for small and medium enterprises, which are assigned to three segments based on turnover and personalised service criteria: Digital SME, SME 1 and SME 2. Entrepreneurs that are assigned to the Digital SME segment are mainly serviced via remote channels (BZWBK24, BZWBK24 Mini Firma, Moja Firma Plus, iBiznes24 platforms) or by the Multichannel Communication Centre. The relationships with active companies with relatively lower turnover (SME 1) are managed by SME advisors in branches and partner outlets, while SMEs with higher turnover and more complex requirements (SME 2) are handled by mobile advisors from the SME Banking Division. The support for SME customers is also provided by the SME Service Centre (part of the Central Operations Area), which delivers a wide range of operational processes.

Business and Corporate Banking Division and Global Corporate Banking Division

Services to business customers with turnover above PLN 40m, local administration units and the public sector are supervised by the Business and Corporate Banking Division and are provided through 12 Corporate Business Centres operating nationwide and the Property and Hotels Department (central unit operating across Poland) in accordance with customer segmentation (corporate or property finance).

The Global Corporate Banking Division is responsible for a banking relationship with the Group's largest clients who are offered investment, credit, transactional and treasury products and services as part of the global Customer Relationship Management Model of Santander Group. It also provides treasury, syndicated lending and advisory services to customers handled by other Divisions.

All business customers, regardless of their segmental allocation and relationship units in the Business and Corporate Banking Division or the Global Corporate Banking Division, are serviced by dedicated advisors responsible for the overall relationship. They are also provided with access to the bank's products and services via remote channels, including internet and mobile iBiznes24 platform as well as phone services of the Business Service Centre. The markedly improving iBiznes24 electronic banking platform allows businesses and corporations to perform a wide range of transactions (e.g. FX and trade finance transactions) and effectively manage finances.

Santander Consumer Bank

Santander Consumer Bank Group, which specialises in consumer finance, forms a separate business segment with its own customer base, product range and distribution channels.

The bank's business model is based on a multi-product and multi-channel approach and a diverse customer base, as well as regular cross-selling and up-selling. To that end, the bank offers consumer loans, car finance through lease and factoring, credit facilities for car dealers, retail and business deposits and insurance products.

Operating Segments

In Operating Segments Reporting as provided in the Consolidated Financial Statement of Bank Zachodni WBK Group for 2017 (Note 3), the activities of the Retail Banking Division and the SME Banking Division are presented as part of a retail segment. The Business and Corporate Banking Division and the Global Corporate Banking Division make up two separate segments named accordingly. The Group also identifies ALM and Centre Segment and Santander Consumer Segment.

Basic Distribution Channels

As at 31 December 2017, Bank Zachodni WBK operated country-wide through 576 branches divided into and managed by 65 regions and 8 macroregions. The bank's distribution network also included 109 partner outlets and 1,732 self-service units (ATMs, CDMs and deposit ATMs).

In addition to direct banking via branches, partner outlets and Corporate Business Centres, Bank Zachodni WBK performs a wide range of operations via contact centres (Multichannel Communication Centre and specialised units: Affluent Customers Centre, Business Service Centre, SME Service Centre) and offers 24-hour access to banking products and services by means of internet and mobile channels (BZWBK24, BZWBK24 Mini Firma, Moja Firma Plus and iBiznes 24 electronic banking platforms). Apart from traditional helpline services, the Multichannel Communication Centre provides support across different customer contact points such as internet chat, audio call, video call, email or a contact form. Customers may also visit a virtual branch and use Online Advisor services (via video chat).

The bank has been steadily developing an integrated CRM system and multi-channel banking solutions to ensure consistent service levels and continuity of communication with customers in all distribution channels. Strong focus has been placed on security of remote banking processes, which involves regular upgrades of securities in place.

Santander Consumer Bank delivers its products through a network of own branches and franchise outlets, structures for mobile sales of car loans and corporate deposits, remote channels (call centre and the internet) and a network of partners selling the bank's car loans and instalment loans.

Basic Distribution Channels of BZ WBK and SCB		
Bank Zachodni WBK	31.12.2017	31.12.2016
Branches (location)	576	658
Partner Outlets	109	110
Business and Corporate Banking Centres	12	12
ATMs	948	1 063
CDMs	13	19
Dual Function Machines	771	684
BZWBK24 - registered users (in thousands) ¹⁾	3 388	3 221
iBiznes24 - registered companies (in thousands) ²⁾	15	16
Santander Consumer Bank	31.12.2017	31.12.2016
Branches	159	163
Partner Outlets	153	148
Registered Electronic Banking Users (in thousands) ³⁾	132	4

1) The BZWBK24 customer base includes the users of BZ WBK24 mobile application: 1,094.3k as at 31.12.2017 and 863.9k as at 31.12.2016. There were more than 2 million BZWBK24 customers who used the system at least once a month.

2) Only the users of iBiznes24 – a strategic electronic platform for business customers (the users of Moja Firma Plus and Mini Firma platforms are not included). The YoY decrease in the number of customers results from data cleaning.

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

Business Model Framework

The fundamental element of the strategy and business model of Bank Zachodni WBK Group is customer-centricity, an approach whereby each initiative and banking process is analysed from the customer's viewpoint, with a focus on the customer's needs and experience in order to build lasting relationships underpinned by an attractive, simple and innovative products portfolio and high service quality. The Group creates value for customers focusing on modern technologies, digitalisation and multichannel banking. The Group also gives priority to developing a friendly work environment and a corporate culture by promoting cooperation and increasing the motivation, engagement and professionalism of employees. It conducts its business activity taking into consideration the interests of all stakeholders, including shareholders and communities it operates in.

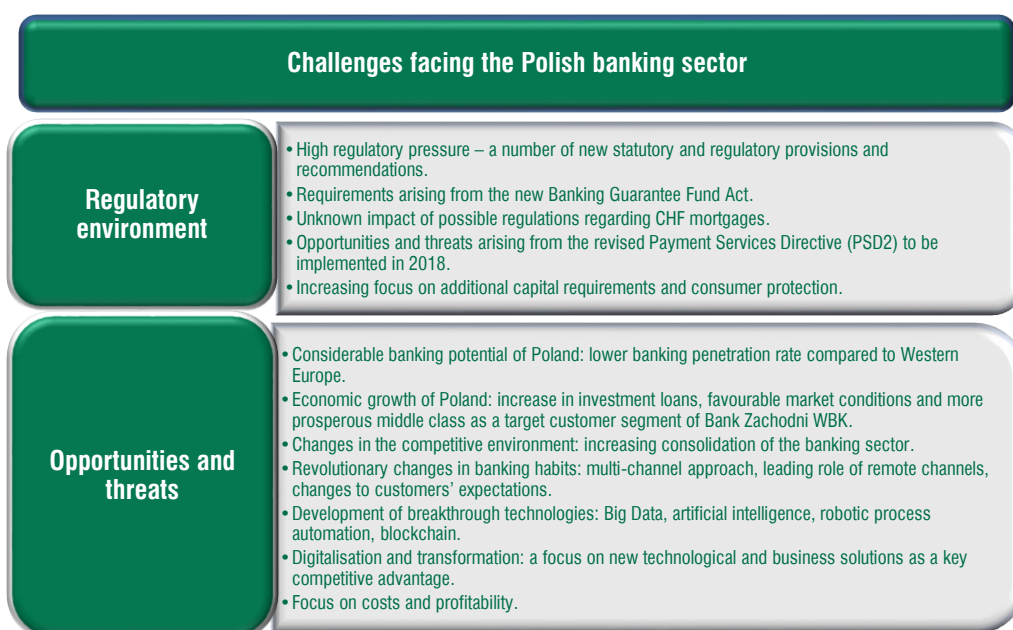
The Group focuses on the diversification of income, expansion in high-margin market segments, maintenance of a solid capital position and effective risk management. This translates into balanced growth of business volumes, an increasing presence in the most profitable market segments and strong and recurring financial performance.

In view of the strategic Transformation Programme launched in 2016, the bank's business model is continually improved in terms of its effectiveness, suitability to customers' needs, digitalisation and integration of distribution channels, among other things.

2. Position of Bank Zachodni WBK and BZ WBK Group in the Banking Sector

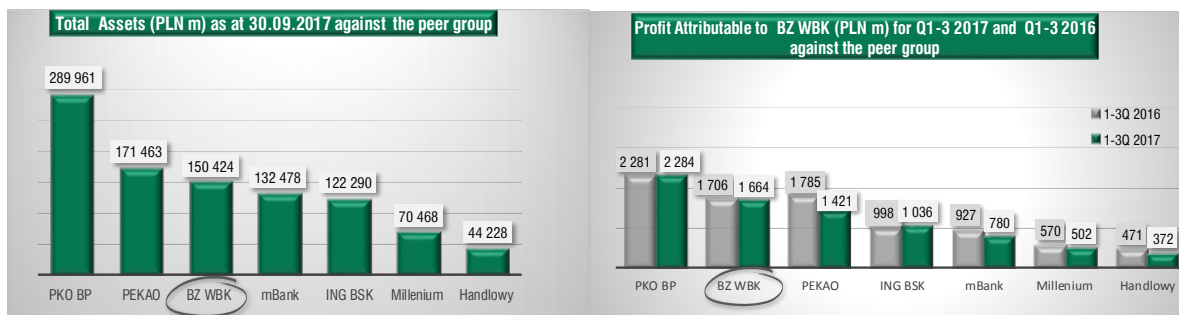
Banking Sector in Poland

According to data released by the KNF Office, 35 commercial banks operated in Poland at the end of 2017. The share of ten biggest ones in the total assets, loans and deposits of the banking sector was 70.5%, 69.8% and 74.5%, respectively. The peer Group of Bank Zachodni WBK which is presently the third bank in Poland by total assets includes primarily: PKO BP, PeKao, mBank, Millenium Bank and ING Bank Śląski.



Position of Bank Zachodni WBK and BZ WBK Group in the Polish Banking Sector

According to the financial statements for the three quarters ended 30 September 2017, which at the date of approval of this Management Board report (12 February 2017) were the most up-to-date source of comparable data on the performance of banks listed on the Warsaw Stock Exchange (WSE), Bank Zachodni WBK – including its subsidiaries and associates – was Poland's third largest banking group in terms of total assets, equity, deposits and loans, and the second in terms of attributable profit.



According to NBP statistics, as at the end of December 2017 the Group's share of the market was 9.8% for loans and 9.4% for deposits.

The Group continued to strengthen its presence in the factoring and leasing markets via its subsidiaries, holding a market share of 12.6% and 6.1%, respectively (according to the Polish Factors Association and the Polish Leasing Association). At the same time, the Group's share in the retail investment funds market was 10.4% (according to Anality Online) while in the total equity and futures markets it held 4.6% and 10.0%, respectively (according to the Warsaw Stock Exchange).

Competitive Strengths of Bank Zachodni WBK and BZ WBK Group



Bank Zachodni WBK Group has stable sources of funding, solid capital and liquidity position and a diversified asset portfolio. The Group's competitive position has been supported by a clear, coherent and consistent strategic vision, an efficient and straightforward business model, a broad and diversified scope of business as well as benefits and synergies achieved by the bank as a member of Santander Group. The business scale, quality of products and services and strong focus on building lasting relationships with customers allow the Group to compete successfully with the largest players in the Polish banking market. At the same time, a wide array of complementary services for respective customer segments, a large Poland-wide branch network, modern banking technologies and rapidly expanding functionality and integration of remote distribution channels give opportunity for further market penetration.

Financial Position of Bank Zachodni WBK Group against the Banking Sector

According to the KNF's Banking Sector Report for January-September 2017 which presented the most up-to-date analysis of the Polish banking sector as at the date of this report, the situation in the banking sector over the first nine months of 2017 was stable amid favourable macroeconomic conditions (accelerated economic growth, further improvement of labour market conditions and enterprise and consumer sentiment, low interest rate environment).

Net profit of the banking sector for the period from January to September 2017 decreased by 7.5% YoY on account of a lower profit on non-core banking operations caused by a high base effect of the settlement of the sale of Visa Europe shares in Q2 2016.

The profit on banking operations improved by 1% YoY in the first nine months of 2017 thanks to an increase in net interest income (+10.9% YoY) and net fee and commission income (+8.8% YoY) coupled with a decrease in profit on non-core banking operations (-45.4% YoY). Net interest income hit an all-time high amid changes in the deposit and credit policy and growth of business volumes. The increase in net fee and commission income was driven by higher income from loans and advances, sale of insurance products, maintenance of bank accounts, payment and credit cards, management of investment funds, brokerage activities and issue arrangement.

The banks' general and administrative expenses went up by 3.4% YoY, mainly on account of higher staff expenses and longer taxable period in respect of tax on financial institutions (by one month). An increase was also reported in BFG fees and costs of IT infrastructure, while lease fees and marketing expenses went down.

The impairment write-offs rose slightly after the first three quarters (+1.7%) driven by higher impairment charges on consumer loans, other retail loans and loans for business customers, coupled with increased IBNR provisions.

The above mentioned developments triggered an improvement of interest margin (up 0.12 p.p.), however other operating efficiency measures deteriorated: cost ratio increased from 55.23% to 56.60%, while ROA and ROE decreased from 0.92% to 0.81% and from 8.52% to 7.42%, respectively.

On the asset side, the key lines reporting growth were corporate and retail loans, while on the liabilities side – public sector deposits. Banks continued to increase their profitability by optimising headcount and sales networks. This was supported by mergers and acquisitions completed in the reporting period as well as the development of electronic banking.

Trends observed in the banking sector were also reflected in the performance of Bank Zachodni WBK, particularly in a dynamic growth of net interest income, a solid increase in net fee and commission income, higher staff expenses and accelerated growth of loan portfolio. Compared to peers however, Bank Zachodni WBK Group performance stood out in the banking sector for the rate of decrease of its impairment charge (-15.5% YoY after the three quarters of 2017; -12% YoY throughout 2017) and for its efficiency ratios, including ROA (1.4% as of 30 September 2017 and 1.5% as of 31 December 2017), ROE (11.7% as of 30 September 2017 and 12.2% as of 31 December 2017) and cost to income ratio (43.5% for three quarters of 2017 and 43.4% for 2017).

3. Entities Related with Bank Zachodni WBK

Subsidiaries

As at 31 December 2017, Bank Zachodni WBK Group comprised of Bank Zachodni WBK and the following subsidiaries:

1. Santander Consumer Bank S.A. (SCB S.A.)
2. Santander Consumer Finanse Sp. z o.o. – a subsidiary of SCB S.A.
3. Santander Consumer Multirent Sp. z o.o. – a subsidiary of SCB S.A.
4. SC Poland Consumer 15-1 Sp. z o.o. – a subsidiary of SCB S.A.
5. SC Poland Consumer 16-1 Sp. z o.o. – a subsidiary of SCB S.A.
6. PSA Finance Polska Sp. z o.o. – a subsidiary of SCB S.A.
7. PSA Consumer Finance Polska Sp. z o.o. – a subsidiary of PSA Finance Polska Sp. z o.o.
8. BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.
9. BZ WBK Finanse Sp. z o.o.
10. BZ WBK Faktor Sp. z o.o. – a subsidiary of BZ WBK Finanse Sp. z o.o.
11. BZ WBK Leasing S.A. – a subsidiary of BZ WBK Finanse Sp. z o.o.
12. BZ WBK F24 S.A. – a subsidiary of BZ WBK Finanse Sp. z o.o.
13. BZ WBK Inwestycje Sp. z o.o.
14. Gieldokracja sp. z o.o. in liquidation

Compared with 31 December 2016, the list of entities directly or indirectly controlled by Bank Zachodni WBK, and the structure of connections between them, changed as a result of the following:

- **Merger of BZ WBK Leasing and BZ WBK Lease**

On 28 February 2017, BZ WBK Lease and BZ WBK Leasing were merged through the transfer of the total assets of the former company to the latter one. BZ WBK Leasing, an acquiring company, assumed all rights and obligations of BZ WBK Lease, an acquired company, which was removed from the court register. The objective of the transaction was to streamline the Group's lease business model.

- **Liquidation of AKB Marketing Services and its removal from the National Court Register**

The Extraordinary General Meeting of AKB Marketing Services held on 28 March 2017 approved the liquidation statements of the company as at 27 March 2017. The funds left after the liquidation of AKB Marketing Services were transferred on 28 March 2017 to an account of Santander Consumer Bank, the sole shareholder. The liquidation of the company became effective after it had been struck off the National Court Register on 20 November 2017.

- **Transformation of BZ WBK F24 (formerly BZ WBK Nieruchomości S.A.)**

BZ WBK Nieruchomości was renamed BZ WBK F24 and the scope of its business was expanded to include lending activities. These changes became effective after they had been recorded in the National Court Register on 18 October 2017. The organisational and ownership structure of the company was modified in accordance with business changes. On 24 November 2017, Bank Zachodni WBK made an in-kind contribution of 7,499 shares of BZ WBK F24 to BZ WBK Finanse in exchange for new shares issued by BZ WBK Finanse as part of a share capital increase. On 28 November 2017, BZ WBK Finanse purchased an outstanding share of BZ WBK F24 from the bank in order to have full control over the company. The ownership changes were recorded in the National Court Register on 12 January 2018.

Approval of the liquidation of Giełdokracja by the company's Extraordinary General Meeting on 29 November 2017, which will become effective once it is recorded in the National Court Register.

All the entities within Bank Zachodni WBK Group are consolidated with the bank in accordance with IFRS 10 as at 31 December 2017.

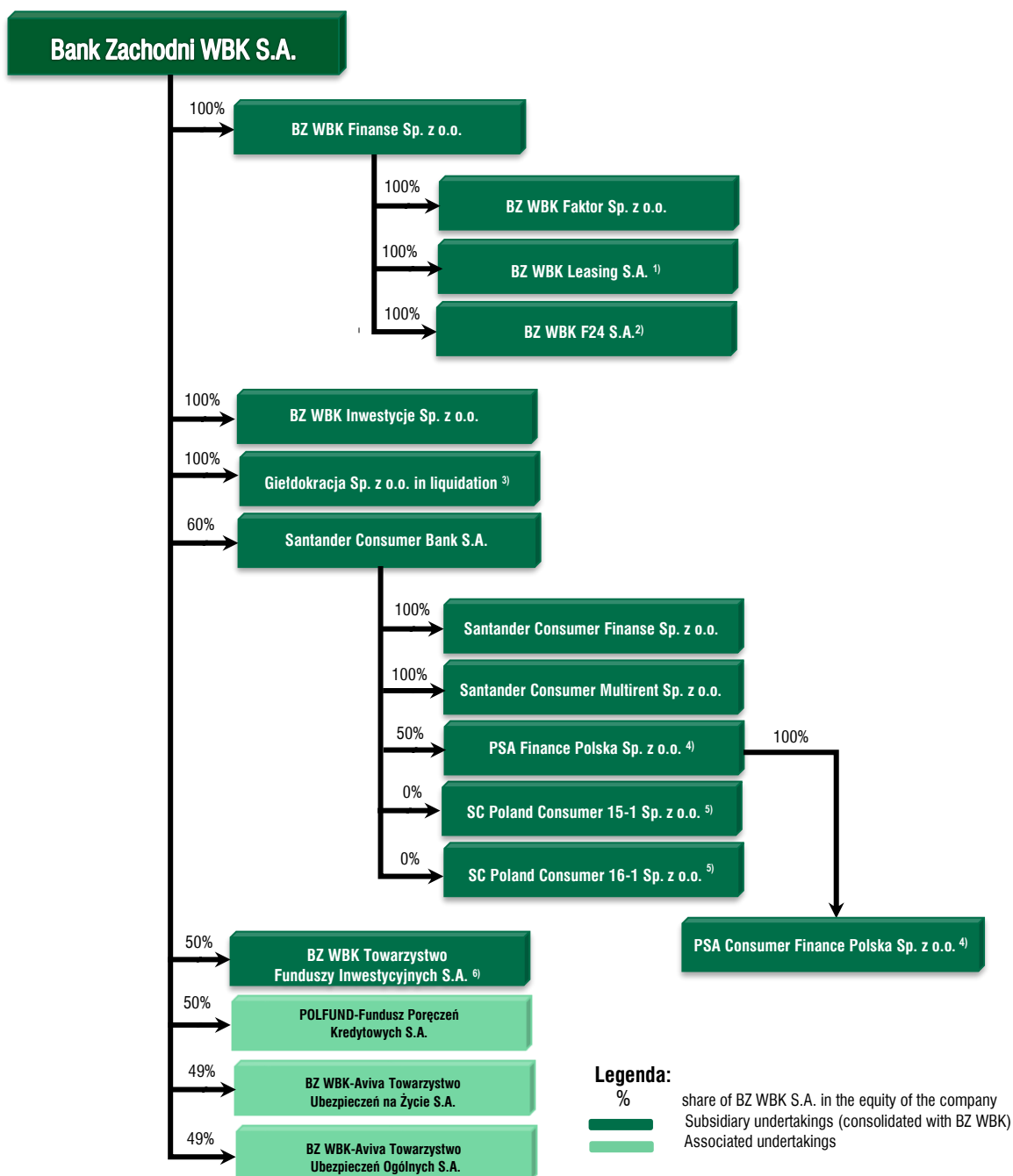
Associates

In the consolidated financial statements of Bank Zachodni WBK for the 12 months ended 31 December 2017, the following companies are accounted for using the equity method in accordance with IAS 28:

1. BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. (BZ WBK-Aviva TUO S.A.)
2. BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. (BZ WBK-Aviva TUnŻ S.A.)
3. POLFUND – Fundusz Poręczeń Kredytowych S.A.

Compared with 31 December 2016, the list of associates did not change.

Organisational Chart of Entities Related to Bank Zachodni WBK Group as at 31.12.2017



1) On 28 February 2017, the leasing subsidiaries of Bank Zachodni WBK were merged following the acquisition of BZ WBK Lease by BZ WBK Leasing. The acquired company was removed from the National Court Register without formal liquidation.

2) On 18 October 2017, BZ WBK Nieruchomości was renamed BZ WBK F24. In November 2017, as a result of the stock swap between Bank Zachodni WBK and BZ WBK Finanse (in-kind contribution of BZ WBK F24 shares to BZ WBK Finanse in exchange for shares of BZ WBK Finanse) and the purchase by BZ WBK Finanse of an outstanding share ensuring a 100% stake in the share capital of BZ WBK F24, the company became fully controlled by BZ WBK Finanse Sp. z o.o. (previously it was 99.99% owned by Bank Zachodni WBK).

3) On 28 April 2016, the Annual General Meeting of Gieldokracja adopted a resolution to dissolve the company and to start its liquidation as of 1 May 2016.

4) On 1 October 2016, SCB acquired 50% shares of PSA Finance Polska and, indirectly, 50% stake in PSA Consumer Finance Polska. Both companies are controlled by SCB as they meet the conditions set out in IFRS 10.7

5) SC Poland Consumer 15-1 and S.C. Poland Consumer 16-1 are SPVs set up for the purpose of securitisation of part of SCB credit portfolio. Their shareholder is a legal person that has no ties with the Group. The companies are controlled by SCB as they meet the conditions laid down in IFRS 10.7. (since 23 September 2015 and 1 August 2016, respectively).

6) On 31 March 2016, BZ WBK TFI merged with BZ WBK AM, whereby the parent (BZ WBK AM) was taken over by its subsidiary (BZ WBK TFI). Both owners of the acquiring company, Bank Zachodni WBK and Banco Santander Group, hold an equal stake of 50% in the company's share capital. Bank Zachodni WBK exercises control over BZ WBK TFI.

4. Other Equity Investments

As at 31 December 2017 and 31 December 2016, Bank Zachodni WBK Group owned at least 5% of share capital or voting power in the following companies:

Ref.	Company	% in the Share Capital		Voting Power at AGM	
		31.12.2017	31.12.2016	31.12.2017	31.12.2016
1.	Reliz Sp. z o.o. in liquidation	-	-	-	-
2.	Zakłady Przemysłu Jedwabniczego DOLWIS S.A. in liquidation	-	-	44,00%	44,00%
3.	Invico S.A. ¹⁾	21,09%	21,09%	12,21%	12,21%
4.	Krynicki Recycling S.A. ¹⁾	19,19%	19,19%	19,19%	19,19%
5.	Polski Standard Płatności Sp. z o.o.	16,67%	16,67%	16,67%	16,67%
6.	i3D S.A. ¹⁾	15,77%	15,77%	15,77%	15,77%
7.	Krajowa Izba Rozliczeniowa S.A.	14,23%	14,23%	14,23%	14,23%
8.	Aviva Powszechnie Towarzystwo Emerytalne Aviva BZ WBK S.A.	10,00%	10,00%	10,00%	10,00%
9.	Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	10,00%	10,00%	10,00%	10,00%
10.	Aviva Towarzystwo Ubezpieczeń na Życie S.A.	10,00%	10,00%	10,00%	10,00%
11.	PBG S.A. in arrangement bankructcy	-	-	7,96%	7,96%
12.	Biuro Informacji Kredytowej S.A.	7,72%	9,22%	7,72%	5,14%
13.	Infosystems S.A. ¹⁾	7,50%	7,50%	7,50%	7,50%
14.	Hortico S.A. ¹⁾	6,39%	6,39%	6,39%	6,39%
15.	AWSA Holland II B.V.	5,44%	5,44%	5,44%	5,44%
16.	Gorzowski Rynek Hurtowy S.A. ¹⁾	2,47%	6,53%	2,47%	6,53%

1) Companies from the equity investment portfolio of BZ WBK Inwestycje Sp. z o.o.

III. Macroeconomic Situation in 2017

Economic Growth

GDP growth accelerated much more than expected in 2017, most probably exceeding 5% YoY in 4Q17 and reaching 4.6% on average in the entire year. It was driven by very strong private consumption boosted by 500+ child benefit program, healthy labour income growth, lower savings rate and a record high consumers' optimism. Exceptionally supportive external environment (solid recovery in the Euro zone) also contributed to robust internal economic growth as it fuelled Polish exports. The long-awaited revival in investments started to materialise in 2H17, although slowly and mainly in the public sector. Manufacturing and construction sectors recorded a much higher growth than in 2016. For the better part of 2017, Poland managed to maintain the current account surplus despite strong internal demand and in November the positive balance amounted to record-high 0.3% of GDP.

Labour Market

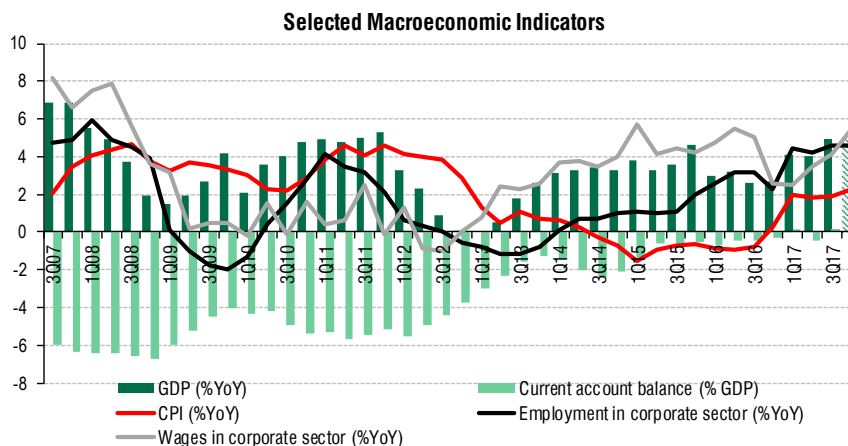
2017 was a year of "employee market" with companies widely claiming workforce shortages and difficulties in filling the vacancies. These tensions were slightly mitigated by rising labour participation rate and intensification of immigration to Poland, mainly from Ukraine. Unemployment fell to record-low levels (in November, 6.5% for the registered unemployment rate and 4.4% according to LFS). High level of economic activity was generating high demand for labour and so the wage pressure strengthened amid shortage of workforce. Lowering of the retirement age in October did not influence the employment statistics but created a risk that spare workforce could decrease further. In 2017, nominal pace of wage growth in corporate sector was at 5.7% YoY on average and c. 7.1% YoY in 4Q17. At the same time, pace of employment growth in corporate sector settled at around 4.5% YoY throughout the year. Real wage bill pace of growth accelerated despite rebound of inflation.

Inflation

Already in January, inflation rose above 1.5% YoY and for the rest of the year stayed above that level and below the 2.5% target (that was finally hit in November, for the first time in five years). On average, in 2017 CPI was at 2% YoY. Intra-year volatility was driven by changes in food prices (distorted by supply of Polish fruit amid adverse weather conditions and rising prices of butter and eggs) as well as fuel (as oil prices rose on the global market and high base effect at the year-end). Core CPI excluding food and energy prices accelerated to 0.8% YoY from 0.0% YoY in early 2017 and stayed around that level for the rest of the year.

Monetary Policy

In 2017, Monetary Policy Council left main interest rates unchanged and changed the interest on required reserves to 0.50% effective since January 2018 and lowered the reserve requirement ratio to 0% for deposits with maturity of at least two years (effective since March 2018). Most of the MPC members still view the current reference rate at 1.50% as appropriate and supportive for realization of the inflation target, helping investment revival and keeping Polish economy on the path of balanced economic growth. Still, opinions among the MPC members became more diversified along the year. Some members feared that inflation could accelerate amid tensions on the labour market and that undesirable side effects of negative real interest rates would show up. However, core inflation did not rise noticeably despite wage acceleration and in the Council's opinion the side effects were not meaningful enough to trigger action.



Credit and Deposit Markets

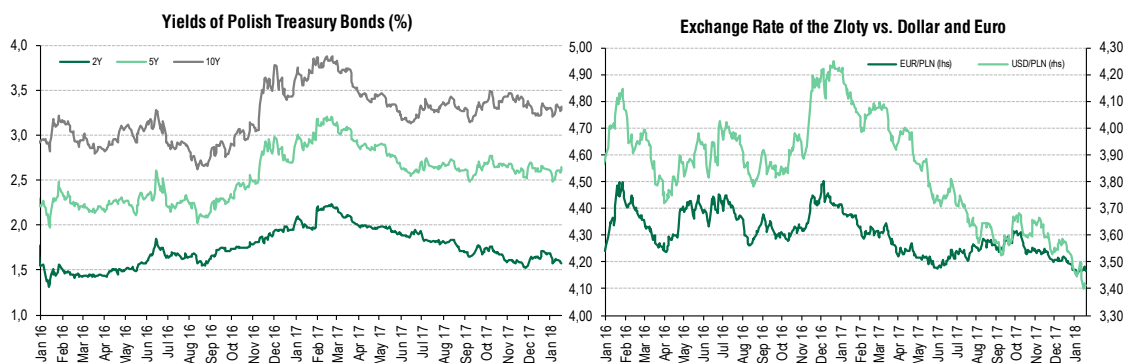
In 2017, average pace of deposit growth slowed down from 8.3% in January to 4.1% in December. Deceleration was recorded for both corporates and households. Overall, the pace of loan growth was pretty stable around 4.5% YoY. Loans for individuals slowed in late 2017 owing to zloty appreciation but after excluding the FX effect growth remained stable at c4% YoY. Mortgage credit (after FX adjustment) accelerated (to 3.5% y/y from 3% at the beginning of the year), with PLN-denominated loans rising 10.6% YoY in December. In 2017, consumer loans stabilised in 7.0-7.5% YoY range. As regards loans for companies, investment loans decelerated slightly (from over 16% YoY in the middle of the year to c12.5% in December), while current loans accelerated from c4.5% YoY in June to c8.5% in December.

Financial Market Situation

In 2017, global market sentiment was rather optimistic with investors' moods being driven by the following factors: (1) improving worldwide economic prospects and a stronger rebound of domestic economy (2) central bank actions, including the Federal Reserve, which increased interest rates three times in 2017 showing its confidence in strength of economic revival and positive outlook, and the European Central Bank, whose Governing Council cut the size of monthly bond purchases (3) geopolitical factors, including poor results of populist parties in French and Dutch elections which added some optimism to the markets.

Polish events have also had a noticeable impact on the zloty and bonds. Much faster than expected economic growth boosted the zloty and the improved fiscal situation in Poland (leading to lower borrowing needs) supported bonds. Downward trend of yields was also warranted by still dovish rhetoric of the MPC. Conflict of the Polish government with the European Commission about changes in the judiciary system and launching the procedure of Article 7 of the EU Treaty did not have any persistent impact on Polish assets. Robust economic performance and significant improvement in tax collection leading to much lower than planned budget deficit neutralized the negative impact of political uncertainty and in 2017 main rating agencies stopped calling that Polish rating or its outlook could be downgraded. Agencies improved their economic and fiscal forecasts and Moody's lifted outlook for Poland A2 rating to "stable" from "negative".

Bond yields fell in 1H17 and stayed in the horizontal trend later in the year. Bond curve steepened in 2017 as the short-term yields fell more (-27bp) than on the belly (-11bp) and the long end (-17bp). In the case of IRS, rates ended the year above 2016 closing – the 2Y IRS rose 12bp, 5Y rate by 13bp and 10Y IRS by 6bp. As a result, the asset swap spreads narrowed by 20-40bp. Other measures of risk premium also fell – the 10Y PL-DE bond yield spread dropped by 50bp and the 5Y CDS by 24bp. In 2017, the zloty was the second best performing EM currency vs the euro, dollar, franc and pound. During the past year, EUR/PLN fell by 5.7% (to 4.17 from 4.42), USD/PLN plummeted by 17% (to 3.48 from 4.18 with the key impact of rising EUR/USD), CHF/PLN eased by 13% (to 3.57 from 4.12, down trend being supported by rising EUR/CHF) and GBP/PLN by c10% (to 4.70 from 5.14 also thanks to pound depreciation on the global market amid uncertainty related to conditions under which the UK will leave the EU).



Stock Market

All stock market indices gained throughout 2017. Still, the benchmark WIG and WIG20 indices yielded 23% and 26%, respectively, which was only enough to make up for losses suffered in 2016 and stabilise at the levels reported two years ago. The mid-cap mWIG40 index made a good start to the year, but decelerated thereafter and closed at 15% up. The small-cap indices fared the worst: the sWIG80 grew by a mere 2.4%, mainly due to strong gains in December which offset the falls reported earlier in the year.

Trading on the Warsaw floor was stimulated by strong investor sentiment observed across global stock markets nearly throughout 2017. However, the inflow of capital to different market segments was rather selective, as confirmed by index readings presented above. A rise for equities was fuelled by an upswing in the Polish and global economies, benefiting not only the Warsaw Stock Exchange but also the Polish zloty, which hit a two-year high. The political situation in Poland had limited impact on the stock market despite social conflicts prevailing throughout the year. Low global risk aversion and expectations for positive outcome of tax reforms introduced by the new US president mitigated the impact of political tensions in the Middle East and the Korean Peninsula as well as further tightening of monetary policy by the US Federal Reserve.

Legal Environment of the Banking Sector

In 2017, the following legislation was ratified, which affected the banking sector in Poland:

Legal act	Effective date	Purpose	Selected regulations affecting the banking sector
Act on out-of-court settlement of consumer disputes	10.01.2017	<ul style="list-style-type: none"> Transposition of the EU law on out-of-court settlement of consumer disputes into the Polish legislation. 	<ul style="list-style-type: none"> Out-of-court settlement proceedings are free of charge for consumers. The President of the Office of Competition and Consumer Protection (UOKiK) monitors the activities of entities authorised to resolve consumer disputes out of court.
Act of 15 December 2016 on changes to the Code of Civil Proceedings and certain other acts	18.01.2017	<ul style="list-style-type: none"> Implementation of the Regulation of the European Parliament and of the Council establishing a European account preservation order procedure. Facilitation of cross-border debt recovery in civil and commercial matters. 	<ul style="list-style-type: none"> European account preservation orders issued by EU members states may be used in Poland to instigate enforcement proceedings. At the request of the Minister of Justice, banks are obliged to provide information representing banking secrecy to the extent necessary to apply the European account preservation order procedure.

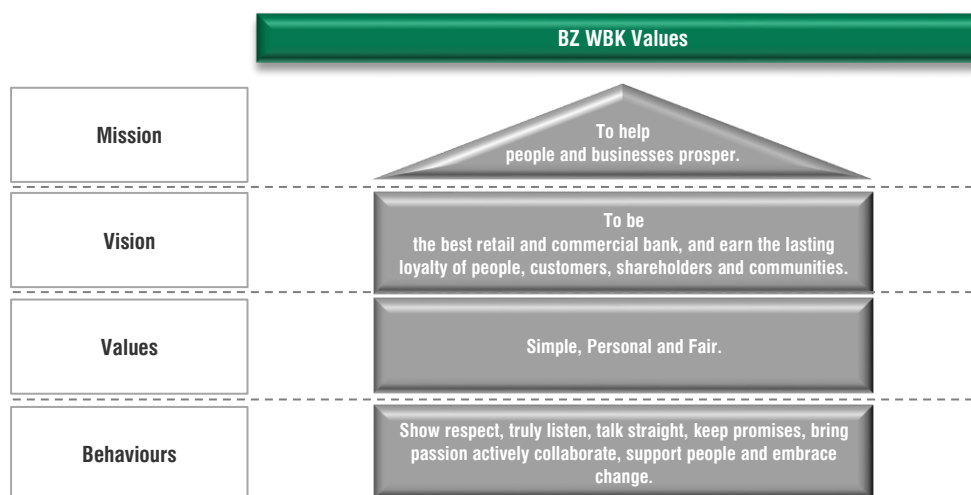
Legal act	Effective date	Purpose	Selected regulations affecting the banking sector
Regulation of the Minister of Economic Development and Finance of 6 March 2017 on the risk management system and the internal control system, remuneration policy and detailed method of internal capital estimation in banks.	1.05.2017	<ul style="list-style-type: none"> • Transposition of further provisions of the CRD IV (including new limitations on the award and payment of variable remuneration to material risk takers). • Implementation of the EBA guidelines on sound remuneration policies. 	<ul style="list-style-type: none"> • The regulation addresses the following issues: <ul style="list-style-type: none"> ✓ risk management system ✓ remuneration policy ✓ internal control system ✓ confidential reporting of breaches of laws, procedures and ethical standards applicable at the bank ✓ estimation and maintenance of internal capital ✓ liquidity and funding risk management
Act of 23 March 2017 on changes to the Penal Code and certain other acts	27.04.2017	<ul style="list-style-type: none"> • Amendments to the Banking Law improving the effectiveness of mechanisms used to deprive offenders of the proceeds of crime. 	<ul style="list-style-type: none"> • Changes were implemented to enable institutions indicated in Article 105 of the Banking Act to request information necessary to counteract money laundering and terrorist financing under a simplified procedure. • Prosecutors are authorised to freeze certain transactions or funds in bank accounts.
Act of 9 March 2017 on exchange of tax information with other countries	4.04.2017	<ul style="list-style-type: none"> • Transposition of the EU directive on mandatory automatic exchange of tax information into the Polish legislation. • Introduction of regulations enabling automatic exchange of tax information with countries other than EU member states based on the Common Reporting Standard (CRS). 	<ul style="list-style-type: none"> • Banks are identified as reporting institutions and as such are required to follow: <ul style="list-style-type: none"> ✓ due diligence rules – i.e. to identify reportable accounts (depository and custodial accounts) held by tax residents in countries which have an agreement with Poland or EU on automatic exchange of information about reportable accounts; ✓ reporting rules – i.e. to provide account information to the head of the National Revenue Administration for a calendar year;
Act of 23 March 2017 on mortgage loans and supervision over mortgage loan brokers and agents	22.07.2017	<ul style="list-style-type: none"> • The Act: <ul style="list-style-type: none"> ✓ transposes the EU directive with respect to the principles of marketing, offering and taking out mortgage loans; ✓ establishes the rules and procedure for executing mortgage loan agreements as well as rights and obligations of a mortgage lender and broker/agent in relation to the provision of pre-contractual information and rights and obligations of a consumer, lender and broker/agent in relation to the post-contractual stage. 	<ul style="list-style-type: none"> • A mortgage loan is exclusively granted in a currency of the majority of the customer's income. • Tying practices are forbidden, however cross-selling is permitted. • Customers have a right to early repayment (in whole or in part) during the term of the agreement. • Pre-contractual information obligations of banks/brokers to customers have been defined. • Detailed procedures for granting mortgage loans and concluding mortgage loan agreements have been established. • All employees involved in mortgage lending are required to complete mandatory training and take an exam.
Act of 21 April 2017 on claims in respect of a loss or damage arising from competition law infringements	27.06.2017	<ul style="list-style-type: none"> • Definition of the liability for a loss or damage arising from the infringement of competition law and claims for damages as part of civil law proceedings. 	<ul style="list-style-type: none"> • The act generally applies to claims in respect of competition infringement committed after the date the legislation entered into force, however, it may also apply, to a limited extent, to actions taken after the effective date and relating to anti-competitive practices from before the effective date. • A final decision of the Office of Competition and Consumer Protection (UOKiK) or the court rendering a practice as restricting competition is binding upon the court in a civil law action for damages.
Act of 30 November 2016 amending the Payment Services Act and certain other acts	8.02.2017 (most provisions)	<ul style="list-style-type: none"> • Transposition of the Regulation of the European Parliament and of the Council on interchange fees for card-based payment transactions and the Directive on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features. • Increase in the level of banking inclusion through improving consumer choice and increasing the quality and transparency of the offers. 	<ul style="list-style-type: none"> • Banks are required to implement certain obligations by 8 August 2018 (including access to payment accounts with basic features, account switching, provision of the fee information document before entering into an agreement on services linked to a payment account and statement of fees for linked services).

IV. Development Strategy

1. Mission, Vision, Values and Strategic Objectives for 2018-2020

Strategy of Bank Zachodni WBK and Non-Banking Subsidiaries

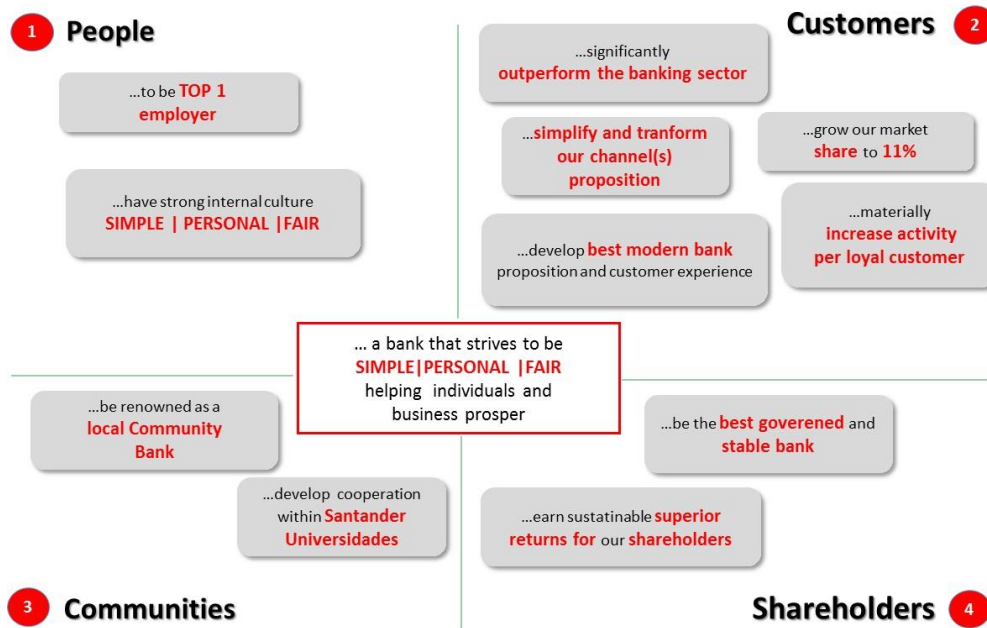
In view of dynamic and complex changes in the macroeconomic environment, the strategy of Bank Zachodni WBK Group is regularly verified, which helps to take prompt action in response to emerging market trends. The updated (in 2017) three-year strategy for 2018-2020 is focused on the bank's transformation, in particular: commercial transformation, business model transformation, digital transformation, CRM content management and centralised data management. Most importantly, the new strategy is a continuation of the previous course of action, based on the same values and assumptions. It promotes customer-centric culture in business management, excellent customer service and product range, operational effectiveness, simple, clear and innovative solutions, and corporate culture that reinforces employees' engagement and motivation. The above measures are expected to help the bank achieve the position of the best financial institution for retail and corporate customers and the best employer in the banking market.



As part of its strategic vision, Bank Zachodni WBK intends to:

- Become a leading bank in terms of service quality, focusing on customer needs and expectations;
- Anticipate and respond to customers' needs with tailored products, services and solutions;
- Build long-term relationships with customers based on trust, loyalty and enhanced customer experience;
- Modernise banking services through digital transformation, including end-to-end processes and changes to the operating model towards a more effective and less capital-intensive one;
- Create an engaging work environment through collaboration, communication and bottom-up initiatives raised in all the bank's units;
- Grow faster than peers;
- Become the best retail and commercial bank earning the lasting loyalty of people, customers, shareholders and communities.

The bank's mission and vision are reflected in specific measures taken with respect to the key stakeholder groups. Below are the objectives of Bank Zachodni WBK Group for 2017-2019 which are focused on employees, customers, communities and shareholders.



The corporate culture of Bank Zachodni WBK Group and Banco Santander Group is enshrined in the Simple, Personal and Fair values.



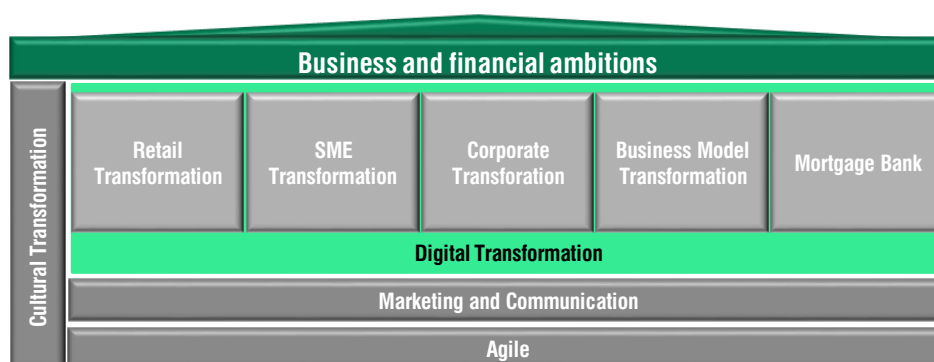
General assumptions of the financial plan for 2018-2020:

- Increase in recurring net profit;
- Positive growth trends in interest and fee income;
- Cost management discipline resulting in reduction of the cost to income ratio;
- Improving quality of credit portfolio;
- Slower increase in the average risk weighted assets compared with loans and advances.

2. Key Strategic Programmes of Bank Zachodni WBK

Transformation of the Bank

Our ambition is to be the best bank in Poland which is renowned for customer excellence and operational effectiveness and is always one step ahead of competitors.



The strategic transformation covers a number of strategic programmes, including in particular:

- **Commercial transformation**
Commercial transformation covers the area of Retail, SME, and Business and Corporate Banking. It is focused on the development of a business model that will ensure positive customer experience, help simplify products and support optimisation of processes and pricing policies and the new distribution strategy. In 2017, the bank elaborated a new customer segmentation and a new branch model for Retail Banking, which will be implemented in 2018. It also modified the distribution model for larger entities from the SME segment. Furthermore, a number of improvements were made in the credit process, both for SME and corporate customers.
- **Business model transformation**
Business model transformation is primarily focused on increasing the effectiveness of the organisation. To that end, the bank controls investments and expenses, optimises property and branch network management, streamlines the organisational structure, eliminates duplicated functions, leverages synergies between different areas, and estimates and monitors the benefits of transformation.
- **Digital transformation**
The digital transformation programme covers the initiatives taken to improve customer service and develop end-to-end solutions which will be available to customers in all channels anytime and anywhere. As part of the programme, the bank streamlines the processes to suit customers' needs, offers remote solutions for new products, extends the scope of after-sales services and develops new tools for customer advisors, including CRM development using Business Intelligence tools.
 - ✓ **Digitalisation of processes**
In 2017, the Account As I Want It (Konto Jakiej Chce) was implemented, with an innovative functionality whereby customers can select and customise the features they wish to use. A new end-to-end credit process was put in place for sole traders by which they can apply for and obtain a loan online. In some locations, corporate customers can now use a system which automates the credit process from start to finish and thus reduces the turnaround time. Work continues on a new credit process, automation of remote after-sales processes and further extension of the features available within the Account As I Want It.

✓ **Development of internet, mobile and telephone banking**

In 2017, the bank introduced a number of customer-friendly solutions in the area of internet, mobile and telephone banking. Further credit facilities were made available for sale in the mobile channel. A quick account overview functionality was introduced and a more ergonomic and efficient application was put in place. Payment card management services were introduced, including push alerts and an option to cancel the card. New products were made available in the internet banking channel, and a new mailbox and after-sales forms for credit facilities were implemented. The bank also introduced the option of opening accounts online via video verification, an innovative solution in the Polish market.

✓ **CRM development programme**

To ensure a more effective communication with customers on the offers prepared for them, as part of the CRM Development Programme a new functionality was implemented for sending pre-defined text messages and e-mails directly from the CRM system. Customer advisors were provided with a wide range of offers generated at intervals. Advanced analytical models used by the bank helped to tailor the products and services to particular customers' needs.

✓ **Development of iBiznes24 platform**

The purpose of the above programme is to transform the iBiznes24 platform into a leading platform for corporate customers. To that end, three applications are being currently developed: iBiznes24 internet, iBiznes24 mobile and iBiznes24 connect. In 2017, a number of functionalities were implemented to facilitate the use of that platform, specifically with regard to transaction approval, sign-on, helpdesk contact and a new application design. At the same time, work is under way to maintain the highest security standards.

✓ **Development of insurance (4Sure)**

4Sure is a strategic programme designed to support insurance development to promote the sales of insurance to retail and SME customers, increase the share of digital channels in insurance sales and improve customer satisfaction with insurance solutions. In 2017, the bank introduced a new offer of the Locum household insurance in all distribution channels, and a new Plan B insurance in the Multichannel Communication Centre.

• **Communication and marketing**

Marketing and communication are expected to strengthen the bank's brand through new messages based on values and emotions. In this context, in 2017 the bank introduced its new brand promise: "You Bank As You Want It" ("Bankujesz jak chcesz").

• **Cultural transformation**

The cultural transformation that is currently taking place in the organisation is fundamental to the success of all changes introduced by the bank. It covers such aspects as:

- ✓ enhancement of leadership skills and development of staff and teams;
- ✓ delivery of strategic goals and performance of day-to-day tasks in line with the Simple, Personal and Fair values;
- ✓ increase in employee engagement and delivery of employer branding initiatives.

• **Mortgage Bank**

The purpose of the initiative is to set up the Mortgage Bank as a separate entity within Bank Zachodni WBK Group specialising in mortgage loans.

• **Agile Transformation**

The market environment and customer requirements are changing rapidly. To be able to keep abreast of and respond to those changes, in 2017 the bank started implementation of a new working model in accordance with the Agile methodology. The transformation towards agile cooperation methods is expected to expedite the time-to-market, facilitate the search for and testing of new innovative solutions and increase customer satisfaction. The new methodology will entail modification of the existing operating models with a departure from complex structures in favour of small, cross-functional teams with a sound understanding of customer needs and a capability of fast and effective delivery of new solutions.

The implementation of particular change programmes is supervised by the Strategic Transformation Office, which reports to the President of the Management Board and the Chairman of the Supervisory Board.

Strategy of Santander Consumer Bank

The key strategic goal of Santander Consumer Bank for 2018-2020 is to strengthen the position and image of the bank as an innovative, secure and customer-friendly financial institution with a strong capital base, structure and corporate culture harmonised with Santander Group and a leading position in the consumer finance market. The strategy of SCB can be summarised as follows:

Car finance

- Improve the range of products and services and achieve a dynamic growth of the lease business
- Ensure a stable growth in the volume of new car finance by increasing the number of active dealers
- Achieve a dynamic growth in the volume of second hand car finance through remote distribution channels and a dedicated sales network
- Acquire new partners and continue the cooperation with PSA companies

Consumer finance

- Maintain high volume of cash loans and expand the range of products and services for new profile customers
- Ensure a stable volume of instalment loans, while reducing the share of sales in lower profitability channels
- Develop online sales of cash loans and instalment loans
- Increase sales of co-branded cards to new customers
- Develop mobile payments and e-commerce solutions
- Enter the DIY sector with the instalment loan proposition
- Develop digital business

Funding sources

- Ensure a stable deposit base
- Finance working capital requirements through the issue of own securities and securitisation
- Ensure a diversified structure of funding
- Maintain LCR > 100%

IT and operations

- Provide IT support for development of distribution channels, in particular remote ones
- Develop infrastructure and mobile technologies
- Optimise and streamline processes

Risk, cost and financial management and other areas

- Maintain stable risk level, including steady non-performing loans ratio and high provision coverage ratio
- Achieve operational excellence: optimise branch structure, relocate the Contact Centre, review the scope of control
- Deliver the digitisation project in the following areas: DIGI business, DIGI process, DIGI support
- Monitor key profitability and growth indicators
- Maintain secure capital position in line with the CRR and regulatory requirements

V. Human Resources and Corporate Culture

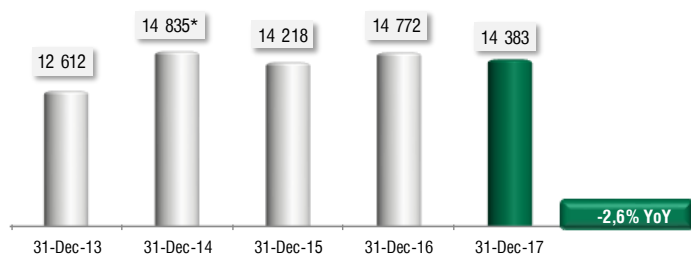
1. Human Resources Management

Human Resources

As at 31 December 2017, the number of FTEs in Bank Zachodni WBK Group was 14,383 vs. 14,772 as at 31 December 2016. These headcount figures include 11,291 FTEs of Bank Zachodni WBK (11,733 as at 31 December 2016) and 2,664 FTEs of SCB Group (2,637 as at 31 December 2016).

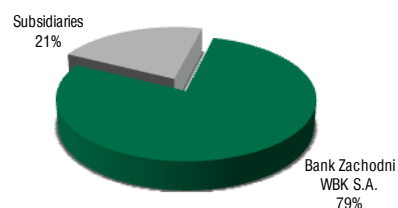
The YoY decrease in employment levels in BZ WBK Group (down 389 FTEs) is attributable to the ongoing transformation of Bank Zachodni WBK business model with a view to increasing the share of new technologies, the dynamic development of remote distribution channels, and the gradual migration of customers to new solutions. In line with these business development directions, branch banking headcount was gradually reduced, while selected business support functions were strengthened. All changes leveraged the natural staff turnover to the largest possible extent, recognising business needs and prevailing market conditions.

Employment in BZ WBK Group in Years 2013-2017
(in FTEs)



* Includes employees of SCB Group for the first time as a result of the acquisition of a controlling stake in SCB on 1 July 2014

Employment Structure in BZ WBK Group as at 31.12.2017



Human Resources Management Strategy

The strategy of the Business Partnership Division in charge of human resources management includes the following mission statement and objectives:



The Business Partnership Division builds an engaging work environment and enhances employee experience based on:

- a corporate culture that promotes Simple, Personal and Fair values and behaviours;
- a clear and competitive remuneration policy which rewards staff knowledge, experience, competence and behaviours, as well as effective incentive schemes and additional benefits;
- the successful delivery of HR commitments, including personnel and payroll services, financial obligations towards staff and regulators;
- the development of employee relationships through effective intervention and analysis of circumstances, preventive actions and education aimed at promoting ethical behaviours across the organisation;
- employer branding initiatives including employer value proposition that is consistent with the perception of the bank by existing employees;
- effective recruitment models and induction programmes aimed at different employee groups;
- the development of managers and specialists on the basis of development models, career paths, etc.;
- ensuring the continuity of knowledge and talent management by designing succession plans and delivering development plans;
- contribution to the development of a customer-centric approach.

The position of the best banking institution in Poland is to be achieved through the strengthening of leadership and corporate culture transformation.



The bank promotes a leadership model that is based on corporate values, leading by example and the development of the leaders' skills. Corporate culture transformation, which underpins all changes implemented in the bank, supports employer branding initiatives (both inside and outside the organisation) as well as staff development and engagement. The effectiveness in both of these areas has positive effect on employee experience and helps create an engaging work environment.

Employer branding	Engagement	Development
<ul style="list-style-type: none"> • The employer branding initiatives are aimed at ensuring a steady inflow of talented people to Bank Zachodni WBK. • The model for recruitment and induction of new employees is continuously adapted to the changing environment. 	<ul style="list-style-type: none"> • The bank is committed to increasing the engagement of its employees by catering to their needs on each stage of their professional life. • The processes connected with recruitment, induction, development, training and termination of employment are improved on an ongoing basis. • An engagement survey is held each year to examine the level of employee engagement, identify trends and accelerate improvements. 	<ul style="list-style-type: none"> • The bank focuses on training and development initiatives for experts and managers (such as management by objectives, 270° and 360° surveys, development options ('cafeteria scheme'), talent management programmes and training activities).

HR Policy

Recruitment

Bank Zachodni WBK recruits new employees both internally and externally using methods and sources which are relevant to existing vacancies, including internal recruitment processes, the Referrals Programme, external service providers, specialised social media, practical training and internships, career fairs, events organised by universities, science clubs and career services. The bank's employees have precedence over other candidates in the internal recruitment processes at Bank Zachodni WBK and SCB Group companies, which increases their development opportunities and helps build individual career paths. The candidate profiles are checked to see if they meet the required job criteria in terms of their competence, experience, knowledge, motivation, personality and compatibility with the organisational culture. All persons involved in the recruitment process must comply with business ethics principles arising from the Labour Code and internal policies, in particular with regard to confidentiality and non-discrimination regulations.

The BZ WBK Referrals Programme engages employees in the recruitment process as it provides an opportunity to recommend candidates for upcoming job vacancies in the bank. This system helps to reach a wider group of prospective employees who have relevant skills, aptitude and motivation, and are interested in taking up a role at the bank.

The recruitment process is additionally supported by the Practical Training and Internship Programme run in cooperation with universities across Poland, which is designed to recruit young, qualified and talented individuals.

Performance Management

In January 2017, a new objectives management process was put in place to support staff development and promote behaviours in accordance with the bank's Simple | Personal | Fair values. The process allows for greater flexibility (as the objectives can be modified along the way) and for communication efficiency (as it facilitates communication between employees and their line managers due to more frequent meetings, regular feedback, and support of the HRup! System). In the new model individual performance (assessed in two dimensions: WHAT and HOW) is closely related to the bonus level. The launch of the new process and the IT tool was preceded by extensive preparations which included workshops held for all managers.

Remuneration and Incentive System

Pursuant to the Resolutions of the Management Board (74/2017 of 20 April 2017) and the Supervisory Board (41/2017 of 17 May 2017), a new BZ WBK Group Remuneration Policy was introduced. The policy covers all employees of the bank and its subsidiaries, inclusive of managers and members of the Management Board. The policy is consistent with the remuneration policy of Santander Group, the EBA guidelines on sound remuneration policies (EBA/GL/2015/22), the Regulation as required by the Minister of Economic Development and Finance dated 6 March 2017 on the risk management system and the internal control system, remuneration policy and a detailed method of internal capital estimation in banks (Journal of Laws of 6 March 2017, item 637).

The new policy covers, among other things, bonus regulations for sales staff, identification and bonus regulations for material risk takers, remuneration for employees of control units, and the application of malus clauses (the identification, assessment and ex-post adjustment to variable remuneration payable to material risk takers of the Group).

The Remuneration Policy of Bank Zachodni WBK Group has been established taking into account the interests of key stakeholders: shareholders, employees, customers and local communities. It promotes behaviours that reflect corporate values.

Base Salary

The key component of remuneration at Bank Zachodni WBK is the base salary, which is determined on the basis of the role performed, area of responsibility, and qualifications and experience. In its approach to job valuation, the bank uses best market practice to ensure competitiveness of remuneration. In response to dynamic changes in the labour market, the bank's remuneration system is periodically revised in terms of the approach to job families, reference levels and dispersion, using the payroll reports supplied by leading advisory companies and data published by Statistics Poland (GUS). The last comprehensive review of base salaries took place in 2016, consequently, salaries for BZ WBK employees underwent revision on 1 December 2016.

Material risk takers are subject to a remuneration policy containing provisions which do not differ from regulations applicable to other staff members.

Variable Components of Remuneration

The bonus schemes adopted by the bank enhance staff motivation and support the delivery of strategic objectives set by the organisation. Such schemes are linked to the results of the bank, respective units and individual employees whose performance, delivery of objectives, behaviours and engagement are reviewed on a regular basis.

Variable remuneration depends on a bonus scheme relevant to a given employee (including bonus regulations for branch employees and Business Support Centre employees). Individual bonus schemes differ in terms of eligibility criteria, the bonus amount and payment frequency. Bonus payment is conditional upon the delivery of specific financial objectives (a stated gross or net profit growth rate or amount) and satisfaction of qualitative criteria.

Incentive programmes for the company's management board members and its key managers make their reward dependent on assessment of the company's long-term financial position, long-term growth in shareholder value, stability of the company's operations and risk appetite. In accordance with KNF guidelines, at least 50% of variable remuneration is paid in the form of phantom shares. In addition, 40% of variable remuneration is deferred for a period of three years, and payment of each deferred portion is determined by the absence of any negative premise that would prevent or reduce the amount of payment.

Variable remuneration components also include long-term (three-year) incentive programmes addressed to key employees of the bank. The award is granted in the form of new issue of BZ WBK shares provided that certain business criteria defined in the terms of the Programme have been met (for more information, see section "Governing Bodies", Chapter XI "Statement on Corporate Governance in 2017").

The base and variable remuneration policy adopted by Bank Zachodni WBK also applies to the bank's subsidiaries.

In 2017, incentive schemes for sales functions were reviewed in terms of business efficiency and compliance with regulatory requirements.

The Group also offers additional benefits to meet with employees' needs such as: health care packages and the cafeteria system which provides a wide range of cultural, sports and tourism benefits. In 2017, Bank Zachodni WBK was awarded Best Benefits Strategy 2017 in a competition that sought the most interesting and effective strategy to award non-cash benefits to employees. The bank competed against some of the largest global corporations operating in Poland.

Delivery of HR Policy in 2017

In 2017, Bank Zachodni WBK consistently implemented its strategy focused on key processes in the employee's professional life cycle. The most important activities shown below.

- **Talent management focused on developing the bank's intellectual and expert potential**

Modifications of the recruitment model

In 2017, the Bank focused on acquiring talent with a new profile, i.e. better prepared to deal with such market challenges as volatility, digitalisation and robotisation. These actions were supported by the new recruitment model for the bank's distribution network. The effectiveness of the recruitment campaigns held in 2017 was helped by the initiatives which promoted the bank's image as an employer (participation in 20 labour fairs), activity in social media (LinkedIn), programmes targeted at selected candidate groups (e.g. the "Do IT at BZ WBK Programme" addressed to IT students, with workshops at universities facilitated by bank technology experts, as well as a unique programme of internships). One of the objectives for 2018 will be to reach new segments of candidates (50+, graduates of technical schools, persons without banking experience).

Staff development at all levels

In 2017, a flexible catalogue of development proposals was developed to suit the bank's business needs. Training programmes were addressed to individual employee groups:

- For the first time, the whole management cadre was covered by the 360° skills assessment. A development programme was implemented for the highest management level ("Strategic Leadership. Direction. Influence. Authority"), and development programmes were carried out in response to the needs and requirements of individual divisions (e.g. the "Leader driving engagement" for the Global Corporate Banking and "Armada" for the Business and Corporate Banking Division).
- In March 2017, the bank launched another edition of the programme for the newly appointed managers. This consisted of several workshop and training modules (including tele-workshops and e-learning courses). The process of induction into the role of manager involved our HR Business Partners, line managers and local professional mentors.
- Individual employee groups were involved in talent programmes, including: "Become Advisor with a customer portfolio", "Be a Transformation Leader", "Be a Branch Manager" and "Leaders Teams Management". A consistent Advisor Skills Matrix was implemented in the branch network, the first such initiative in the bank's history, supported by our 270° skills assessment for advisors at all branches.

- **Increasing the efficiency of back office processes**

Digitalisation of HR processes

In 2017, all the HR processes (including holiday planning, work time management or a workflow for HR decision-making processes), along with the concept of their digitalisation, was developed. Digitalisation will gradually cover subsequent processes, such as payroll, work model, e-file or e-signature).

- **Building a positive employer image inside and outside the organisation**

Recognition for colleagues

In order to increase employee motivation and strengthen the corporate culture, in 2017 the bank launched the StarMeUp platform whereby employees of all units can express recognition for their colleagues for behaviours and attitudes conforming to the bank's values. The most recognised employees will be invited to meetings with the President or members of the Management Board. By the end of December 2017, 67% of the employees used the platform.

- **wide array of additional services**

Employee benefits

The bank provides a broad range of benefits available to all the employees and adapted to their needs. These include, for example, a comprehensive medical service, cafeteria system (ensuring access to a many cultural, sports and leisure events and benefits), life insurance, discount schemes and financial aid in fortuitous events. The bank also regularly organises the "Banker's Hike", its signature initiative as part of which employees and their families can travel to different places in Poland and abroad. In 2017, nearly 2000 people took part in the hike.

- **Support for employees to keep a work-life balance and lead a healthy lifestyle**

Working time

In 2017, employees were trained on working time. Leave utilisation was regularly tracked by means of a new holiday planning and monitoring tool.

Health-related initiatives

2017 was the second year in which the bank continued its "Be Healthy" Programme with a number of interesting initiatives promoting healthy lifestyle, including medical visits at the company, webinars with experts, and articles on healthy diet, ergonomics and active leisure. Sports groups were formed: BZ WBK Runners Team, BZ WBK Bike Team, which represent the bank in competitions held in the country and abroad.

- **Annual BZ WBK Group staff engagement survey**

Staff Engagement Survey

Each year a survey is carried out to gauge engagement of the employees of Bank Zachodni WBK Group. The survey results, notably the improvement areas identified by employees, constitute valuable feedback for team managers. In 2017, the bank put in place a new platform for analysing the results. Out of the 89% of the employees who participated in the survey:

85% have a high assessment of leaders' management skills, appreciate the clear and regular feedback from their direct supervisors and trust-based relationships;

98% think that BZ WBK expects top performance from its staff;

94% understood risks they face in their day-to-day work and feel personally accountable for their management;

85% know the Group's strategic objectives and have a perfect understanding of what it means to be a bank which is Simple | Personal | Fair.

2. Development and Training

The Business Partnership Division provides development programmes and business-as-usual training to support the development of employees and management, and so contribute to the delivery of the bank's strategic goals and key business projects. The development and training model provides mutual benefits: it improves the bank's performance while responding to employees' career development needs.

The bank's development activities carried out in 2017 are presented in the section: "Delivery of HR Policy in 2017".

Training Activity

In 2017, the number of registered attendees totalled 219k, with 10.3% of training held in the form of workshops, with the remainder participating on a remote basis.

Advisors within branches took part in mandatory training courses stemming from regulatory requirements and quality assurance of customer service. They worked on their skills of selling selected products of the bank and the group, in line with the needs identified in individual customer segments. Sales training related to insurance products (Premium, Retail and SME Advisors) and investment products (Premium and Retail Advisors); business loans (courses taking SME Advisors to certification at three advancement levels) and mortgage loans (Mortgage Advisors). In addition, VIP Advisors were trained on how to build high satisfaction levels with VIP clients, conduct negotiations and provide financial advisory services based on the European Financial Advisor EFPA EFA III certificate.

In 2017, branch network managers were able to improve their managerial skills as part of quality licences, with a particular focus on telephone conversation skills. In macroregions, workshops were organised and devoted to team building and strengthening the bank's values.

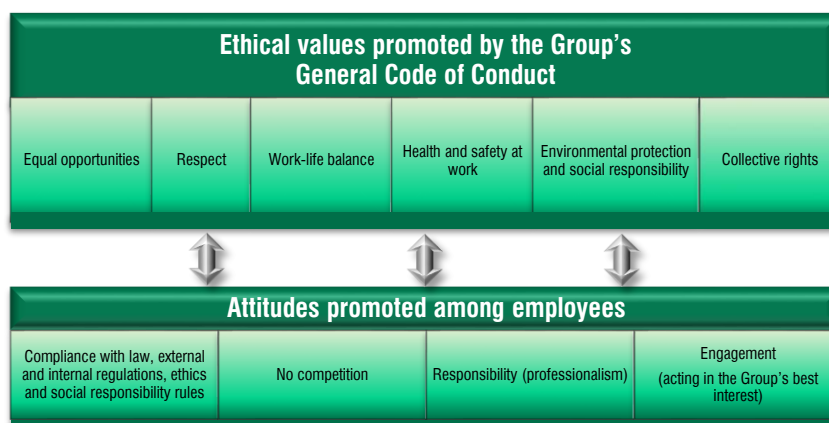
Training initiatives for the Business Support Centre were delivered in two streams, i.e.:

- Training required by law and supporting the strategic initiatives of the bank, including PSD2, MIFID II, MIFIR II, safety at work, first aid, security, changes in the Civil Code, prevention of money laundering, the Personal Data Protection Act and Payment Services Act.
- Specialist training supporting individual needs within particular divisions, including risk analysis, property valuation, audit, expertise and product knowledge development, management and interpersonal skills. Employees refined their skills by learning new teamwork or project management methodologies, including design thinking and Agile management.

3. Business Ethics

Bank Zachodni WBK is committed to maintaining high ethical standards in its relationship with shareholders, customers and employees. Integrity, fairness and honesty are fundamental elements of the Group's corporate culture.

The binding General Code of Conduct establishes standards and promotes attitude and behaviour that is compliant with the values "Simple, Personal and Fair". It provides a set of guidelines for all employees, irrespective of their role in the organisation.



The code of standards is complemented with regulations concerning specific areas: Code of Conduct in the Securities Markets, General Conflict of Interest Policy, Anti-Money Laundering Policy, Personal Data Protection Policy and the Anti-Corruption Programme.

The Group continually develops tools and resources to be able to minimise the occurrence and materialisation of legal liability risk arising from its operations. The Corporate Defence Model adopted in this respect is a set of internal rules aimed at mitigating this type of risk.

In order to protect its reputation, the bank continues to deliver the ethics and compliance e-learning programme (COMET), which has become a constant element of the staff training system. Ethical and reputational issues are also incorporated in the RiskPro campaign that promotes risk culture across the organisation.

In 2017, a reputational risk management model was implemented as an integral part of the bank's risk management framework. Reputational risk drivers are now effectively monitored and managed.

The bank consistently promotes the idea of an open dialogue with employees and provides them with special communication channels whereby they can report any breaches of the General Code of Conduct or other issues and concerns they have, including anonymously. Apart from the etyka@bzwbk.pl e-mail inbox, employees may use two helplines to report ethical or employment-related issues, respectively. In relation to the Dignity at Work Policy, the bank implemented an operating procedure establishing step-by-step instructions to be followed in connection with reports made by employees.

4. Corporate Social Responsibility of Bank Zachodni WBK

Key Assumptions of BZ WBK Sustainability (CSR) Policy

Corporate social responsibility initiatives undertaken by the bank are governed by the Sustainability (CSR) Policy which addresses key matters in this respect. It is complemented by a range of social and environmental policies. Bank Zachodni WBK recognises that customers are fundamental to its business and endeavours to support the communities it operates in to the largest possible extent. The bank has a major impact on its environment, therefore it has identified a number of areas where it can make a positive contribution. The main objectives are: to support education; to build a civil society; to promote equality of opportunity; to prevent social exclusion. The measures taken by the bank respond to the biggest challenges of the modern world and reflect the global Sustainable Development Goals set by the United Nations in 2015. The bank endeavours to ensure that its activities bring real benefits to local communities and contribute to social and economic development of individual regions and the country as a whole.

CSR priorities for Bank Zachodni WBK



Key Initiatives in 2017

Initiative	Measures
Sponsorship projects in 2017	For many years now, culture and education have been the main priorities of the bank's sponsorship initiatives. The bank is focused on long-term projects which can be associated with the bank's brand and facilitate communication and relationship building activities aimed at employees and customers alike.
Santander Orchestra Academy	<p>The project was launched in 2015 by MyWay Foundation, the Krzysztof Penderecki European Centre for Music and Bank Zachodni WBK.</p> <p>In 2017, the third edition was held in the form of Santander Orchestra Academy, combining musical workshops with additional initiatives for young musicians entering the labour market. The participants had the opportunity to practise their musical skills as well as get an insight into issues that are key to their career, such as public relations, social media or copyright law.</p> <p>125 musicians – students and graduates from Polish universities – took part in the workshops and lectures held between 30 September and 17 December 2017.</p>
"How's Your Driving" ("Jak Jeździsz")	<p>In 2015, the bank launched an educational project called "How's Your Driving" ("Jak Jeździsz") in order to broaden the knowledge of traffic rules and promote responsible and safe driving, particularly among young people. The project is delivered in cooperation with Kuba Giermaziak, a racing driver, and addresses such issues as driving etiquette, roundabout rules and first aid. An integral part of the project is extensive communication with the market, customers and employees.</p> <p>Over two years, the number of project fans in social media has reached 85 thousand. Interactive quizzes and competitions on safe driving each time attract several thousand web users.</p> <p>In order to reach local communities, in 2017 the bank extended the scope of the project and launched cooperation with a new partner – a local road traffic centre in Warsaw (WORD). Five thousand trainees participated in a three-month educational initiative organised by the Bank and WORD at three driving test centres in Warsaw.</p> <p>Other educational activities undertaken as part of the project in different locations across Poland attracted approx. 700 customers and employees of the bank.</p> <p>Each month, three thousand BZ WBK employees receive a newsletter with educational materials about safe driving.</p>
BZ WBK Press Foto	<p>In 2017, the bank organised the 13th edition of the BZ WBK Press Photo competition held since 2005. The objective of the competition is to reward the most talented photographers, many of whom already win accolades abroad. The competition attracted nearly eight thousand entries from a record number of 500 Polish press photographers. The panel awarded 149 photos in six categories: events, everyday life, society, culture and art, sports and nature.</p> <p>As each year, award-winning photos were shown at 15 exhibitions held in local culture centres across Poland. All those interested in photography could also attend the meetings with the winners or develop their skills during free two-day workshops, which attracted more than 300 people in the period from May to December 2017.</p>
National Museum in Wrocław	<p>The bank was a patron of the exhibition called "Fashion for Cranach" ("Moda na Cranacha") held by the National Museum in Wrocław between 31 October and 30 December 2017. The exhibition included art works of the Reformation period in Wrocław and the Silesia to commemorate the 500th anniversary of the year Martin Luther made his 95 Theses known to the world. One of the highlights were drawings from the 16th century which had not been exhibited before. The exhibition was accompanied by a series of lectures, workshops for children and curator tours.</p> <p>During two months, the exhibition was visited by around 30 thousand people.</p>

Bank Zachodni WBK Foundation

A large number of CRS initiatives are undertaken by Bank Zachodni WBK through its Foundation, which was set up 20 years ago.

The Foundation delivers grant programmes for youth organisations. As part of the last year's edition of the "Bank of Ambitious Youth" programme ("Bank Ambitnej Młodzieży"), the bank granted PLN 300k for 41 initiatives. Furthermore, in 2017 the Bank Zachodni WBK Foundation provided support to local communities as part of the third edition of the "Here I live here I make changes" competition ("Tu mieszkam, tu zmieniam"), granting PLN 500k to 100 organisations. A new grant programme called "The Bank of Young Sports Champions" ("Bank Młodych Mistrzów Sportu") was launched to promote sports and fair play. A total of PLN 300k was granted to 60 organisations. The overall support under the grant programmes totalled PLN 1.1m and was provided to 201 organisations.

Since 2010, Bank Zachodni WBK Foundation has supported the corporate volunteering initiatives at the bank. In 2017, more than 100 social projects were initiated and delivered by the bank's employees. They included initiatives to help people in need as well as educational workshops for children, young people or the elderly.

In 2017, an online platform was launched for volunteers to facilitate the planning and delivery of volunteering activities. Each employee of the bank may register as a new volunteer, choose a volunteering activity, propose their own initiative or join the existing one, as well as settle their project upon completion.

Market Communication on CSR

In July 2017, Bank Zachodni WBK published the fourth CSR Report for 2016, which had been prepared in accordance with GRI (Global Reporting Initiative) Guidelines 4.0. The Report won three awards in the CSR Report Competition – from journalists, web users and the voting panel. The Report was available online at www.bzwbk.pl/ms/csr.

The bank's commitment to corporate social responsibility is confirmed by its inclusion in the Respect Index of Poland's socially responsible companies.

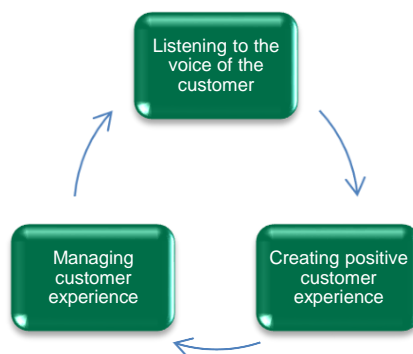
In 2017, the bank was also awarded with CSR Golden Leaf by *Polityka* magazine and was the only company from the financial sector which was ranked top in the 11th Responsible Company Ranking.

5. Customer Relationship Management

Service Quality and Customer Experience Management in 2017

Customer satisfaction and loyalty are the fundamental elements of the customer centricity strategy pursued by Bank Zachodni WBK. The bank analyses customers' expectations and needs to create and manage positive customer experience as well as to build loyalty and long-standing relationships with customers. Customer loyalty and willingness to recommend BZ WBK brand are measured through the Net Promoter Score (NPS), which has been included in the objectives of the sales network and back-office units.

Key elements of Bank Zachodni WBK's quality management system



Listening to the Voice of the Customer

In order to understand customers' needs and expectations, the bank analyses customer feedback from different sources such as complaints, opinions shared on social media or satisfaction surveys. The bank continually monitors loyalty and satisfaction of customers at different points of contact: after they have been serviced at the bank's branch, logged into the mobile or internet platform, used an ATM or a CDM, or called a helpline. The bank also has an alert system in place to notify branch managers of any negative feedback received from the customer (for example, in a questionnaire) so that they could investigate the issue and take measures to prevent any negative experience in the future.



Creating Positive Customer Experience

The bank builds positive experience taking into account customers' expectations, changes in the market and the banking sector, as well as social and cultural trends. Great emphasis is placed on ensuring consistent experience and access to products and services across all contact channels.

Managing Customer Experience

The bank manages customer experience with a focus on a customer journey across all brand touchpoints, taking into account the role of each of them. The bank takes measures to deliver on its brand promise: "Bank As You Want It" ("Bank jaki chcesz"), and will monitor the effectiveness of changes, including customers' brand awareness, loyalty and willingness to recommend the bank to a family or friends.

Building Customer Loyalty

The initiatives taken last year, such as the launch of the Account As I Want It (Konto Jakiej Chce) and "You Bank As You Want It" ("Bankujesz jak chcesz") campaign, helped the bank to strengthen its relationships with customers and even exceed their expectations. The bank's NPS increased considerably by 6 p.p. YoY to 32%.

Complaint Management

The complaint handling process at Bank Zachodni WBK satisfies regulatory requirements and is continuously improved to increase effectiveness and customer satisfaction.

Customers may submit a complaint by following a simple procedure in any of the following ways: at a branch, in writing, over the phone or via an electronic banking platform, including via a video call or chat. The reply to the complaint may have a form of a letter, a text message or a message sent via BZWBK24 internet or mobile banking services. Customers receive a text message informing them about the receipt and resolution of a complaint.

In 2017, 70% of complaints were resolved within three business days, which improved by 13 p.p. compared to the last year. The NPS based on the results of customer surveys on the complaint handling process was 24% on average, up 3 p.p. YoY.

Barrier-Free Banking Programme

For the last seven years, the bank has been delivering the Barrier-Free Banking Programme to enhance banking experience of customers with special needs (disabled customers, elderly people, pregnant women) across all contact channels (from branches to mobile banking).

The programme facilitates day-to-day banking for customers with special needs through the following:

- branches without architectural or other barriers with accessibility certificates in place (167 outlets as at the end of 2017);
- Online Advisor services available in sign language via video call (accessible by means of BZWBK24 mobile, BZWBK24 internet, the bank's website or tablets available at the bank's branches);
- ATMs designed for visually impaired or blind customers (233 specially adapted machines installed as at the end of December 2017);
- BZWBK24 electronic banking services certified for accessibility to sight impaired customers (work is underway to provide access to the BZWBK24 mobile application);
- portable induction loops available at 20 barrier-free branches since January 2017 (devices facilitating interactions with customers who use hearing aids);
- access to the bank's communication tools suitable for disabled customers such as advertisements, tutorials, the Barrier-Free Banking website, as well as local initiatives promoting services and facilities offered by barrier-free branches.

Marketing and Communication Campaigns

In 2017, Bank Zachodni WBK introduced a new format of marketing communication based on the bank's brand promise: "Bank As You Want It" ("Bank jaki chcesz") and "You Bank As You Want It" ("Bankujesz jak chcesz"), which focuses on the fundamental consumer need of having influence and control. The new brand promise is conveyed by the offer of the new Account As I Want It (Konto Jakie Chce), which features a range of options that can be freely modified by customers. The brand promise and the innovative functionality of personal account customisation were emphasised in a marketing campaign run from September to December 2017 in TV, press, cinemas, internet, billboards and branches. The campaign was a great success in terms of sales and image building and strengthened the unaided and top-of-mind awareness of the bank as one of the top three banks in Poland.

In spring 2017, the bank launched a consolidation loan campaign called "Zero gravity" ("Zero ciężenia"). The campaign, which was run in branches and the media, encouraged customers to transfer their debt from other banks and benefit from low credit payments. Nearly 16 thousand commercials conveyed the message to 25 million people. The campaign contributed to record high sales of cash loans (Q3 2017).

In 2017, the bank continued its activity in social media, strengthening its position as one of the financial institutions with the largest number of Facebook and Twitter fans and followers (287k and 16.2k, respectively). A number of extensive campaigns were also run, including an educational campaign of Pajacyk credit card organised in cooperation with the Polish Humanitarian Action (PAH) and "Hello money" ("Halo pieniądze") campaign. Social media were used to promote the Account As I Want It and the mobile application of the bank (1st place in the Mobile Trends Awards).

6. Awards, Recognitions, Rankings

Bank Zachodni WBK (BZ WBK)	
Best Bank in Poland	<ul style="list-style-type: none"> Best Bank in Poland and Best Bank in Poland for SME at the Euromoney Awards for Excellence in recognition of excellent financial results combined with the effective implementation of the strategic digital transformation programme. It is the third accolade for the bank in a row and fourth one in the last six years.
Golden Banker	<ul style="list-style-type: none"> Award granted by Bankier.pl and internet users in the "Safe Bank" category of the eighth edition of the Golden Banker ranking in recognition of the best sector practice.
Best Mobile Banking in Poland	<ul style="list-style-type: none"> Main award for BZWBK24 mobile application granted by Eksperci Bankier.pl in the mobile banking ranking for the widest range of options available to users, which make the bank stand out in the market.
Top Employers Poland 2017	<ul style="list-style-type: none"> An accolade for Bank Zachodni WBK as one of the companies that create the best working conditions for their personnel, cater for developing their talents and improve recruitment processes.
Best Benefits Strategy 2017	<ul style="list-style-type: none"> Award in the competition Best Benefits Strategy 2017 for the most interesting and most effective strategy of non-salary benefits for employees.
Banking Leader Incubator	<ul style="list-style-type: none"> Title of the Banking Leader Incubator for the highest amounts of guarantees issued, in a competition organised by Bank Gospodarstwa Krajowego and the Polish Banks Association. Three bankers from the Business and Corporate Banking Division were awarded as Leaders in Sales of Guarantees from the Guarantee Fund of the Innovative Economy Operational Programme.
Most effective bank	<ul style="list-style-type: none"> Awards in five categories at the "Banking Horizons" conference, including first place in the "Operational effectiveness of banks" category. Third position in the Banking Stars Ranking in recognition of the annual performance, and an accolade for profitability, effectiveness and business structure.
Social Campaign 2016	<ul style="list-style-type: none"> Main award in the "Social Campaign 2016" competition for the "Hello, Dad" ("Halo Tato") project. The project was also awarded with the Golden Clip accolade in a competition organised by the Polish Public Relations Consultancies Association.
Best CSR Report	<ul style="list-style-type: none"> Three awards in the CSR Reports Competition organised by the Responsible Business Forum and Deloitte. Bank Zachodni WBK was the only entity from the financial sector to receive the award, including an accolade from the voting panel, journalists and internet users.
Top Brand 2017	<ul style="list-style-type: none"> Third place in the Top Brand 2017 Ranking in recognition of the highest positive publicity rate in terms of number, scope and type of publicity. The Top Brand Ranking is conducted by <i>Press</i> monthly based on publicity in media, internet and social media analysed by Press-Service.

VI. Business Development

1. Bank Zachodni WBK and Selected Subsidiaries

1.1. Retail Banking Division

Main Directions

BZ WBK Retail Banking provides services to more than four million personal customers who are assigned to Standard, Premium, VIP and Private Banking segments which differ in terms of the personalisation of services.

In 2017, the bank progressed well with its strategic transformation into a customer-centric organisation. In the retail banking area, the main focus was on:

- building customer loyalty by strengthening relationships and increasing satisfaction with banking services;
- developing products and services which are simple and clear, suit customers' needs and are available in remote channels;
- increasing the efficiency of remote channels by encouraging customers to use them more frequently;
- effective management of customers' portfolios to increase consumer loans and generate higher fee income, mainly from investment products and services;
- developing the knowledge and skills of customer advisors.

One of the flagship products launched by the bank in 2017 was the Account As I Want It (Konto Jakie Chceę) – a personal account coming with a Customised Card (Karta Dopasowana) and a range of services and options that can be freely modified by customers according to their needs. This product is a part of the bank's new brand strategy: You Bank As You Want It, which is aimed at increasing satisfaction of customers and, ultimately, their loyalty and willingness to recommend the bank's services. Since November 2017, the Account As I Want It (Konto Jakie Chceę) has been a central element of the simplified range of personal accounts offered by Bank Zachodni WBK.

As part of the Multichannel CRM Programme, in 2017 the bank continued the integration of sales channels such as electronic banking, ATM network, email and text message solutions with front-end systems operated by branches and the Multichannel Communication Centre. Effective, two-way communication across all channels is fundamental to creating a seamless multichannel CRM environment that will enable the bank to respond to customers' needs in a consistent way, regardless of how they contact the bank.

The full integration of the ATM network and CRM systems allowed the bank to launch its first multichannel initiatives in real time, which are elements of the bank's target CRM architecture. Online communication with electronic banking platform was established as a pilot, preceding full implementation in 2018.

In the reporting period, the bank improved algorithms and mechanisms which are used to identify the most suitable products for customers, taking into account their preferences as well as developments in their private lives.

The bank also continued the New Distribution Model project, as part of which new branches formats are created and branch staff skills are adapted to modified roles and operating concepts.

Personal Accounts and Bundled Products

Personal Accounts

New Account As I Want It (Konto Jakie Chce)

On 21 August 2017, Bank Zachodni WBK launched a new personal account called Account As I Want It (Konto Jakie Chce). The account comes with Customised Visa or Customised Mastercard debit card and is offered in the following two options: to customers under 26 and to other customers. The account is operated free of charge and provides free online transfers. Customers may choose the amount of a card fee and decide how to pay it. A range of options that may be freely modified by customers add to the competitive edge of this product. Customers may open or switch to this new account at a branch, via the internet or over the phone, without the need to change their account number.

The Account As I Want It comes with a new Regular Savings Account (Konto Systematyczne), which makes it possible to save money via standing order from the Account As I Want It.

The Account As I Want It has been recognised in industry rankings. It was voted the best and the most customer friendly personal account in the rankings published by gazeta.pl (11 September 2017) and Comperia.pl (26 September 2017).

The new product is an important element of the bank's strategy aimed at simplifying the range of personal accounts and debit cards. Since 1 November 2017, customers may only choose from the Account As I Want It (Konto Jakie Chce) with the Customised Card, the VIP Account (Konto VIP) with the Customised Card or VIP Card, and FX Account24 (Konto24).

From 21 August 2017 till the end of December 2017, 335k Account As I Want It accounts were opened. Until 31 January 2018 (i.e. before the release date of this report), this number exceeded 400k thanks to attractive and flexible parameters of the account and an effective marketing campaign.

Personal Account Portfolio of Bank Zachodni WBK

In 2017, the portfolio of PLN personal accounts grew by 2.5% YoY and reached 3.2m as at the end of December 2017. Including FX accounts, the personal accounts base totalled nearly 4m. The Account As I Want It was the most popular account among customers, followed by the Account Worth Recommending (Konto Godne Polecenia).

Debit Cards

The offer of the bank's debit cards allows customers to manage card parameters on their own using remote channels. On 3 June 2017, self-service options available to the users of BZWBK24 internet and BZWBK24 mobile were extended to include the functionality of blocking and activating debit and credit cards of Bank Zachodni WBK, and additional processes connected with the new Account As I Want It, enabling customers to choose their preferred options and fees related to the Customised Card.

Having simplified the range of personal accounts and debit cards (November 2017), the bank took measures to streamline these product portfolios (customers whose debit cards have expired now receive Customised Visa or Mastercard card).

As at the end of December 2017, the personal debit card portfolio of Bank Zachodni WBK (excluding 0.4m prepaid cards) comprised over 3.4m items and increased by 6.1% YoY. Taking business cards into account, the total number of debit cards reached 3.6m, up 6.2%.

Prepaid Cards

The value of the prepaid card portfolio has been gradually decreasing in the wake of the Management Board's decision of November 2015 to withdraw prepaid cards from the bank's offer following an industry debate and guidance from the market regulator.

Accompanying Services

In view of a growing share of non-residents in the BZ WBK customer base, in particular customers from Ukraine, the bank prepared marketing materials and regulations in the Ukrainian language. Customer advisors were provided with a dedicated website with information and materials about services for non-residents. In addition, on 1 June 2017 the Multichannel Communication Centre launched phone service in Ukrainian.

Savings and Investment Products

Deposit and Investment Products for Personal Customers

Turning to deposit and investment products, in 2017 Bank Zachodni WBK focused on strengthening relationships with deposit customers, diversifying the portfolio and increasing the share of investment solutions, simplifying the range of deposits and increasing their availability in remote channels as well as optimising the structure of deposits. The optimisation measures taken by the bank in a low interest rate environment contributed to further growth in the share of stable balances of current and savings accounts bearing low interest rate in the total deposit portfolio. At the same time, the share of term deposits decreased, while the transfer of deposits to BZ WBK TFI investment funds hit an all-time high.

Retail Deposits Management

One of the new features of the bank's deposit range is the Regular Savings Account (Konto Systematyczne) introduced in August 2017 in branches, partner outlets and BZWBK24 internet as one of the products and services linked to the Account As I Want It (Konto Jakiej Chce). This account turned out to be very popular among customers as it pays relatively high interest. From August to December 2017, more than 50k customers signed up for this product.

New funds were also acquired on the back of two Max Savings Account (Konto Max Oszczędnościowe) campaigns, which offered attractive interest over a defined period. As a result, more than PLN 2.2bn new funds were collected.

In 2017, the bank continued to reward active deposit customers, increasing product penetration. New special offers were launched using a mechanism called "Active Deposit" ("Aktywny Depozyt") which automatically increases an interest rate on savings accounts once the volume of transactions in a personal account (including online and card transactions) reaches a stated level. The bank also revamped its Bonus Deposit (Lokata Bonusowa), which paid high interest on condition of active use of other banking products (e.g. credit cards or insurance products) and continued to offer the e-Investor Deposit (e-Inwestor) via the internet banking platform to holders of investment products.

Deposit retention was facilitated by negotiated deposits and the centralised retention process, using term deposits and savings accounts.

At the end of December 2017, the total balance of savings accounts was PLN 25.0bn, an increase of 6.9% YoY. The total deposit base of the personal segment amounted to PLN 59.2bn, i.e. up 2.7% YoY. Aside from current and savings accounts, the fastest balance growth was reported for negotiated deposits offered to VIP and Private Banking customers as well as term deposits available only via remote channels: 1-month eDeposit (eLokata) and eInvestor Deposit (eInwestor).

Thanks to an effective product and pricing policy, the bank achieved the target structure of the deposit portfolio, with 72,4% share of current and savings account balances (68,5% in December 2016).

Structured Products

Structured Deposits

In 2017, Bank Zachodni WBK continued its activity on the structured deposit market. The bank sold products with a yield linked to exchange rates, stock indices or investment fund performance, providing 100% capital protection at the end of the deposit term.

The bank offered 99 products with a wide variety of tenors in the total of 46 subscriptions, including:

- 44 subscriptions for standard personal customers:
 - ✓ in 21 subscriptions, the bank offered deposits with interest rate linked to the EUR/PLN or USD/PLN rate, and the investment strategy adopted by the customer: appreciation, depreciation or stabilisation of currency;
 - ✓ in 17 subscriptions, the yield was linked to the following stock indices: Nasdaq 100, Euro Stoxx®Oil&Gas, Euro Stoxx 50®, DAX, STOXX® Europe 600 Health Care or performance of investment funds: SPDR® S&P® Metals and Mining and SPDR® Gold Shares;
 - ✓ 6 subscriptions of FX structured deposits paid interest linked to the EUR/PLN, USD/PLN or EUR/USD rate;
- 2 subscriptions were aimed at Private Banking customers, with interest linked to the performance of investment funds: SPDR® S&P® Metals and Mining and SPDR® Gold Shares.

In all, more than PLN 550m was collected as a result of the aforementioned subscriptions.

Brokerage Products

In terms of services for individuals, in 2017 BZ WBK Brokerage House focused on products and services offered with investment advice and on strengthening its position in the foreign investments market by optimising pricing and implementing further enhancements for customers (for example, new analytical materials and access to foreign stock market quotes).

The range of products and services was simplified to suit customers' needs: some products were withdrawn from the offer and fees and charges were harmonised by introducing a single fee regardless of the order value or target market. The offer for active customers was further developed and a fast track process was put in place for customers intending to sign an agreement with the bank (based largely on remote channels).

The brokerage products distribution model was reviewed to align the number of service points with customers' needs and to implement new technology solutions. This is expected to make the product proposition more attractive, encourage more active use of remote channels and increase market share.

The range of brokerage products and services for business customers was extended to include the Direct Market Access service that gives investors in Poland (including foreigners) an opportunity to place orders themselves. Customers may use an FIX protocol to make orders abroad and have access to analytical materials concerning Czech and Hungarian companies.

BZ WBK Brokerage House achieved a leadership position in the IPO, SPO, ABB and trade offer markets, participating in the following deals:

- IPO of PLAY Communications S.A. – the largest deal of this kind in the history of the WSE, with the bank acting as a co-manager;
- IPO of Griffin Premium RE N.V. – with the bank acting as the lead manager;
- IPO of Maxcom S.A. – with the bank acting as the lead manager;
- IPO of Dino Polska S.A. – with the bank acting as a syndicate member;
- Trade offers: PELION, Integer, Griffin Premium RE, InPost, Paged.

In 2017, BZ WBK Brokerage House fully leveraged the buoyant stock market and generated strong income from brokerage fees as a result of processing 75% higher turnover originating from individual customers.

Investment Funds

Arka Investment Funds on Offer

In 2017, a number of prospectuses and/or statutes of Arka investment funds managed by BZ WBK TFI were updated to reflect changes to:

- selected elements of investment policy (e.g. Arka Prestiż Gotówkowy, Arka BZ WBK Gotówkowy, Arka BZ WBK Obligacji Europejskich, Arka Platinum Stabilny, Arka Platinum Dynamiczny),
- level of payments to sub-registers (Arka Prestiż SFIO, Platinum sub-funds of Arka BZ WBK FIO and Arka BZ WBK FIO),
- operating services provided to customers investing in open-ended funds (Arka BZ WBK FIO, Arka Prestiż SFIO);
- calculation of investment value (Arka Prestiż SFIO);
- asset pricing methods (all the funds);
- terms of liquidation (Arka BZ WBK Akcji Środkowej i Wschodniej Europy) and other.

The availability of Arka funds was increased as a result of significant reduction in the minimum initial investment in Arka Prestiż SFIO and Arka Platinum subfunds as part of Arka BZ WBK FIO (May 2017) and in the minimum subsequent investments in Arka BZ WBK FIO (October 2017).

On 3 November 2017, BZ WBK TFI set up a new subfund as part of Arka BZ WBK FIO, i.e. Arka BZ WBK Akcji Małych i Średnich Spółek (BZ WBK Arka Small and Medium-Sized Enterprises). The subfund is aimed at investors who look for high returns over a longer time horizon and accept risk associated with the performance of small and medium-sized companies based in Poland. It is an equity fund, with min. 66% of funds invested in shares and similar instruments issued by Polish SMEs and traded on the WSE. The debt portion is invested in treasury bills, treasury bond and other debt instruments.

22 December 2017 was the last trading date for investment funds of Arka BZ WBK Akcji Środkowej i Wschodniej Europy FIZ (CEE Equity Close-end Fund) before the start of the liquidation process on 29 December 2017.

Investment Funds in Remote Channels

Since January 2017, BZ WBK customers may purchase Arka investment funds via telephone or video call, in line with the strategy to increase sales in remote channels. In November 2017, a full array of services was made available in the multichannel BZWBK24 platform, "Arka Funds" tab (including product offering, new ways to execute a transaction, information about an investment portfolio, monitoring of stock market quotes, etc.). The remote investment fund model is based on an IT platform which was implemented as part of the MiFID II project, taking into account both regulatory requirements and customers' expectations. In 2018, further features will be offered to customers, which along with other product, procedural and operational changes are expected to strengthen the competitive edge of Arka funds.

Positive customer experience is also created through the Welcome Programme launched in 2017 and easy access to information about investment funds, including on social media.

In 2017, net sales of Arka funds via BZWBK24 (telephone and internet) accounted for 67% of total sales generated by Bank Zachodni WBK.

Sale of Investment Funds

As at 31 December 2017, the total net assets in investment funds managed by BZ WBK TFI were nearly PLN 16.0bn and up 19.5% on 31 December 2016.

Corporate bond subfunds and selected equity subfunds (particularly Polish equity ones: Arka Prestiż Akcji Polskich and the new Arka BZ WBK Małych i Średnich Spółek, and also Arka Prestiż Akcji Europejskich) continued to be most popular among customers. There was also a relatively good demand for cash and stable growth funds.

In 2017, BZ WBK TFI was one of the top investment fund companies in Poland, both in terms of net sales and growth in assets under management.

Awards for Arka Funds

- In March 2017, the following three Arka funds received accolades from an independent research company Anality Online for their performance in 2016:
 - ✓ Arka Prestiż Akcji Polskich, in the category: Best Polish Equity Fund
 - ✓ Arka Prestiż Obligacji Korporacyjnych, in the category: Best Polish Corporate Bond Subfund
 - ✓ Arka Prestiż Obligacji Korporacyjnych, in the category: Best Selling Fund.
- Anality Online affirmed the three-star rating for Arka BZ WBK Zrównoważony (balanced fund) as a solid product aimed at investors who accept moderate investment risk. The managers of this fund proactively search for additional yields. The advantages for customers include limited volatility of fund performance and relatively low fees.
- In October 2017, BZ WBK TFI was voted third best investment fund company in the "Your Money" ranking published by *Rzeczpospolita* daily. The company was recognised for its wide range of products and services for retail investors and the security of investments regardless of the fund chosen by the customer.

Lending Proposition

Cash Loans

In 2017, Bank Zachodni WBK introduced a number of solutions to make its cash loans more attractive to customers such as a variable interest rate for loans with tenors exceeding 24 months, a minimum fixed interest rate of 4.99% for loans ranging from PLN 4k to PLN 15k, and a lower fee for loans with the Worry-Free Loan (Spokojny Kredyt) CPI insurance or loans up to PLN 4k obtained via the BZWBK24 electronic banking platform.

In March 2017, the bank modified the terms of consolidation loans by extending the lending period above 72 months for the bank's customers. A marketing campaign was also run (via TV spots, posters and the internet) for a "Zero gravity" ("Zero ciężenia") loan whose purpose was to transfer and consolidate credit obligations. The campaign was supported by a special offer with 0% fee on the value of obligations transferred.

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

- Cash loan with the Worry-Free Loan (Spokojny Kredyt) CPI insurance available at a lower fee;
- Cash loan up to PLN 4k;
- Cash loan with the Account As I Want It (Konto Jakie Chcę);
- Overdraft with the Account As I Want It (Konto Jakie Chcę);
- Cash loan with a credit card;
- Zero Gravity (Brak Ciężenia) II – a special deal on loans taken out to repay debt with other banks.

In 2017, cash loan sales increased by 5.9% YoY, reaching more than PLN 4.2bn. The most effective distribution channels in terms of sales were the BZWBK24 electronic banking platform (+61% YoY) and the Multichannel Communication Centre (+43% YoY). Remote channels accounted for 21% of cash loan sales in this period.

The cash loan portfolio was up 5.8% YoY and totalled PLN 7.6bn.

Mortgage Loans

In 2017, the bank's range of mortgage loans was modified in accordance with customers' needs and regulatory requirements.

Pursuant to Recommendation S issued by the KNF, in 2017 the minimum deposit was increased to 20%. The bank accepts lower deposits (min. 10%) on condition of taking out a payment protection insurance from PZU in relation to home loans with an LTV above 80%.

Pursuant to the Act of 23 March 2017 on mortgage loans and supervision over mortgage loan brokers and agents, on 22 July 2017 Bank Zachodni WBK introduced changes to the range of mortgage loans and terms of their sanction. In particular, the bank:

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

In response to customers' needs, in February 2017 the terms of self-build mortgage loans were modified to increase their availability and facilitate credit application processing.

Bank Zachodni WBK took further measures to assist mortgage borrowers, including:

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

In 2017, the value of new (disbursed) PLN mortgage loans totalled PLN 5.2bn, down 6.6% YoY. In this period, sales of home loans offered under the "Home for the Young" ("Mieszkanie dla Młodych") programme decreased as the pool of funds for subsidies in 2017 had been used in full. Most mortgages were sold via own branch network and via local intermediaries.

The gross mortgage portfolio grew by 2.7% YoY, reaching PLN 34.8bn at the end of December 2017. The value of PLN mortgage loans amounted to PLN 24.3bn, up 16.1% YoY.

Credit Cards

In 2017, Bank Zachodni WBK took measures to increase the availability of credit cards, develop their functionality, grow credit card sales and promote card transactions.

- The functionality of remote channels was extended as follows:
 - New cards were added to the range of cards sold via the BZWBK24 internet platform: MC 1|2|3, Visa Platinum and World MC (now a full array of credit cards offered by the bank is available via BZWBK24 internet);
 - New features were added to the BZWBK24 mobile application, including an option to increase a credit card limit, sign up for the Ratio service or conclude a credit card agreement (for MC 1|2|3, Visa Silver Akcja Pajacyk, MasterCard Silver or Visa Platinum cards);
 - In both channels, i.e. BZWBK24 internet and BZWBK24 mobile, the bank offered the 1|2|3 card on attractive terms and new features such as: blocking and activating credit (and debit) cards, generating card statements, reducing credit limit and changing an automatic payment option.
- Initiatives were taken to make BZ WBK credit facilities more available and customer friendly:
 - The limits of respective credit cards were changed;
 - On 20 February 2017, the Balance Transfer service was offered to customers looking to transfer their credit card debt from other banks on attractive terms;
 - The minimum net income requirement for the 1|2|3 card was reduced (in line with Mastercard Silver and Visa Silver Akcja Pajacyk cards) along with the waiver of a requirement for automatic minimum payment.
 - The process of applying for an additional credit card, such as Visa Silver Akcja Pajacyk, MC Silver or 1|2|3 card was simplified (the process is initiated by the holder of the main card and the card user does not need to be present);
 - The Ratio service was optimised and aligned with regulatory requirements.
- The bank continued to proactively promote credit cards and accounts in order to increase sales and encourage wider use of these products. This included:
 - special deals such as “A welcome PLN 200” (“200 zł na dzień dobry”), “Holidays with a Credit Card” (“Wakacje z kartą kredytową”), 2nd edition of CashBack campaign, “Recharge Your Batteries with a Visa Credit Card” („Ładuj baterie z kartą kredytową Visa”), “PLN 50 for the average grade of min. 4.0 on your school certificate” (“50 zł za średnią minimum 4,0 na świadectwie szkolnym”), “Suitcase with a credit card” (“Walizka do karty kredytowej”);
 - a loyalty programme called Priceless Specials launched by Mastercard for holders of World MasterCard cards in January 2017, encouraging active use of the card with partners and online;
 - special offers for customers signing up for a credit card for the first time or after some time: “Starter Card” (“Karta na start”) and “ENTRY Credit Card” (“Karta kredytowa ENTRY”);
 - modified fees applying to 1|2|3 credit cards issued after 1 July 2017: customers who made a specific number of transactions with the above-mentioned card were not charged periodic fees;
 - launch of long-term cooperation with a partner from the fuel sector under which 1|2|3 credit card customers earn cashback at Circle K and Statoil petrol stations (financed by the partner);
 - the first educational platform in Poland (kartoswajanie.bzwbk.pl) providing practical guidelines about credit cards (launched in October 2017);
 - mobile payments campaign focusing on the benefits of different payment methods offered by the bank (BLIK, Android Pay, HCE) along with special deals for customers e.g. “More power with Visa mobile card” (“Zyskaj moc z kartą mobilną VISA”);

As at 31 December 2017, the credit card portfolio of Bank Zachodni WBK comprised 803.2k instruments, an increase of 3.0% YoY.

Bancassurance

Insurance offer

Bank Zachodni WBK offers all insurance products in an individual model, acting as an agent of BZ WBK-Aviva TUO and BZ WBK-Aviva TUŃ.

The bank's insurance offer includes products linked with the bank's credit facilities for retail and business customers and non-linked products.

In 2017, the Safe Money (Pewne Pieniądze) debit card insurance was modified in terms of insurance cover and sum insured, and the range of non-linked products was expanded to include Plan B (unemployment insurance available only via the Multichannel Communication Centre) and Locum Comfort (home insurance replacing the former Locum insurance). The Locum Comfort insurance has a flexible structure, which means that the insurance cover may be freely modified to suit customers' needs. At the end of the year, the product was made available in the BZWBK24 internet platform.

In July 2017, a loyalty insurance programme was put in place to offer lower premiums to holders of Locum Comfort, Onkopolisa or Family Care insurance provided they renew their insurance cover or have more than one insurance product obtained via the bank. Customers were provided with an option to buy debit card insurance via BZ WBK ATMs.

In 2017, the bank started a three-year strategic programme 4Sure, which is designed to increase penetration of insurance products among retail and SME customers, increase customer satisfaction and loyalty, stimulate digitalisation of insurance processes, grow the share of digital channels in insurance sales and expand the product range.

Insurance Sales

In 2017, sales of linked insurance products were broadly stable YoY, while sales of non-linked insurance products increased due to a proactive approach taken by branch advisors and positive feedback received from customers in relation to the Locum Comfort insurance.

The following products contributed most to bancassurance income: the Worry-Free Loan (Spokojny Kredyt) individual insurance package for cash loan borrowers, Family Care (Opiekun Rodziny) life insurance, Business Guarantor (Biznes Gwarant) insurance package for business loan borrowers, and Locum/Locum Comfort home insurance.

Services to Financial Institutions

Bank Zachodni WBK cooperates with more than 20 Polish and foreign banks and financial institutions in terms of outsourcing services related mainly to card personalisation, issuance and handling, and ATM network management.

The bank's partners are offered a modern IT infrastructure and real-time access to transaction data. High quality and security of services was confirmed by the certification of personalisation processes for magnetic strip and chip cards conducted by Visa and MasterCard. The bank continues to adapt its products and functionalities to suit the requirements of its customers and gradually expands its offering, ensuring it is highly innovative. In 2017, the cooperation was extended to include Android Pay services, webservice for mobile and electronic banking, enablement and disablement of contactless technology in ATMs, 3D Secure – authorisation of card-not-present transactions and DCC services for five new currencies (CZK, CNY, RUB, TRY and RON). As at the end of December 2017, the bank managed a network of 506 third-party ATMs and handled nearly 3.2 million cards.

New products and features related to card and ATM services were developed, such as personalisation of custom cards and services connected with multi-currency cards. They will be offered to banks in the coming months.

1.2. SME Banking Division

Scope of Business

The strategy of the bank is to support the business expansion of small and medium-sized companies based on the following three pillars: top quality customer services provided through qualified branch advisors and robust remote communication channels, the building of loyalty and long-term relationships with customers and simple but distinctive products with additional non-financial services.

The SME segment is made up of almost 308k entities with an annual turnover of up to PLN 40m. In 2017, the SME Banking Division modified internal segmentation rules and services for SME customers and changed the organisational structure accordingly. In addition to the existing SME segments, i.e. mass customers (SME 1) and customers with a higher turnover (PLN 5–40m) and more complex requirements (SME 2), in 2017 a process was launched to carve out an SME Digital segment created by customers who prefer the remote service model via electronic banking, the mobile application or remote advisor.

In order to facilitate multichannel access to SME products and services, the SME Digital Customer Office was set up to manage remote communication with customers. Furthermore, the scope of operations performed by the SME Service Centre was extended and a project was launched to create a virtual branch for SME customers in the Multichannel Communication Centre which provides companies with support from a dedicated advisor. At the same time, the functionality of online banking within iBiznes24 was extended. The above measures enabled the bank to steadily release the resources that are needed to strengthen relationships with SME customers and to provide them with products and services that even better suit their needs in traditional sales structures.

During the reporting period, the SME Banking Division focused on increasing the quality of services provided to customers from the upper-end of the segment (SME 2). Accordingly, new sales structures were set up in the Division to cater for the needs of the above customers. Previously, such structures were located in macroregions (Branch Banking). The newly created SME Sales Area was divided into four regional departments (central, south, west and north) composed of service centres employing around 160 customer advisors in total. Furthermore, a new operational agenda was introduced to focus on customer relationships, and an incentive scheme was implemented to support the delivery of targets on the basis of objective business criteria. Additionally, changes were introduced to simplify and streamline credit delivery to customers from the SME II segment, while maintaining the high quality of the portfolio.

The bank developed new CRM activities and tools to support the delivery of the strategy. It launched a number of sales initiatives in relation to non-interest products, based on the sale of POS terminals, cross-selling to lease customers and an increase in FX transaction volumes. The range of products and services was modified in line with customers' expectations.

The bank's goal is to become a partner for SME customers by offering advice and a wide array of non-financial services (e.g. support in networking with prospective counterparties and investors, industry insight, specialist workshops and training).

Product Range Development

Scope of the Offer

The fundamental elements of the offering for SME and other business segments as follows:

- customised business accounts;
- a wide array of credit facilities such as working capital financing, investment loans (including via the European Investment Bank), preferential loans subsidised by the Agency for Restructuring and Modernisation of Agriculture and guarantees, leasing and factoring facilities.

An extensive range of deposit and investment products, modern distribution channels, comprehensive trade finance services and treasury services serve as additional tools to build sustainable relationships with customers.

Development of Credit Facilities for SME Customers

The Business Express Loan (Kredyt Biznes Ekspres) for SMEs is the bank's flagship credit facility which is distinctive by its customer-friendly service procedures (minimum documentation, fast turnaround, availability in remote channels), no requirement to define the purpose of financing and the possibility to finance working capital needs and investments up to PLN 500k for up to five years. The EIB Business Express (Biznes Ekspres EBI) launched in June 2017 additionally offers a favourable interest rate (at a lower margin) based on a guarantee agreement with the European Investment Bank (EIB). In August 2017, a capped rate functionality ("Oprocentowanie nie wyższe niż") was implemented to protect customers against an increase in interbank rates.

In 2017, the scope of credit services for SME customers in remote channels was materially extended. New customers (namely, sole traders) were offered a fast remote credit decision (within 15 minutes) for online financing applications of up to PLN 50k. Starting from January 2017, the bank's customers with a predefined offer may sign up for a Business Express loan of up to PLN 50k over the telephone and without any need to provide collateral or leave their office, and since November 2017 they may avail of loans with the above parameters in the "buy by click" (end-to-end sales process) as part of the BZWBK24 Mini Firma services.

The bank steadily streamlined its lending processes and introduced a new and convenient solution in its credit service to customers. In February 2017, the level of debt (all existing and sought mortgage-backed loans) requiring a customer to submit a valuation report was increased to PLN 500k. In March 2017, the bank introduced a new simplified credit application form for SME II customers in relation to all credit facilities. In May 2017, a multiline was introduced for SME II customers which combines credit facilities (overdraft, w/c loan) with credit and settlement services (guarantees and letters of credit) under one agreement. The benefits include fewer formal requirements (one loan agreement for a number of products), a one-off cost of collateral establishment and access to a wide range of facilities in various currencies as part of the available limit.

Participation in Guarantee Programmes

The bank works with external institutions to provide such market loan collateral tools as de minimis guarantees, COSME guarantees, guarantees of the Polish Agency for Agriculture Restructuring and Modernisation (ARiMR) and POLFUND civil law guarantees, which allow the customer to avoid encumbering their tangible assets to secure the loan and at the same time benefit from a lower loan interest rate.

At the end of January 2017, Bank Gospodarstwa Krajowego (BGK) completed the Guarantee Fund project delivered under the Innovative Economy Operational Programme (FG POIG). Bank Zachodni WBK was ranked first among ten participating banks in terms of sales of de minimis guarantees distributed by BGK under the above government scheme. The bank received a distinction from BGK and a statuette of the leader of the portfolio with the highest quality secured with a de minimis guarantee. It also maintained second position in terms of the number and value of de minimis and COSME guarantees distributed by BGK.

Development of Services in Electronic Channels

In 2017, Bank Zachodni WBK improved its electronic banking services provided to companies cooperating with foreign partners by simplifying the process of opening accounts in non-standard foreign currencies, extending the scope of FX transactions, prolonging the working hours of its FX Currency Exchange platform in iBiznes24 and BZWBK24 Exchange in Moja Firma Plus and BZWBK24 Mini Firma, as well as providing access to the Santander Trade Network - a unique service which facilitates international expansion.

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

Since 17 July 2017, SME II customers can be identified using voice biometrics, which, coupled with the phone number recognition mechanism, eliminates any need to use the NIK (customer identification number), PIN or password.

Sole traders and partnerships were given an opportunity to set up a Trusted Profile in BZWBK24 Mini Firma and Moja Firma Plus, enabling easy access to online public administration services and allowing them to deal with formalities related to the conduct of business, including social insurance (ZUS) documents, changing their company's data in the business registry (CEIDG) or applying for sectoral approvals, permits and concessions.

Also, the bank was the first in the market to offer business customers the possibility of opening accounts utilising video authentication - a modern, secure and convenient identity verification mechanism based on biometric features.

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

Multidimensional Customer Relationship

Bank Zachodni WBK continued initiatives aimed at growing the sales of business accounts, POS terminals, currency exchange and factoring products. To that end, the bank launched a special offer called "Business Account Worth Recommending with a Payment Terminal" („Konto Firmowe Godne Polecenia z terminalem płatniczym"), which rewards customers who sign up for the "Business Account Worth Recommending" ("Konto Firmowe Godne Polecenia") and who settle their transactions via a POS terminal. In November 2017, sales of POS terminals were supported by ID-Instant Decision - a system which makes it possible to generate and conclude a payment terminal agreement during a single visit to a branch.

Delivering the concept of partnership relations with customers, the bank, in cooperation with external experts, shared its know-how and experience with companies during regular free conferences within the Entrepreneur's Academy (Akademia Przedsiębiorcy). In 2017, 15 conferences were organised, dealing with the following topics: "How to be successful in business. Communication skill is the key" and „Woman in business.” The initiative attracted 500 participants representing companies from all around Poland. Additionally, as part of the "Business Evolutions" ("Firmowe ewolucje") initiative, local meetings and workshops were held, focusing on succession planning, foreign trade, EU funds, taxes, recruitment, HR management, and funding and financial management in companies. 325 workshops attended by 4000 entrepreneurs were held across Poland by the end of December.

Best SME Bank in Poland

In July 2017, Bank Zachodni WBK was awarded the best Bank in Poland for SME in the Euromoney Awards for Excellence, one of the most renowned competitions in the financial sector and one that sets benchmarks and trends for the whole industry.

Leasing

Merger of Leasing Companies

In order to simplify the business model and provide access to comprehensive finance and lease services from one company, BZ WBK Leasing merged with BZ WBK Lease. A relevant entry to the National Court Register (KRS) was made on 28 February 2017. Accordingly, BZ WBK Leasing, the acquiring company, assumed all rights and obligations of BZ WBK Lease, an acquired company, which was removed from the National Court Register without formal liquidation.

BZ WBK Leasing is now a universal lessor which offers financing for a wide range of assets to SME, corporate and large corporate customers. The company specialises in the lease of machines and equipment, property and vehicles; basic products and services are complemented by insurance packages and fuel cards.

Fixed Asset Financing

In 2017, BZ WBK Leasing financed fixed assets of nearly PLN 4.2bn, achieving record-high twelve-month sales. In the segment of machines and equipment, where BZ WBK Leasing has been the leader for years, the lease volumes came in at almost PLN 2bn, up 18.8% YoY.

Development of Lease Products and Services

In early 2017, the leasing offer was complemented by Truck Assistance, a new insurance product for trucks and trailers, offering a comprehensive coverage for breakdowns, accidents or immobilisation.

The parameters of Autoleasing were modified such that customers may apply for financing of max. PLN 150k net for new or second-hand cars or vans. In June 2017, BZ WBK Leasing received the "Portfel Wprost" distinction for Autoleasing in the "best leasing" category.

Since July 2017, the company has been the sole financial partner of Subaru, providing complete financial solutions, tools and services to dealers. As a result, by in August, every third purchase of a Subaru car was financed by BZ WBK Leasing. In December 2017, vendor finance schemes were launched on the market of agricultural machines from Samasz Finance and FarmTrade Finance to enable the implementation of a loan with a 0% interest rate for farming equipment with subsidies for suppliers.

Since May 2017, customers of BZ WBK Leasing may use the eBOK24 customer service portal, in which they have 24/7 access to their agreements, balances and documents.

Based on the guarantee agreement between Bank Zachodni WBK and the European Investment Bank (EIB), and the credit agreement between BZ WBK Leasing and the Council of Europe Development Bank, the subsidiary had funds for financing development of SMEs. As part of cooperation with the European Bank for Reconstruction and Development (EBRD), BZ WBK Leasing extended the scope of financing environmental projects and earmarked EUR 50m for the modernisation of Polish enterprises in terms of energy efficiency, renewable energy sources or waste and water management.

1.3. Business and Corporate Banking Division

Scope of Business

The Business and Corporate Banking Division provides services to business customers with a turnover of more than PLN 40m and a credit exposure exceeding PLN 10m. The customer base was divided into two basic segments by turnover volume: corporate segment and property finance segment.

As at the end of December 2017, the Business and Corporate Banking Division provided services to the customer base of 8,700 entities from various sectors, supporting them in building and growing their business. Advisors from the 12 Corporate Banking Centres, together with credit partners and product specialists delivered tailor made solutions to these customers and comprehensive services in the area of loans, deposits, transactional banking, treasury, leasing, factoring and capital markets. Positive customer experience was supported by easy and quick access to the banking offer and information necessary for corporate finance management provided via the dynamically developing electronic and telephone banking, i.e. iBiznes24 Internet, iBiznes24 mobile and the Customer Service Centre.

In the process of improving comprehensive customer service, in 2017 special emphasis was put on areas which build competitive advantage in the chain of values provided by the Division, i.e. foreign trade, offer for selected sectors, digitalisation of processes and products for the corporate segment, efficiency of risk management processes and development of electronic banking channels. Additionally, the programme aimed at broadening the scope of automation of customer service processes continued in all electronic channels (internet, mobile, B2B web service). The Programme focuses on the implementation of Internet and mobile banking solutions for the Business and Corporate Banking and SME Banking segments, as well as the largest business customers from the Global Corporate Banking.

Products and Services for Strategic Sectors

In 2017, Bank Zachodni WBK developed comprehensive products and services for sectors identified as strategic, in line with specific needs and profiles of related production chain companies. This approach is based on the bank's experience of servicing the food and agri sector, the first industry of strategic importance to the bank. The solution is copied in other significant sectors of the market.

The development of the Strategic Sectors Department was further continued to build up the bank's competence in the selected sectors. A team was formed to improve the Bank's position through participation in industry events in Poland and abroad (Food Show, AutoEvent, Hannover Messe), presence in the industry media (press, Internet, LinkedIn), preparation of reports and analyses for the Bank's customers and provision of specialist training for employees.

Export Development Programme

2017 was the third year in a row when the Export Development Programme was organised in Bank Zachodni WBK.

Meetings of customers with business practitioners and experts (Bank's representatives and partners) organised within the programme constitute an efficient communication platform to transfer know-how about foreign trade and specific foreign markets, share experience regarding international business and present the latest methods of searching for business partners and identifying opportunities for investing abroad. As public administration representatives participate in the programme, customers have a chance to learn about available solutions within the state support. In line with the adopted formula, subsequent editions of the programme are devoted to selected markets.

The last, sixth edition of the Export Development Programme, which was organised in H2 2017 in cooperation with Bisnode, Deloitte, KPMG and Mintel under the auspices of the Ministry of Foreign Affairs and the Ministry of Economic Development, focused on two sectors, which ensured participants' access to correctly profiled know-how and product solutions, and enabled them to establish relationships in target economic sectors. In addition to the expertise shared by the bank and its partners, the biggest benefit from such meetings is an opportunity to exchange experience and best practices with professionals from the same sector.

As part of the programme, the Business and Corporate Banking Division organised trade missions in cooperation with other members of Santander Group. Over the year, four trade missions were arranged (in Mexico, Shanghai and twice in the UK) for Polish companies from different sectors which look for business relationships with foreign partners. The bank expanded its offer as part of the Santander Trade Network, which facilitates the international expansion of exporters and importers into the markets where Santander Group operates. The Santander Trade Network gives access to a solid network of local professionals who provide services in these four key areas: marketing and communication (market research, communication strategy, marketing action plan, optimisation of search engines), networking (commercial agenda, showroom, international trade fairs), business centres (virtual office, business meeting space), other services (legal and tax advice, recruitment services). In 2017, the Santander Trade Network portal was offered to customers. Implemented in Santander Group over a year ago, this innovative solution helps bring together customers in the markets where Santander Group is present.

The Bank not only leverages the opportunities created by the international presence of the Santander Group, but also forges its own strategic alliances with financial institutions from different parts of the world, depending on the customers' needs.

In its operating activity the Bank focuses on supporting international business of its customers in select geographical locations (international corridors) which are deemed advantageous from the point of view of entrepreneurs. These include Germany, the UK and Spain. Given specific conditions of each market, the bank defines the appropriate strategy of cooperation and product offering for customers, and also ensures services of dedicated International Desk advisors.

Product Range Development

Digital evolution of services and continued product range development are on top of the strategic agenda of the Business and Corporate Banking Division.

In 2017, Bank Zachodni WBK was the first bank in Poland to implement customer identification on the basis of the telephone number and voice biometrics, which shortened and simplified telephone contacts between corporate customers and the Business Service Centre. The users of iBiznes24 were given access to eGwarancja (eGuarantee), a modern banking guarantee which is issued electronically and signed with a qualified electronic signature. Additionally, the bank introduced a "perpetual" guarantee, where it is difficult or indeed impossible to determine the period of the Guarantor's liability. Since June 2017, companies may use preferential financing within the EUR 600m guarantee agreement with the European Investment Fund. As part of Santander Group's global initiative, charge cards started to be issued for foreign customers of the International Desk with minimum formalities.

Appreciating the role of remote channels in product and services sales and communication with customers, the Business and Corporate Banking Division steadily implemented subsequent facilities within iBiznes24:

- As part of digitalisation of distribution channels, new online services were made available, such as new features in the cards and trade finance modules and an opportunity to draw down and repay an FX revolving loan.
- The functionality of the iBiznes24 mobile application was improved in terms of operations related to several companies, and new features were introduced such as an option to log in via Touch ID on iOS devices. New solutions were also introduced to enhance the security of operations with Android devices.
- The scope of urgent and express FX payments available in iBiznes24 was extended to include 10 new currencies: CAD, CHF, CZK, DKK, HUF, MXN, NOK, RON, SEK and TRY.
- In April 2017, users of iBiznes24 Internet were provided with an option to define the best EU programmes in the 2014–2020 perspective, the first solution of this kind available in the banking market. The bank's portal "Subsidy for Your Company" ("Dotacja dla Twojej Firmy") was designed in cooperation with Crido Taxand, a company specialising in EU subsidies. It is yet another solution offered to iBiznes24 users as part of development of an unparalleled electronic banking system which helps build competitive advantage of the Bank.
- To improve the communication with customers, a mailbox (for incoming and outgoing mail) was implemented to facilitate the management of complaints and queries regarding iBiznes24. In addition, new electronic request forms (eWnioski) were introduced: they are more transparent and user-friendly, with only one signature needed for several requests and an option to save a draft even if not all the fields have been filled in.
- The pilot run of iBiznes 24 Connect (web-service) was successfully completed with a broader scope.
- Customers were given access to the advisor's business card in the form of a tile in the menu (the advisor may be assigned to the company or to the specific system installation).

Factoring Business

The range of products and services offered by BZ WBK Faktor includes recourse and non-recourse factoring, domestic and foreign reverse factoring, bill of exchange discounting and confirming. The company provides services to customers from the SME, Business and Corporate Banking and Global Corporate Banking segments.

In 2017, the receivables purchased by BZ WBK Faktor came in at PLN 23.4bn, up 23% YoY, which means that the business grew faster than the domestic factoring market (+17% YoY). This gave the company a market share of 12.6% and second position in the ranking of members of the Polish Association of Factoring Companies. As at the end of December 2017, the company's credit exposure was PLN 4.2bn, higher by 25% YoY.

In October 2017, the company issued bonds in a private placement with a nominal value of PLN 700m, 1M WIBOR-based variable interest rate and maturity date of 18 February 2018. The bonds were purchased by entities from outside Bank Zachodni WBK Group. Proceeds from the issue allowed the company to reduce its overdraft balance.

1.4. Global Corporate Banking

Main Directions

In 2017, the Global Corporate Banking Division (GCB) provided an end-to-end support to the largest corporate customers of Bank Zachodni WBK and rendered services to corporations within the global Santander Group GCB structures. As at 31 December 2017, the active GCB customer base included nearly 250 of the largest companies and groups (allocated to that segment based on the turnover) representing all economic sectors in Poland.

The Division's comprehensive offer encompasses a wide range of products and services, including transactional banking, short-, mid- and long-term financing, guarantees, M&A solutions, share issues, liquidity management and custodian services. The GCB Division conducted the bank's business on financial markets and provided specialist financial products (including treasury, brokerage and capital market offers).

Notably, the GCB Division leveraged opportunities from Santander Group's global presence and rendered services to corporations within international GCB structures, cooperated with several Santander Group in respect of the issue of bonds, sold Polish bonds to foreign investors and traded in Latin American bonds in Poland.

The ambition of Bank Zachodni WBK is to become a bank of choice for the largest corporate customers and to provide an unparalleled investment offering. To that end, the Global Corporate Banking Division puts customers at the heart of its business, trying to meet their needs and enhance their positive experience, while focusing on service quality, market position and staff development. Service quality is continually improved through the customisation, digitalisation and diversification of products and services. The market position is strengthened through business growth, whereas staff professionalism is supported by training programmes and development in accordance with the Group's values.

In order to raise customer service quality, in 2017 the GCB Division:

- Implemented a customer service model that included assistance from sector bankers, improved customer segmentation and the introduction of a schedule of regular meetings to discuss services for specific customers;
- Improved features of the FX Kantor BZWBK24 currency exchange platform regarded as a best practice model at Santander Group level in terms of IT, marketing, CRM, product range and incentive scheme;
- Developed new products in the area of securities and derivatives, which will be gradually implemented over the next three years;
- Steadily increased the range of underwriting solutions offered by the Credit Markets Department;
- Expanded transactional banking solutions, particularly in the area of cash management through the implementation of the host-to-Host service in a number of companies;
- Optimised the structure of the income statement and the balance sheet by growing the fee-generating business.

Through cooperation with other units, the GCB Division modified its business model in accordance with new regulations (MIFID II, FRTB, PRIIPs, IFRS9, EMIR).

Performance of Selected Areas

In 2017, individual units of the GCB Division focused on the initiatives described below.

Credit Markets

- The Credit Markets Department provided funding towards medium and long-term investment projects delivered by GCB customers through loans and corporate bond issues, including funding extended in cooperation with other units, both within its Division (e.g. with Global Transactional Banking and Financial Markets) and outside it (e.g. with the Business and Corporate Banking Division). Credit Markets closed several financing deals with companies from economically-important sectors such as the telecommunications, services, cosmetics, agriculture, automotive and energy sectors.

Capital Markets

- Capital Markets provided analytical and advisory services to customers and were engaged as a financial/transactional advisor for companies from the property, production, infrastructure, telecommunications, pharmaceutical and services sectors. In the reporting period, the Capital Markets Office together with the BZ WBK Brokerage Houses completed the largest public offering in the history of the Warsaw Stock Exchange, with the transaction value of PLN 4.4bn. Other notable transactions include organisation and management of a tender offer for a company operating in the property, service and manufacturing sectors.

Global Transactional Banking

- The Global Transactional Banking Department closed a number of deals in relation to financing, guarantees and supply chain finance with companies from the automotive, construction, clothing, retail and energy sectors. As part of cash management, the host-to-host service was further improved to provide an opportunity for the effective exchange of information between the bank and ERP systems. In 2017, this solution was implemented in 10 groups of large companies.

Treasury Sales Department

- In the reporting period, the Treasury Sales Department continued its income diversification strategy. The range of interest rate hedging instruments offered by the bank was extended to include new solutions for leasing and factoring customers. The Department focused on the promotion of foreign exchange instruments to enable customers to hedge currency risk in the long term and thus stabilise their balance sheet positions. Distribution channels for treasury products were further developed to ensure higher level of digitisation, increased penetration of the customer base and greater competitive advantage (e.g. an upgrade of the Kantor BZWBK24 currency exchange platform).

Financial Market Transactions Department

- In 2017, the Financial Market Transactions Department focused on the further development of products, mainly in relation to hedging instruments. The Department joined the global foreign exchange platform and became one of the leaders in global electronic trading platforms for Polish treasury bonds. The Financial Market Transactions Department grew its portfolio of corporate customers using the global know-how of Santander Group. It organised a number of road-shows to attract customers from Western European, American and Asian markets to invest in Poland. The Department also acted as an intermediary in relation to the sale of products and services offered by the bank and Santander Group in Poland (including government bonds issued by Eurozone peripheral and South American countries).

Institutional Equities Department

- The Department focused on the development of systems to automate processes connected with brokerage services offered to business customers.

Equity Research Department

- The Equity Research Department worked closely with Santander Group to implement a new distribution channel: an equity research online platform which will be launched for business customers in 2018. In addition to other conferences and events, in November 2017, the Department organised an Investor Day “20 Stories Worth Telling” (“20 historii wartych opowiedzenia”), during which members of the Management Boards of 20 listed companies met with institutional investors.

Largest deals of the Global Corporate Banking Division

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

The largest deals completed by the GCB Division in 2017 include:

- Participation in the largest financing deal of 2017 with a customer from the telecommunications sector, with the bank acting as the Facility Agent in the transaction;
- Participation in the IPO worth PLN 4.4bn, the largest transaction of this kind in the history of the Warsaw Stock Exchange;
- Significant loan agreements signed with customers from the agriculture, automotive and services sectors;
- Financing the acquisition of companies from the services, cosmetics and food sectors;
- Issuance of bonds in the Polish market for customers from the services and finance sectors;
- Issuance of eurobonds for customers from the finance and energy sectors;
- Conclusion of major supply chain financing contracts with customers from the trade and energy sectors, for an amount exceeding PLN 1.0bn;
- Participation in the IPO of a client from the property sector, and then organising and financing a tender offer for the shares acquired as a result of the above process for a strategic investor from Romania.

2. Santander Consumer Bank Group

Profile

Santander Consumer Bank (SCB) is a financial institution with many years of experience and a strong position in the consumer finance sector, which specialises in providing credit facilities to households and businesses (mainly car dealers and importers).

Its lending business is based on the following credit facilities: cash loans, instalment loans, car loans, business loans and credit cards. Retail and business deposits and insurance products are also important elements of the bank's product range.

The bank's offer is supplemented with car finance through lease facilities provided by Santander Consumer Multirent, a wholly-owned subsidiary of Santander Consumer Bank, and through lease and factoring solutions offered by PSA Finance Polska, in which Santander Consumer Bank holds a 50% stake.

In addition, PSA Consumer Finance Polska, a subsidiary of PSA Finance Polska which is indirectly 50% owned by SCB, provides consumer finance solutions to support car sales.

Other entities controlled by Santander Consumer Bank are: Santander Consumer Finance (investment of cash surpluses and cooperation with BZ WBK and Warta in terms of financial intermediary services), and SC Poland Consumer 15-1 and SC Poland Consumer 16-1 (SPVs set up for the purpose of securitisation transactions).

Business Development

Strategic objectives delivered in 2017

The main strategic objective of Santander Consumer Bank Group is to build a modern and secure bank with an effective and consistent organisational structure and a management culture that leverages the extensive experience of Santander Group. In terms of sales objectives, the Group is looking to maintain its strong position in the consumer and car finance markets.

In the pursuit of 2017 objectives, SCB Group:

- Strengthened its business position and perception as a leading institution in the consumer finance market, achieving:
- W 2017 r. SCB S.A. zajmował:
 - ✓ 1st place in the hire purchase market;
 - ✓ 3rd place in terms of growth in the number of credit cards;
 - ✓ 4th place in the cash loans market;
 - ✓ 3rd place in the car finance market;

- Maintained strong sales of high-margin consumer loans (cash loans and credit cards) and increased the volume of car finance with a growing share of lease solutions chosen over car loans;
- Diversified and built up stable sources of funding and optimised its cost in an environment of low interest rates and a changing regulatory regime owing to a higher share of the most stable sources (long-term deposits and securitisation bonds), increased activity in the corporate deposits market and higher long-term FX funding based on repurchase agreements;
- Maintained a stable risk level, high provision coverage ratio and a steady non-performing loans ratio compared with 2016;
- Ensured a stable level of operating costs (excluding obligatory costs) and improved cost-effectiveness;
- Maintained a solid capital position.

Development directions

Pursuant to the strategy adopted by SCB Group, measures taken in 2017 focused on maintaining the Group's leadership position in the hire purchase market, with a stable share in traditional sales and a growing share in online sales, as well as on identifying new sales growth opportunities and maintaining the profitability of collaboration with trade partners.

The Group continued its customer acquisition strategy based on installment loans and credit cards, maximising sales opportunities by cross-selling and up-selling. The Group extended cooperation with a key partner in terms of hire purchase and co-branded credit cards, and entered into partnership with a chain of DIY stores.

In terms of cash loans, SCB Group continued to maximise the value of customer relationships and optimise the product range. The NPS (Net Promoter Score) survey conducted by the bank among active customers gave satisfactory results (57%, i.e. above the market average), which proved that the product and sales strategy was effective.

In view of the prevailing trends in car finance (growth of lease and car fleet management markets fuelled by the sale of new cars, change of customers' preferences in the low interest rate environment towards a lower-cost and simple cash loan), SCB Group focused on services provided to SMEs and individuals (other than sole traders) to deliver on its lending objectives.

Development of products and services

In the reporting period, SCB Group expanded its range of products and services to include:

- an instalment loan for farmers and sole traders;
- a new credit card offered in partnership with a large chain of DIY stores, and solutions offered as part of cooperation with the bank's key partner from the household appliances sector which was extended for another three years;
- instant issuance of credit cards and assistance insurance linked to credit cards sold in the bank's branches;
- modified terms of cash loans, reflecting the bank's policy of maximising the effectiveness of customer relationships and optimising the product range;
- cash loans offered in customer service points of the selected household appliance stores and DIY chains;
- cash loans for new-profile customers with external consolidation and an increased cash loan amount and tenor for new customers;
- additional banking services offered to customers holding a loan with SCB (available in three options);
- a new sales channel for retail deposits, providing customers with an opportunity to manage their term deposits online;
- a pilot of the Full Service Lease, a product offering additional benefits such as car service by approved repairers and full motor insurance.

Core Business Volumes

Loans to customers

As at 31 December 2017, gross loans and advances granted by SCB Group amounted to PLN 16.0bn (excluding intercompany transactions) and were 3.3% higher YoY due to growth in lease facilities, w/c loans, cash loans and credit cards. The increase in w/c loans and lease facilities was attributed to the acquisition of a controlling interest in PSA Finance Polska, a company offering factoring solutions to car dealers, among other things. The growth in the balance of cash loans was achieved due to higher sales supported by an extensive marketing campaign.

Cash loans offered to existing and new customers have the highest share in the SCB credit portfolio, followed by instalment loans, which are an important customer acquisition and cross-selling tool. For many years, SCB Group has been one of the market leaders in terms of car loans for individuals and businesses. The Group is strengthening its position in the car finance market by liaising with car dealers and importers. SCB is also one of the top 10 issuers of credit cards in Poland.

Deposits from customers and debt securities issue

One of the main funding sources of SCB Group are deposits from customers, which totalled PLN 8.2bn at the end of December 2017 (excluding intercompany transactions) and were broadly flat compared with the last year (-0.9%), with a relatively stable level of term deposits from corporate and retail customers.

Retail deposits are the bulk of the Group's deposit base, and mainly include term deposits with a fixed capitalisation rate at maturity. The remaining portion of the Group's deposit base is made up of corporate deposits. The bank focuses on the sale of deposits for tenors of one year or more, by offering attractive pricing, particularly on 24-month and 36-month deposits.

The value of new bonds issued by SCB in 2017 under the programme of debt securities issue underwritten by SCB exceeded the value of matured bonds, as a result of which the Group's liabilities in respect of debt securities increased by 5.6% YoY to PLN 4bn.

Key Developments

Cooperation with business partners

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

In April 2017, SCB extended cooperation with three key partners from the household appliances sector, reinforcing its leadership position in the consumer loans market. As part of the agreement, customers of SCB partners may buy goods and services with instalment loans and credit cards offered by the bank.

Sale of credit portfolio

In 2017, Santander Consumer Bank sold the written-off portfolio of cash loans, instalment loans, car loans, mortgage loans and credit cards of PLN 382.7m in total.

Extension and amendment of the securitisation agreement

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

Liquidation of AKB Marketing Services

Information about the removal of the company from the National Court Register is presented in the section "Entities Related with Bank Zachodni WBK" Chapter II "Basic Information about Bank Zachodni WBK and BZ WBK Group".

Reduction of share capital of PSA Finance Polska

Pursuant to the resolution of the General Meeting of PSA Finance Polska of 7 December 2016, on 5 April 2017 SCB sold 30 thousand shares of PSA Finance Polska (representing 10% of share capital) to the latter for the purpose of their cancellation.

The Management Board of PSA Finance Polska acquired own shares from both shareholders (SCB and Banque PSA Finance) in equal proportions. The shares were subsequently cancelled and the company's ownership structure did not change in effect.

Distribution Network of Santander Consumer Bank

In 2017, Santander Consumer Bank continued measures taken to optimise its sales network. To that end, the structure of branches and franchise outlets was reviewed, taking into account customers' needs and the development of remote and mobile services.

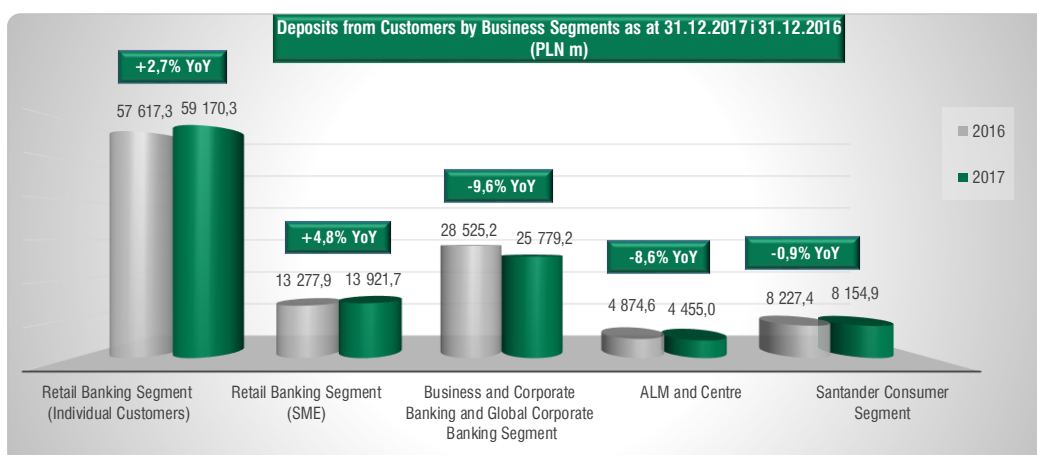
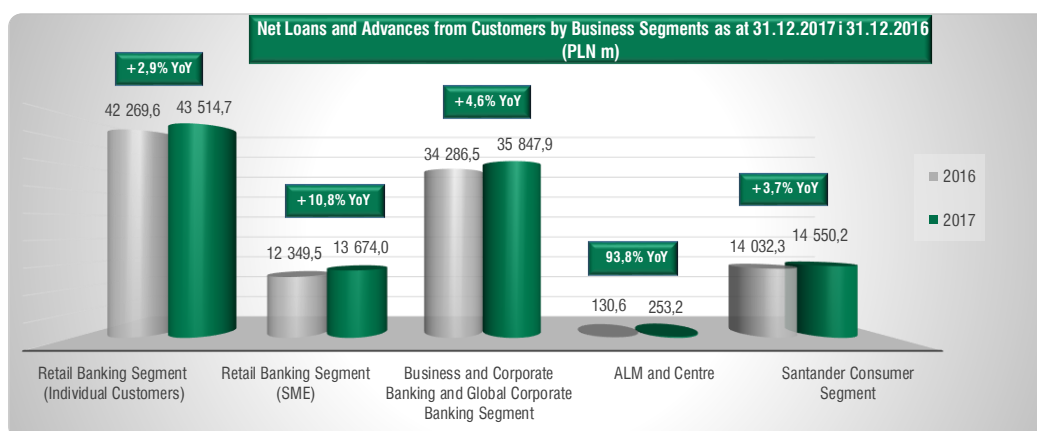
As at 31 December 2017, Santander Consumer Bank sold its products through the following distribution channels:

- an own network of 159 branches and 153 franchise outlets (163 and 148 at the end of December 2016, respectively) offering consumer loans and retail deposits;
- a mobile sales channel for car loans;
- a mobile sales channel for corporate deposits;
- remote channels, including a call centre and the internet, where customers can sign up for consumer loans or retail deposits;
- a network of 656 partners offering the bank's car loans plus 11,581 active partners offering the bank's instalment loans (662 and 12,516 at the end of December 2016, respectively);
- a remote channel for car loans.

The number of SCB customers using electronic and mobile banking services was 131.7k as at 31 December 2017 (4.2k as at 31 December 2016).

3. Core Business Volumes by Segments

The charts below show net loans and advances to customers and deposits from customers (as presented in segment reporting in Note 3 of the Consolidated Statements of Bank Zachodni WBK Group for 2017), which have been modified for analytical purposes. Personal and SME customers from the largest Retail Segment are presented separately, whereas the Business and Corporate Banking Segment is combined with the Global Corporate Banking Segment due to the transfer of the largest corporate customers from the former segment to the latter in 2017.



In 2017, deposits from customers from the Retail Segment increased by 2.5% YoY, including growth of 2.7% YoY and 4.8% YoY for personal and SME customers, respectively. This was mainly attributed to an increase in funds in current accounts, including those acquired via remote distribution channels. Loans and advances to individuals, net of impairment losses, increased by 2.9% YoY as a result of sales of cash and mortgage loans. In turn, net loans and advances to SMEs went up by 10.8% YoY on account of overdrafts and leases. Customers also took out Business Express (Biznes Ekspres) loans and investment loans. Lending to SMEs was supported by BGK guarantees, including COSME guarantees granted to secure credit transactions and POIG guarantees issued to secure overdrafts, as an attractive alternative to de minimis guarantees.

Net loans and advances to customers from the Business and Corporate Banking Segment and the Global Corporate Banking Segment increased by 4.6% YoY, including factoring receivables. In the Global Corporate Banking Segment, the growth was mainly driven by the supply chain finance which supports the core business of customers. The value of those transactions increased by a third compared to the last year as the number of programmes and suppliers went up. Combined deposits from customers from both segments decreased by 9.6% YoY. The customer base of the Business and Corporate Banking Segment increased on account of new agreements signed with corporate customers from key sectors.

Changes to loans and advances to customers and deposits from customers are presented in section 2 about SCB Group.

VII. Organisational, Infrastructural and Technological Development

1. Organisational Development

Bank Zachodni WBK

Organisational Changes in 2017

In order to achieve its strategic goal to become the bank of choice for retail and business customers, in 2017 Bank Zachodni WBK continued its large-scale transformation process that covered such areas as products and services for different customer segments, digitalisation, business model, data management and corporate culture. This involved changes to the bank's organisational structure, particularly to the following divisions: the Small and Medium Enterprise Banking Division, the Digital Transformation Division, the Legal and Compliance Division and the Business Partnership Division.

In the SME Banking Division, the SME 2 Sales Area was set up to deal with customers from the upper-end of the segment, i.e. firms with a turnover of PLN 5–10m. Previously, such customers were serviced by branch banking, now they are handled by four regional departments operating as part of the Area (central, south, west and north). Furthermore, the SME Digital Customer Office was created to provide SME customers with wider remote access to banking products and services across different channels.

Changes connected with the transformation process resulted in the reorganisation of a number of units in the Digital Transformation Division, namely: the Change and Project Management Department, the Financial Fraud Prevention Department, and the Control Department. In October 2017, the Documentation Management Office was set up to support the development of a digital bank by creating an optimum flow of documents within modern, multichannel banking processes while ensuring security and compliance with Polish and EU laws and regulations (such as the General Data Protection Regulation).

The organisational changes in the Legal and Compliance Division included the liquidation of the Legal Area. The lower-level units operating as part of the Area were reorganised into departments: the Business Support and Group Legal Services Department, and the Sales Processes Legal Services Department. The above changes were prompted by the transformation processes in place and the need to streamline the activities performed by the Division to reflect the actual circumstances and to enhance efficiency.

The Environment, Health and Safety Office was incorporated into the structures of the Business Partnership Division, and the HR Business Partnership Area was divided into two Business Partnership Departments: BSC, and Segments and Distribution, respectively. The responsibilities of the Recruitment and Personal Development Department were taken over by new centres of competence such as the Personal Development Department, the Recruitment Office and the Corporate Culture Transformation Department.

The Private Banking Department, which handles high net worth customers, was separated from the Retail Banking Division and now operates as part of the Wealth Management Programme outside the bank's divisional structure. The Technology Modelling and Analyses Office was moved from the Digital Transformation Division to the Business Intelligence Area, the centre of competence for data processing, which also operates outside the divisional structure.

In 2017, the bank continued the process of restructuring its branch network, relocating or closing down less effective branches.

Planned Acquisition of a Carve-out of Deutsche Bank Polska

Agreement on the Acquisition of a Carve-out of Deutsche Bank Polska by Bank Zachodni WBK

On 14 December 2017, Bank Zachodni WBK and Banco Santander signed a transaction agreement with Deutsche Bank AG (DB AG) to purchase a part of the Deutsche Bank Polska (DBPL) business, consisting of retail banking, private banking, SME banking and DB Securities. DBPL's corporate and investment banking business and foreign-currency mortgage portfolio are excluded from the transaction and will remain in DBPL (retained business).

On the same day, the bank signed a pre-demerger agreement with DBPL and DB AG setting out the terms of cooperation between the bank and DBPL to finalise the transaction.

Pursuant to the transaction agreement, DBPL's branch network and external sales channels (agents and intermediaries) are to be integrated with the bank's structures. Asset management contracts will also be transferred along with the carve-out, which will enable the transfer of open-ended investment funds.

Structure of the Transaction

Before the demerger, Bank Zachodni WBK will buy DBPL's shares from DB AG, representing 10% of votes at the DBPL's General Meeting of Shareholders. Next, the bank and DBPL will file requests for the registration of the demerger with relevant registry courts.

The demerger will be effected on the following terms:

- DBPL will be a demerged company and BZ WBK will be an acquiring company;
- The share capital of DBPL will be decreased by at least an equivalent of the total nominal value of the shares purchased by Bank Zachodni WBK. On the date of the registration of such a capital decrease, all the shares purchased by the bank will cease to exist and DB AG will become the sole shareholder of DBPL;
- In exchange for the transfer of the carved-out business to Bank Zachodni WBK, DB AG will receive a stated number of BZ WBK shares (demerger shares) on the demerger date, calculated based on the agreed formula which will be used to determine a share exchange ratio in the demerger plan. The demerger will be effective as of the date of registration of the bank's capital increase by way of the issuance of demerger shares;
- On the demerger date, the carved-out business will be transferred to the bank and the business which is not subject to the transaction will remain in DBPL. DBPL's assets and liabilities will be allocated between the carved-out business and the retained business based on the terms specified in the transaction agreement and the demerger plan.

The preliminary purchase price is PLN 1,289,799,000 and has been calculated on the basis of a capital requirement for carved-out risk weighted assets (excluding DB Securities' shares) determined using financial projections as at the date close to the execution of the transaction agreement. The portion of the preliminary purchase price related to the value of DB Securities' shares has been calculated on the basis of the company's net asset value.

The consideration for the transaction will be paid in:

- Cash, through the payment of a price for the purchased shares (20% of the preliminary purchase price);
- Newly issued shares of the bank representing approx. 2.7% of the bank's share capital (80% of the preliminary purchase price).

Once the transaction agreement is executed, the preliminary purchase price will be adjusted to reflect changes in relevant assets and liabilities that have taken place between the transaction agreement date and the demerger date.

The transaction is subject to regulatory approval, including consent from the Polish Financial Supervision Authority (KNF) and the President of the Office of Competition and Consumer Protection (UOKiK), as well as resolutions of the General Meetings of Shareholders of BZ WBK and DBPL, signing of the demerger plan and fulfilment of certain operational conditions. The transaction is expected to close in Q4 2018. The migration of IT systems is planned to be completed immediately after closing.

As a result of the transaction, Bank Zachodni WBK is expected to increase its share in the mass, high net worth, Private Banking and SME markets, consolidating its position as the third largest bank in Poland.

Bank Zachodni WBK Group

Changes in the Structure of the Group in 2017

Changes in the structure of Bank Zachodni WBK Group that took place in 2017 resulted from the following:

- Acquisition of BZ WBK Lease by BZ WBK Leasing (28 February 2017);
- Removal of AKB Marketing Services (a member of SCB Group) from the National Court Register following its liquidation (20 November 2017).
- The stock swap between Bank Zachodni WBK and BZ WBK Finanse (in-kind contribution of BZWBK F24 shares to BZ WBK Finanse in exchange for shares of BZ WBK Finanse) and the purchase by BZ WBK Finanse of an outstanding share ensuring a 100% stake in the share capital of BZ WBK F24 (November 2017 – January 2018).

For more information about changes in the structure of Bank Zachodni WBK Group, see the section "Entities Related with Bank Zachodni WBK" Chapter II "Basic Information about Bank Zachodni WBK and BZ WBK Group".

Mortgage Bank Project

Bank Zachodni WBK intends to launch a mortgage bank and is currently in the process of drawing a motion to be submitted to the relevant regulator.

2. Development of Selected Distribution Channels

Branch Network and Complementary Channels

In 2017, Bank Zachodni WBK carried out a review of its branch network, taking into account customers' needs and changes in their banking behaviour, development of electronic services (including mobile services) and the distribution strategy of the bank. The process of rationalisation, optimisation and relocation of branches was continued accordingly, as a result of which the number of outlets decreased by 82 during the last 12 months to reach 576 as at 31 December 2017. Two branches were reorganised into partner outlets in accordance with the bank's distribution strategy. This process will continue in the next few years.

The bank gradually increased the number of branches operating under a new cash services model (with cash operations transferred to self-service devices), as a result of which branches may devote more time to developing and strengthening relationships with customers. The bank also progressed well in the integration of its branches with remote channels, enabling the better use of advanced CRM tools.

Transformation of Distribution Model

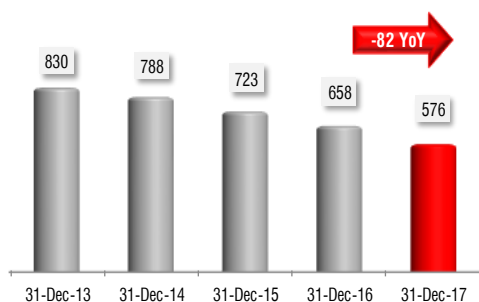
In 2017, the bank formulated a new distribution strategy. Key streams included: the role and function of distribution channels, advisor profile, branch formats and branch distribution. According to the strategy, retail business growth will be supported mainly by digital channels, with branches being primarily responsible for developing relationships with customers, promoting digital channels and selling more complex products. The distribution network will include new formats such as small points of acquisition and partner outlets. The profile of advisors and the interior design of branches will be aligned with the changing role of branches and customers' expectations.

In September 2017, Bank Zachodni WBK opened a branch in one of Warsaw's shopping centres and launched a pilot scheme for a new service model. The branch is open seven days a week and offers access to self-service devices. Given the pilot's positive results, the bank has now started the process of rolling out the new model across its branch network.

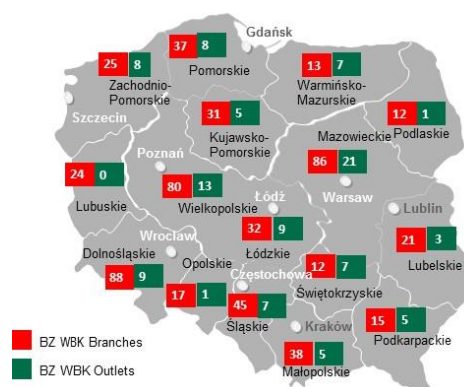
Partner Outlets

The branch network of Bank Zachodni WBK was complemented by 109 partner outlets (110 as at 31 December 2016) offering a range of the bank's products and services (excluding foreign exchange services and investment products) to individuals and businesses, mainly in small and medium towns.

BZ WBK Branch Network at the end of individual years from 31.12.2013 to 31.12.2017



Distribution of BZ WBK branches and partner outlets in Poland as at 31.12.2017



Santander Consumer Bank offered cash loans, credit cards, retail deposits and other banking products through its own network of 159 branches and 153 franchise outlets. The bank also sold car loans and instalment loans through mobile sales structures and a network of partners. It continued to operate its remote distribution channels using online and telephone platform.

ATMs/Cash Deposit Machines

In 2017, Bank Zachodni WBK continued the development of self-service channels in order to reduce cashier desk-services in branches and enhance the customer experience. The bank focused on the extension of the network of self-service devices featuring cash deposit and withdrawal functions. The functionality of the traditional ATMs was upgraded and cash recyclers were put in place. The cash recycling functionality (withdrawal of cash that is previously deposited in a recycler by other customers) helped to increase the effectiveness of the network and reduce costs associated with cash services.

The bank's ATMs and CDMs were equipped with a contactless interface to enable individuals and businesses to perform a range of contactless operations such as deposit/withdrawal of cash, balance check, mini-statements, phone top-ups, card activation or and repayments for credit card debt balances. Transactions may be initiated with contactless cards and HCE mobile cards.

As at the end of December 2017, the network of self-service devices operated by Bank Zachodni WBK comprised 771 deposit ATMs (vs. 684 as at 31 December 2016). In all, there were 1,732 devices including ATMs and CDMs (vs. 1,766 as at 31 December 2016).

Mobile and Internet Banking

Functional Development

BZWBK24 mobile and internet applications were further developed to improve self-service and ease of use. Customers were provided with an option to set up the parameters of the Account As I Want It (Konto Jakiej Chce) according to their choice. They can now also benefit from longer operating hours on the Kantor BZWBK24 currency exchange platform. In order to standardise the features of internet and mobile banking, customers were provided with an inbox with both the BZWBK24 internet platform and the BZWBK24 mobile application.

Users of the BZWBK24 mobile application were offered an opportunity to sign up for new credit facilities such as a credit card, Ratio service or credit card limit increase. The quick view of accounts was extended, the functionality of alerts was expanded, and an upgraded version of BLIK was introduced, featuring a mechanism for payments via trusted websites without the use of a code. Customers were provided with a more user-friendly application and new features such as the option to log in using a fingerprint. Finally, payment card management services were introduced, including push alerts and an option to cancel the card.

The scope of products available via the BZWBK24 internet platform was extended to include a consolidation loan and an insurance package. Special after-sales forms were introduced for customers using credit facilities. Furthermore, the online sale of personal and business accounts was optimised to improve the customer experience, as was the process of setting up an account for retail and SME customers, and website navigation. The bank progressed well with the integration of internet banking and CRM solutions and additionally completed the next stages of its ongoing projects, such as setting up additional anti-fraud mechanisms on the online platform. Users of the BZWBK24 platform were provided with access to a new investment fund platform ("Arka Funds" tab) which will become fully operational in 2018. The bank further contributed to the digitalisation of the administration system and online services gateway for Polish citizens by offering the bank's customers the opportunity to set up a trusted profile via the internet banking platform to then log into official Polish government portals (such as ePUAP, obywatel.gov.pl, biznes.gov.pl, PUE ZUS, CEIDG, Emp@tia) to administer their information and official records.

Increased Activity of Customers

As at 31 December 2017, the number of digital customers, i.e. BZWBK24 users who have logged into the bank's electronic banking system at least once, exceeded 2.1 million (vs. 3.1 million customers with access to BZWBK24) and increased by 4,5% YoY. The number of mobile application users went up by 26.7% YoY and exceeded 1.1 million (including 145 thousand customers who use BZWBK24 mobile only).

Multichannel Communication Centre

Development of Functionality

The Multichannel Communication Centre provides services across different customer contact points such as a helpline, Internet chat, audio call, video call, email and contact form. Customers may also visit a virtual branch and use Online Advisor services (via video chat). The Centre is responsible for sales, customer service, retention and support for personal, VIP and SME customers (also accessible in foreign languages and sign language).

The strategy of the BZ WBK Multichannel Communication Centre focuses on facilitating interaction between the customer and the bank, and the improvement of its end-to-end processes (E2E) to enable customers to buy products and services through remote channels.

In 2017, a particular focus was placed on Online Advisor services provided via video call, audio call or chat. The number of advisors and processes handled in this channel was increased accordingly. Online identity verification was introduced using face recognition technology, end-to-end credit application processes were launched for retail and SME customers and the range of services was also extended to include instructions regarding mortgage and cash loans, the generation of account statements, the issuance of certificates, the establishment/modification of bereavement payment terms and the purchase/conversion/redemption of investment fund units.

The number of operations that may be performed using the Multichannel Communication Centre was further expanded to include the execution or cancellation of a credit facility agreement, notification of a cash withdrawal, card services for retail customers (including termination of a debit card with a 14-day notice in the case of account switching), setting up a business customer folder, opening a brokerage account via phone, and Ukrainian-language customer support.

In 2017, the bank continued the mass roll-out of its call centralisation project, which covered nearly 50% of branches. Each customer calling a branch is now redirected to the Multichannel Communication Centre, which provides end-to-end support.

Increased Activity of Customers

In 2017, the number of interactions with customers over phone or via an Online Advisor increased by 27% YoY.

Likewise, credit sales generated in remote channels (mobile, internet, the Multichannel Communication Centre) went up by 34% YoY and 38% YoY in terms of number and value.

3. IT Development

Development of IT Systems

Digital Transformation

In 2017, the bank further upgraded its IT infrastructure as part of a large-scale Digital Transformation Programme, including customer service systems as well as underlying hardware and software resources. The initiatives taken by the bank in this respect were aimed at increasing its ability to respond to changing customers' needs, enhancing customer service, improving operational efficiency and reliability, automating business processes, and improving software and hardware solutions.

Compliance with Regulatory Requirements

A considerable part of the IT initiatives delivered by the bank were connected to regulatory requirements imposed on financial institutions. Particularly noteworthy are three large-scale and long-term initiatives derived from the following EU regulations:

- Payment Services Directive (PSD 2), which imposes a number of obligations on banks connected with payments initiated by third parties and access to information about customers' accounts;
- Markets in Financial Instruments Directive (MIFID 2), which sets out banks' obligations related to offering investment products to customers;
- General Data Protection Regulation (GDPR/RODO), which establishes rules for personal data processing.

Along with these obligatory projects, the bank is to introduce further enhancements to its customer service standards, upgrades IT solutions and therefore gain additional benefits business benefits.

Automation and Extension of Functionality and Access to IT Systems

Changes to IT systems and underlying hardware and software resources are also prompted by the need to extend the scope of information and the range of operations available 24/7 to customers and organisational units of the bank. The bank uses a systemic approach in this respect, taking into account the IT architecture as a whole, while simplifying and reducing the number of connections between systems. At the same time, the change implementation process itself is being automated. A specialist unit was set up to handle this process. The unit created its own operating model that relies on a repetitive development process and fully automated business processes. The processes are executed by systems/robots which use their own highly reliable infrastructure that automatically adapt to changes in workload.

The bank continually works towards solutions ensuring controlled and automated workflow as well as the electronic circulation and storage of documents. The bank's achievements in this respect make it one of the most innovative institutions in the Polish banking sector.

The automation process also covered financial information, including issues connected with the products offered and effectiveness.

The bank continued to develop electronic and mobile banking solutions to suit individuals, SMEs and corporates. A particular focus was placed on the simplicity, ease of use and security of the proposed solutions.

To ensure information security, the bank provided advanced mechanisms to protect IT resources and associated operations. Relevant control methodologies and tools were developed or revised in accordance with existing needs and emerging threats.

4. Capital Expenditure

Capital expenditure incurred by BZ WBK Group in 2017 totalled PLN 414.2m (PLN 334.8m in 2016). The highest spend was on projects related to the development and management of IT systems and infrastructure, process digitalisation, risk management and development of internet, mobile and phone banking. Significant outlays were also made on deposit ATMs, target CRM architecture, modernisation of the branch network and implementation of EU regulations.

In view of growing business needs and the increasing amount of information processed by the bank, IT infrastructure and associated software were further developed and upgraded. Hardware (servers, disk arrays, etc.) supporting test and production systems was extended to increase capacity and enhance performance.

In 2017, the robotic process automation platform was deployed to facilitate the automation of manual processes without the need for complex modifications to IT systems. In effect, after-sales and back-office operations related to credit delivery and complaint handling were automated, a centre of competence was set up to manage systems related to the flow of digital documents in banking processes, and a customer communication platform was launched, making it possible to generate agreements and certificates and handle mass communication in one place. The bank also completed the second stage of the Central Collateral Database project whose purpose is to aggregate all collateral information, while ensuring the consistency and security of data.

Strong focus was placed on maintaining an adequate level of day-to-day IT security and ensuring high quality and continuity of operations within the entire IT environment.

Significant investments were also made as part of the Digital Transformation Programme in the redesign and digitalisation of key sales and after-sales processes for retail and corporate customers, taking into account business needs and external factors. In 2017, a particular focus was placed on the digitalisation of processes connected with credit and investment facilities, and accounts and insurance products (for more information, see Chapter VI "Business Development").

As part of the development of a multichannel service model, efforts were taken to further enhance mobile and internet banking, by adding new features and improvements to the BZWbK24 and iBiznes24 applications (detailed information is presented in the section "Development of Selected Distribution Channels" in this chapter).

A number of initiatives were also undertaken in the area of risk management as part of strategic and obligatory projects. The bank implemented, among other things, Advanced Internal Rating-Based Models in decision-making processes for retail and SME customers. Data structures were developed to be later used for the purpose of the calculation of capital requirements under an advanced approach. The bank also continued measures to implement the Basel Committee's guidelines set out in BCBS 239.

The ALM Programme was underway, including the development of a new ALM system supporting the oversight and management of interest rate risk in the banking book and liquidity risk. This Programme will continue in 2018.

In 2017, the bank started a process to implement requirements arising from the Payment Services Directive 2 (PSD2). Measures were also taken to develop an Application Programming Interface (API) to connect with third party providers. This project is planned to be finalised in 2018.

In terms of CRM systems, the bank continued to extend the range of features implemented in previous years. The front-end platform used by the Multichannel Communication Centre and the branch network was expanded to include solutions facilitating the management of customer portfolios. New analytical features were implemented, whereby operations are launched on the basis of an analysis of a sequence of events. The CRM environment was integrated with the ATM network and, as a pilot project with the electronic banking platform.

In order to reduce cashier-services in branches, the bank continued to replace old ATMs with new deposit ATMs utilising cash recycling technology. The functionality of self-service devices was expanded to include a range of contactless transactions (aside from deposits and withdrawals).

Finally, the branch infrastructure was further upgraded to standardise IT equipment, improve working conditions, enhance the customer experience and increase security.

VIII. Financial Situation of Bank Zachodni WBK and BZ WBK Group

1. Income Statement of Bank Zachodni WBK Group

Structure of Bank Zachodni WBK Group Profit in 2017

Structure of Bank Zachodni WBK Group Profit Before Tax

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Condensed Consolidated Income Statement of BZ WBK Group (for analytical purposes)	2017	2016	YoY Change
Total income	7 763,6	7 606,2	2,1%
- Net interest income	5 276,9	4 770,4	10,6%
- Net fee & commission income	2 013,1	1 914,7	5,1%
- Other income ¹⁾	473,6	921,1	-48,6%
Total costs	(3 372,4)	(3 367,7)	0,1%
- Staff, general and administrative expenses	(2 939,4)	(2 935,2)	0,1%
- Depreciation/amortisation	(318,9)	(277,2)	15,0%
- Other operating expenses	(114,1)	(155,3)	-26,5%
Impairment losses on loans and advances	(690,5)	(784,6)	-12,0%
Profit/loss attributable to the entities accounted for using the equity method	58,3	55,4	5,2%
Tax on financial institutions ²⁾	(423,8)	(387,2)	9,5%
Consolidated profit before tax	3 335,2	3 122,1	6,8%
Tax charges	(816,7)	(738,0)	10,7%
Net profit for the period	2 518,5	2 384,1	5,6%
- Net profit attributable to BZ WBK shareholders	2 213,1	2 166,8	2,1%
- Net profit attributable to non-controlling shareholders	305,4	217,3	40,5%

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

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

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

In 2017, Bank Zachodni WBK Group posted a profit before tax of PLN 3,335.2m, up 6.8% YoY.

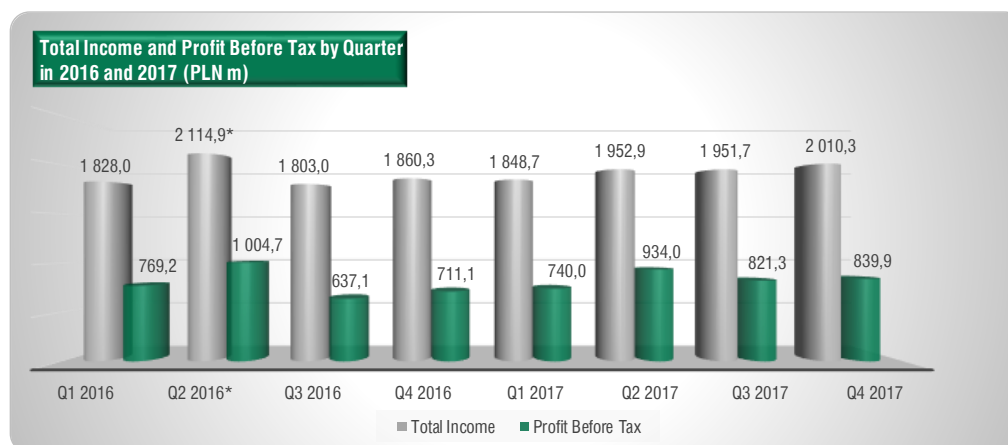
Excluding one-off gains on equity instruments from the corresponding period (PLN 316.1m arising from the settlement of the acquisition of Visa Europe Ltd. by Visa Inc. in 2016), the underlying profit before tax increased by 18.9% YoY on account of an improvement in net interest income (+10.6% YoY) and net fee and commission income (+5.1% YoY) as well as a decrease in credit impairment charges (-12.0% YoY), general and administrative expenses (-3.4% YoY) and other operating costs (-26.5% YoY). The increase in the Group's underlying profit combined with a decrease in the above costs more than offset:

- Decreases in the other income items (-21.7% YoY), including dividend income (-20.5% YoY), gains on available-for-sale debt instruments (-77.7% YoY) and gains on derivative and interbank FX transactions (-39.9% YoY), and
- An increase in depreciation/amortisation (+15.0% YoY), staff expenses (+3.5% YoY) and the tax on financial institutions (+9.5% YoY) as the taxable period in 2017 was one month longer compared with 2016).

Profit attributable to the shareholders of Bank Zachodni WBK was PLN 2,213.1m and increased by 2.1% YoY due to a slightly higher effective tax rate attributed to changes in the regulations which govern the tax treatment of BFG costs, a higher loss on the sale of a portion of debt and a longer taxable period in 2017 in relation to the tax on financial institutions. Considering the base period adjustment by the above one-off gain on the equity shares, the underlying attributable profit went up by 15.8% YoY.

Comparability of Periods

Selected income statement figures	Comparability of Periods in the Income Statement of BZ WBK Group for 2017	
	2017	2016
Gains on available-for-sale equity instruments	<ul style="list-style-type: none"> PLN 26.5m, including PLN 10.8m and PLN 13.5m on account of the sale of all shares of Polimex-Mostostal and PBG from the bank's portfolio of equity investments. 	<ul style="list-style-type: none"> PLN 317.8m, including remuneration of PLN 316.1m for BZ WBK and SCB in respect of the settlement of the acquisition of Visa Europe Ltd by Visa Inc. on 21 June 2016.
Dividend income	<ul style="list-style-type: none"> PLN 76.8m, including a dividend of PLN 68.6m paid by Aviva Group companies from the BZ WBK portfolio of equity investments. 	<ul style="list-style-type: none"> PLN 96.6m, including a dividend of PLN 88.6m paid by Aviva Group companies from the BZ WBK portfolio of equity investments.
Contributions to BFG (change in the amount, collection and calculation basis since January 2017)	<ul style="list-style-type: none"> PLN 211.0m, including an annual contribution to the bank resolution fund and the bank guarantee fund. 	<ul style="list-style-type: none"> PLN 252.4m, including an annual contribution and a prudential fee for BFG.
Performance of obligations arising from the deposit guarantee scheme	<ul style="list-style-type: none"> No obligations. 	<ul style="list-style-type: none"> PLN 13.5m contributed by the Group to reimburse guaranteed funds to deposit customers of insolvent cooperative banks.
Tax on financial institutions effective as of 1 February 2016	<ul style="list-style-type: none"> PLN 423.8m for 12 months of 2017. 	<ul style="list-style-type: none"> PLN 387.2m for 11 months of 2016.



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

Key Factors Affecting the Profit of Bank Zachodni WBK Group in 2017

2017/2016		2017	Determinants of BZ WBK Group's Profit for 2017
Increase in net interest income	+10.6%	PLN 5,276.9m	<ul style="list-style-type: none"> An increase in net interest income in the record low interest rate environment reflects the growth of the net interest margin (up 0.16 p.p. to 3.84%) driven by flexible management of the banking offer parameters, effective credit delivery to high-margin segments (a larger portfolio of retail loans) and optimisation of funding sources (a major increase in low-cost balances of current accounts coupled with a reduction of term deposits base).
Increase in fee and commission income	+5.1%	PLN 2,013.1m	<ul style="list-style-type: none"> The increase in net fee and commission income is the cumulated effect of the performance of many business lines in the Group. This result is mainly due to electronic products and services (debit and credit cards, currency exchange using the e-FX platform) and business diversification which allows the Group to enhance its fee income from brokerage and fund management activities during favourable stock exchange market conditions. The growth in net fee and commission income was adjusted by a decrease in insurance fees due to a regulatory change in the insurance sales model.
Decrease in other income	-21.7%	PLN 473.6m	<ul style="list-style-type: none"> The underlying decrease in other income (i.e. excluding the remuneration of PLN 316.1m posted in 2016 in respect of settlement of the sale of shares in Visa Europe Ltd.) was induced by lower dividends from the portfolio of equity investments and reduced gains on held-for-trading and available-for-sale instruments as a result of the prevailing situation in the financial markets and the goals pursued by the Group in the process of liquidity and balance sheet structure management.
Improvement of credit quality indicators	-12.0%	PLN 690.5m	<ul style="list-style-type: none"> The lower YoY level of impairment losses is attributed to the Group's conservative approach to credit risk management, effective tools to support decision making processes and the favourable macroeconomic environment in terms of accelerated economic growth and labour market situation. The above decrease occurred in the consolidated gross loan book growing at a rate of 4.4% YoY and steadily improving its credit quality ratios.
Effective cost management	+0.1%	PLN 3,372.4m	<ul style="list-style-type: none"> The Group's total cost base was stable as a result of a decrease in general and administrative expenses and other operating costs which counterbalanced the increase in staff expenses and depreciation/amortisation. A significant reduction was noted in the bank's BFG contributions and the cost of marketing campaigns (which are elements of general and administrative expenses) and in provisions for legal disputes (recognised in other operating costs). Growth was driven by development of the IT infrastructure, revision of bonus schemes/salaries and changes in the Group's structure, which translated into increases in amortisation and staff expenses, respectively.

Structure of Profit Before Tax Earned by BZ WBK Group by Contributing Entities

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Components of Bank Zachodni WBK Group Profit Before Tax by contributing entities	2017	2016	YoY Change
Bank Zachodni WBK S.A.	2 515,3	2 649,2	-5,1%
Existing subsidiary undertakings:	984,1	761,3	29,3%
Santander Consumer Bank and its subsidiaries ¹⁾	823,3	613,9	34,1%
BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.	82,1	65,3	25,7%
BZ WBK Finanse Sp. z o.o., BZ WBK Leasing S.A. and BZ WBK Faktor Sp. z o.o. ²⁾	79,3	90,2	-12,1%
Other subsidiary undertakings ³⁾	(0,6)	(8,1)	-92,6%
Equity method valuation	58,3	55,4	5,2%
Elimination of dividends received by BZ WBK	(222,5)	(343,8)	-35,3%
Profit before tax	3 335,2	3 122,1	6,8%

1) As at 31 December 2017, SCB Group comprised Santander Consumer Bank and the following entities: Santander Consumer Multirent, Santander Consumer Finanse, SC Poland Consumer 15-1 and SC Poland Consumer Finance 16-1, PSA Finance Polska and PSA Consumer Finance Polska. AKB Marketing Services has been liquidated and removed from the court register on 20 November 2017. The amounts provided above represent profit before tax (after intercompany and consolidation adjustments) of SCB Group for the periods indicated.

2) On 28 February 2017, BZ WBK leasing companies merged. BZ WBK Leasing, an acquiring company, assumed all rights and obligations of BZ WBK Lease, an acquired company, which was removed from the court register. BZ WBK Nieruchomości was renamed as BZ WBK 24F, and as a result of ownership changes (an exchange of shares between BZ WBK and BZ WBK Finanse, and the repurchase of shares from the other shareholder), it became 100%-owned by BZ WBK Finanse.

3) Other subsidiaries, i.e. BZ WBK Inwestycje and Geldokracja in liquidation, disclosed a total loss of PLN 0.6m for 2017 and PLN 8.1m for 2016.

Bank Zachodni WBK (Parent Entity of Bank Zachodni WBK Group)

The unconsolidated profit before tax of Bank Zachodni WBK for 2017 was PLN 2,515.3m and 5.1% lower YoY as an effect of the high base arising from the recognition of the remuneration of PLN 305.9m in respect of the settlement of the sale of Visa Europe Ltd and above-average dividend income (PLN 439.3m in 2016 vs. PLN 299.5m in 2017). Excluding the impact of the above items on the current and base periods, the underlying profit before tax of Bank Zachodni WBK increased by 16.4% YoY.

Changes in the individual items constituting the profit before tax are discussed below in "Income Statement of Bank Zachodni WBK".

Subsidiaries

The subsidiaries consolidated by Bank Zachodni WBK reported an increase of 29.3% YoY in their total profit before tax as a result of higher profitability of SCB Group and BZ WBK TFI.

SCB Group

The contribution of SCB Group to the consolidated profit before tax of Bank Zachodni WBK Group for 2017 was PLN 823.3m (after intercompany transactions and consolidation adjustments) and increased by 34.1% YoY due to the following factors:

- An increase of PLN 194.9m in net interest income to PLN 1,342.7m, driven by a higher net interest margin, steady growth of the credit portfolio and favourable changes in its structure (e.g. a bigger share of high-margin products such as cash loans and credit cards);
- A decrease of PLN 46.0m in net fee and commission income to PLN 130.2m on account of lower insurance income and one-off partner commissions incurred by the bank in connection with the development of the sales network and extension of contracts with the key hire purchase partners;
- Lower net impairment charges of PLN 110.8m (down PLN 70.9m) resulting from the extension of the recovery horizon to 60 months for all credit facilities and normalisation of the portfolio;
- An increase in other operating income to PLN 58.0m, mainly as a result of the release of a legacy operating provision (PLN 22m) and provisions for cases disputed in court.
- A rise of PLN 40.9m in operating costs to PLN 576.0m due to higher costs associated with modifications and development of IT systems and an extension to the scope of consolidation of SCB Group to include PSA Finance Polska and PSA Consumer Finance Polska on 1 October 2016.

Other Subsidiaries

The 25.7% YoY rise in profit before tax reported by BZ WBK TFI (the legal successor to BZ WBK Asset Management following the merger) reflects the high growth in fee and commission income from asset management on the back of an increase in the average margin and net assets. The strong performance of BZ WBK TFI in terms of fund management and favourable stock market conditions observed during the year affected the sales structure (e.g. higher share of equities) and ensured a consistent flow of assets, mainly to equity and corporate bond funds.

Total profit before tax posted by companies controlled by BZ WBK Finanse decreased by 12.1% YoY.

- The profit before tax earned by BZ WBK Faktor dropped by 17.1% YoY to PLN 18.8m due to a decrease in net interest income (attributed to increasing costs in funding the core business) and a moderate increase in net impairment losses on factoring receivables coupled with an increase in the value of credit exposures (up 25% YoY).
- The total profit before tax of BZ WBK Leasing, BZ WBK Finanse and BZ WBK F24 declined by 10.2% YoY to PLN 60.5m as a result of higher credit impairment charges and an increase in portfolio financing costs. The rapid growth of the leasing business in that period caused the performing portfolio to grow by 14% and drove interest and fee income. Despite the increase in impairment losses, leasing portfolio quality remained at a stable, high level.

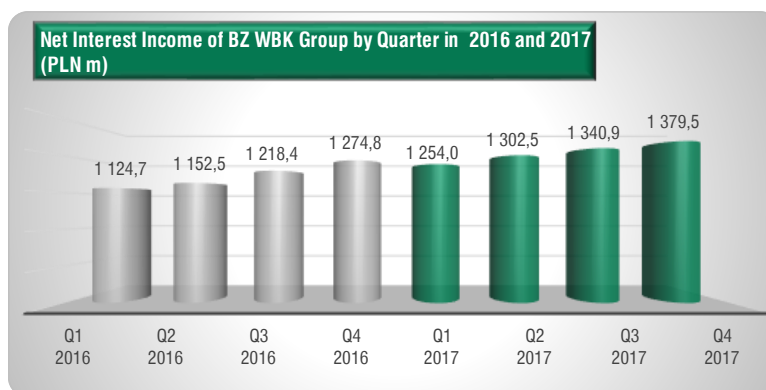
Structure of Bank Zachodni WBK Group Profit Before Tax

Total Income

Total income of Bank Zachodni WBK Group for 2017 increased by 2.1% YoY to PLN 7,763.6m. Excluding a gain of PLN 316.1m arising on the acquisition of Visa Europe Ltd by Visa Inc, underlying total income increased by 6.5% YoY.

Net Interest Income

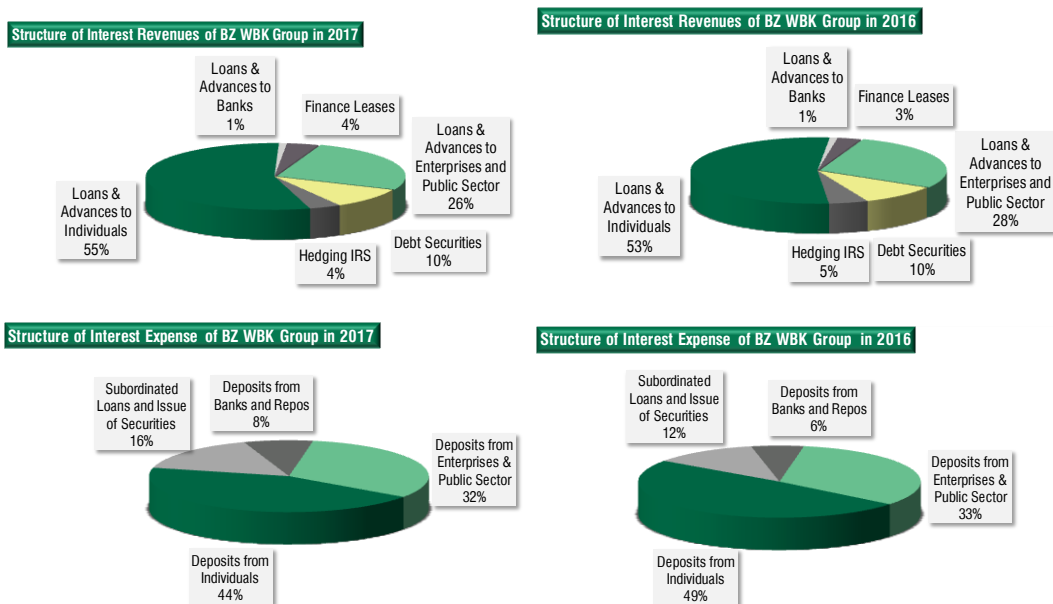
In 2017, net interest income amounted to PLN 5,276.9m and increased by 10.6% YoY.



The Group reported increased interest income (up 7.7% YoY to PLN 6,529.3m) alongside a decline in interest expense (down 3.0% YoY to PLN 1,252.4m).

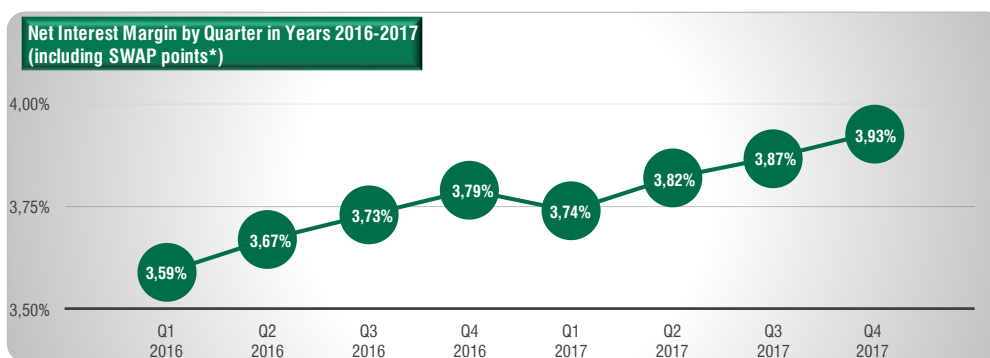
The growth rate of interest income was fuelled by loans to retail customers, lease receivables and securities available for sale but slowed down by CIRS/IRS transactions hedging cash flows.

The continued decline in interest expense was driven by deposits from retail customers and the enterprise sector. It was partly offset by increasing interest expense connected with the issue of securities, bank and public sector deposits and obligations on account of repo transactions.



The cumulated (annual) net interest margin of Bank Zachodni WBK Group went up from 3.68% in 2016 to 3.84% in 2017. Margin growth was supported by a slight increase in mid-term market interest rates in 2017. At the same time, the Group's funding costs decreased under the impact of the optimisation of funding sources and adaptation processes within the Group's product portfolio. Thanks to favourable trends in sales stimulated by means of the tools designed to improve the quality, accessibility and competitiveness of products and services, the Group reported positive changes (from the perspective of margin) in core business volumes such as a YoY increase in loans and advances to retail customers (notably cash loans) and a significant rise in low-cost current account balances belonging to individuals and companies, as well as a drop in term deposits from both of the above customer segments.

In 2017, loans to customers brought a yearly average nominal interest income of 5.1% compared with 4.8% in 2016. Customer deposits carried a yearly average nominal interest cost of 0.9% compared with 1.0% the year before.



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

After a slight decrease in Q1 2017, the Group's quarterly net interest margin (annualised on a quarterly basis) returned to the growth trend maintained since early 2016. Margin growth in 2017 was supported by the above-mentioned factors, in particular the effective management of deposit and credit parameters and such structural changes.

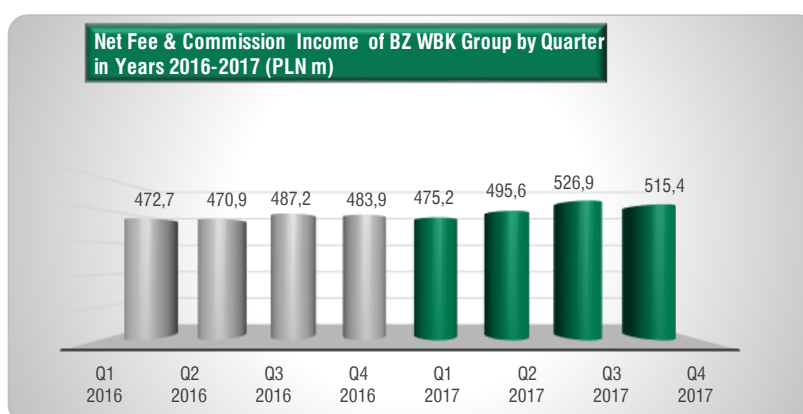
Net Fee and Commission Income

In 2017, net fee and commission income amounted to PLN 2,013.1m and increased by 5.1% YoY.

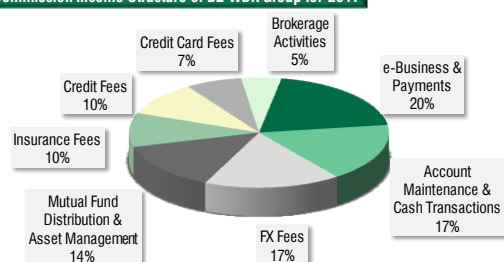
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Net Fee and Commission Income of BZ WBK Group	2017	2016	YoY Change
E-Business and payments ¹⁾	401,9	377,0	6,6%
FX fees	346,1	320,0	8,2%
Account maintenance and cash transactions ²⁾	337,6	335,7	0,6%
Asset management and distribution	288,0	233,5	23,3%
Credit fees ³⁾	206,8	199,1	3,9%
Insurance fees ⁴⁾	196,0	244,8	-19,9%
Credit cards	136,3	121,5	12,2%
Brokerage activities	77,0	61,2	25,8%
Other ⁵⁾	23,4	21,9	6,8%
Total	2 013,1	1 914,7	5,1%

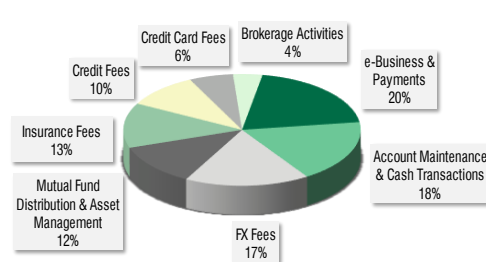
- 1) Fees for foreign and mass payments, Western Union transfers, trade finance, debit cards, services for third party institutions as well as other electronic and telecommunications services.
- 2) Fee income from account maintenance and cash transactions has been reduced by corresponding expenses which in Note 7 of the "Consolidated Financial Statements of Bank Zachodni WBK Group for 2017" are included in the line item "Other" (PLN 0.7m for 2017 vs. PLN 2.6m for 2016).
- 3) Fee and commission income from lending, factoring and lease activities which is not amortised to interest income. This line item includes, inter alia, the cost of credit agency.
- 4) Pursuant to the Act of 11 September 2015 on insurance and reinsurance activity (effective as of 1 April 2016) banks – acting as insurance parties – must not collect insurance fees in relation to group insurance plans (e.g. linked with payment cards).
- 5) Fees on guarantees, issue arrangement and other.



Net Commission Income Structure of BZ WBK Group for 2017



Net Commission Income Structure of BZ WBK Group for 2016



The highest YoY growth in net fee and commission income was reported in relation to brokerage services (+25.8% YoY), which reflect higher volumes of trading in the secondary market amid favourable trends in the stock market (highest peaks in WSE indices in a long time) and the management of initial public offerings.

Higher net fee and commission income from fund distribution and asset management (+23.3% YoY) reflects an increase in the average net value of assets managed by BZ WBK TFI, and namely equity, corporate bond and stable growth funds, driven by stronger management results and an improvement in investor sentiment compared with the corresponding period last year. Furthermore, the structure of sales of investment funds changed in 2017, with a bigger share of high-margin solutions, such as equity funds or mixed funds with the equity component.

Net fee and commission income aggregated under the “eBusiness and payments” line item rose by 6.6% YoY as a result of an increase in income from issuance and management of debit cards driven by the growth of this instrument base (+6.2 YoY) and an increasing number of cash and non-cash transactions made with such cards as well as the revision of fees and charges applicable to card services for individuals and companies (August 2016).

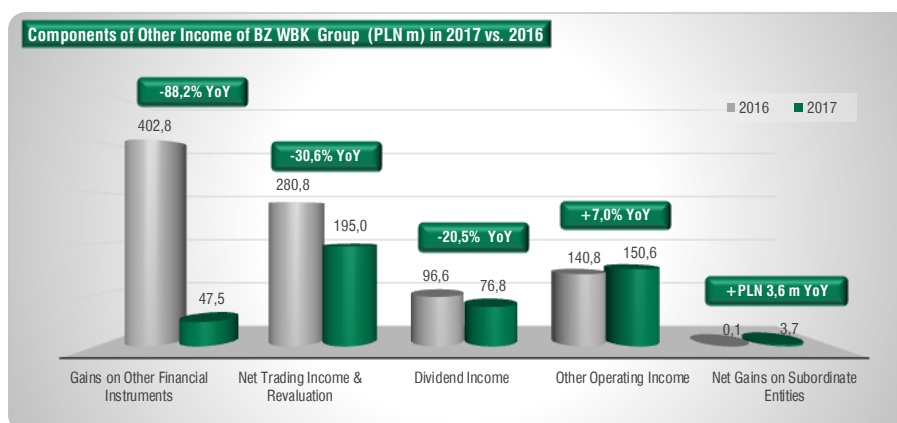
An improvement in FX fee income (+8.2% YoY) is attributed to higher turnover driven by the Group’s comprehensive measures taken to support foreign trade and develop e-FX services in iBiznes24.

Net fee and commission income from issuance and management of credit cards went up by 12.2% YoY on account of a 4.1% YoY increase in the size of the combined credit card portfolio of Bank Zachodni WBK and SCB, a higher volume of credit card transactions and last year’s revision of selected credit card fees and charges by both banks.

Credit fees increased slightly by 3.9% YoY due to a significant increase in one-off credit intermediation costs connected with the maintenance and development of the SCB sales network (up 69.5% YoY), which partly offset the increase in fee income related to the management of the Group’s credit exposure (up 18.3% YoY).

The decline of 19.9% YoY in net fee and commission income from insurance business was connected with the legal and regulatory regime of the bancassurance market, in particular the statutory ban imposed by the Act of 11 September 2015 on insurance and reinsurance activity (effective as of 1 April 2016) regarding the collection of insurance fees by banks acting as insuring parties in relation to group insurance plans (e.g. linked with payment cards). At the same time, a decrease was noted in the ratio of the credit portfolio value to insured value.

Other Income of the Group



The Group’s other income indicated above totalled PLN 473.6m and decreased by 48.6% YoY. Adjusted for the impact of the one-off transaction of 2016, the decrease was 21.7% YoY.

Net Trading Income and Revaluation (“Net trading income”)

Net trading income reported by Bank Zachodni WBK Group for 2017 was PLN 195.0m, down 30.6% YoY.

In the derivatives and FX interbank transactions market, the Group generated a profit of PLN 153.0m vs. PLN 254.4m in 2016. This component of net trading income excludes net interest income from the CIRS and IRS transactions designated as hedging instruments under the cash flow hedge accounting (PLN 224.4m for 2017 vs. PLN 274.2m for 2016), which is disclosed under “Interest income”.

Other FX related income was PLN 43.7m, up PLN 23.5m on a YoY basis.

Debt and equity securities trading brought in a total loss of PLN 1.7m compared to a gain of PLN 6.2m in the corresponding period.

Gains on Other Financial Instruments

The gains on other financial instruments decreased by 88.2% YoY to PLN 47.5m.

In 2017, gains on equity instruments available for sale were PLN 26.4m, including PLN 13.5m arising from the sale of all shares in PBG, PLN 10.8m representing the sale of all shares in Polimex Mostostal and PLN 2.1m is connected with the sale of the entire stake in WSE from the bank's available-for-sale portfolio of equity investments. Corresponding gains in 2016 reached PLN 317.8m, including PLN 316.1m on account of the total remuneration for BZ WBK and SCB as a result of a settlement of the acquisition of Visa Europe Ltd by Visa Inc. with a cash payment, preference shares and an earn-out.

Gains on disposal of available-for-sale debt instruments (mainly treasury bonds and BGK bonds) were PLN 20.8m, down PLN 72.4m YoY. The decisions regarding the volume and structure of the portfolio of available-for-sale debt securities are determined by various internal and external factors, such as availability of securities, expectations of interest rate cycle movements and fluctuations of yield curves. The measures taken as part of duration management were in line with market conditions and took into account the Group's objectives with regard to risk and liquidity management.

Gains on Subordinate Entities

The consolidated income statement for 2017 includes a gain of PLN 3.7m on interest in related entities, arising from the settlement of liquidation of AKB Marketing Services, a member of SCB Group until struck off the court register.

Dividends

In 2017, the Group disclosed dividend income of PLN 76.8m, i.e. down PLN 19.8m YoY on account of lower dividends from Aviva Group companies from the bank's portfolio of equity investments.

Other Operating Income

Other operating income was PLN 150.6m, up 7% YoY.

During the year, a pronounced increase in a provision for legal disputes (+192.0% YoY) was observed, including PLN 22m of the legacy operating provision of SCB. In addition, in 2017, disputed claims of PLN 24.2m were recognised as operating income on the basis of relevant legal decisions.

An increase was also noted in revenue from the sale of services (+30.2% YoY) and a gain on the sale/liquidation of fixed assets and assets for disposal (+72.8% YoY), primarily properties.

The above increases were offset by a decrease of PLN 53.8m YoY in reimbursements of fees from the Bank Guarantee Fund (BFG) as a result of a change in presentation of such revenues, which are now disclosed as fee and commission income following ratification of the Act of 10 June 2016 on the Bank Guarantee Fund, deposit guarantee scheme and resolution, which introduced a new methodology for calculating BFG contributions.

Impairment Charges

	PLN m		
Impairment Losses of BZ WBK Group on Loans and Advances	2017	2016	YoY Change
Collective and individual impairment charge	(668,2)	(828,2)	-19,3%
Impaired but not reported losses charge	(65,4)	(27,0)	142,2%
Recoveries of loans previously written off	43,5	45,2	-3,8%
Off-balance sheet credit related facilities	(0,4)	25,4	-
Total	(690,5)	(784,6)	-12,0%

In 2017, the loan impairment charge to the income statement of Bank Zachodni WBK Group was down 12.0% YoY to PLN 690.5m, including the impairment charge posted by SCB Group of PLN 110.8m vs. PLN 181.8m a year before.

The charge for incurred and reported losses (on individual and collective exposures) was PLN 668.2m for 2017 and decreased by 19.3% YoY amid strong growth in the Group's credit portfolio: loans to enterprises and the public sector increased by 5.8% YoY (including factoring receivables), personal loans by 2.7% YoY and lease receivables by 12.3% YoY. Compared with the corresponding period of 2016, impairment charges decreased especially on individually assessed exposures to business customers and collectively assessed debts owed by retail customers.

The impairment charge for incurred but not reported losses was PLN 65.4m, up 142.2% YoY due to the low base in the corresponding period.

In 2017, Bank Zachodni WBK sold non-performing receivables of PLN 1,088.2m vs. PLN 1,383.6m in the corresponding period (including the principal amount of PLN 1,008.0m and PLN 1,281.4m, respectively), which contributed PLN 172.7m and PLN 103.9m to the profit before tax in both periods, respectively. Receivables sold included claims on retail and business customers.

Santander Consumer Bank sold the written-off portfolio of cash loans, instalment loans, credit cards and car loans of PLN 382.7m, which brought in a profit before tax of PLN 51.5m. Last year, SCB sold the credit portfolio of PLN 326.6m, generating a profit before tax of PLN 51.9m.

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

Bank Zachodni WBK Group's NPL ratio decreased considerably from 6.6% as at 31 December 2016 to 5.8% as at 31 December 2017. The cost of credit totalled 0.63% in 2017 vs. 0.75% in 2016.

Total Costs

PLN m			
Total costs of BZ WBK Group	2017	2016	YoY Change
Staff, general and administrative expenses, of which:	(2 939,4)	(2 935,2)	0,1%
- Staff expenses	(1 562,6)	(1 510,3)	3,5%
- General and administrative expenses	(1 376,8)	(1 424,9)	-3,4%
Depreciation/amortisation	(318,9)	(277,2)	15,0%
Other operating expenses	(114,1)	(155,3)	-26,5%
Total costs	(3 372,4)	(3 367,7)	0,1%

The total costs of BZ WBK Group for 2017 amounted to PLN 3,372.4m, and were stable compared with the previous year (+0.1% YoY), despite the significant cost of transformation projects resulting from strategic, business and legal/regulatory requirements.

In 2017, staff expenses increased by 3.5% YoY and depreciation and amortisation went up by 15% YoY due to the development and extension of IT infrastructure. The growth of the above items was fully counterbalanced by the drop in general and administrative expenses (-3.4% YoY) and other operating expenses (-26.5% YoY), which reflects the reduction of regulatory fees and a lower provision for legal disputes.

Excluding gains on a one-off equity transaction from total income for 2016, the Group's cost-to-income ratio decreased from 46.2% to 43.4% in 2017.

Staff Expenses

Staff expenses of Bank Zachodni WBK Group for 2017 totalled PLN 1,562.6m and increased by 3.5% YoY. SCB Group's contribution to consolidated staff expenses was PLN 243.8m and up 5.9% YoY following the extension of the scope of consolidation of SCB Group on 1 October 2016 to include PSA Finance Polska and PSA Consumer Finance Polska.

The key staff expense line items, i.e. "Salaries and bonuses" and "Statutory deductions from salaries" increased by 4.0% YoY to PLN 1,510.0m in total as a result of an increase in the average headcount in the Group, and an increase in salaries and bonuses following the salary and bonus schemes reviews conducted in H2 2017 and 2017, respectively.

Even though the employment level fell year-on-year, average employment increased; this was because for most of 2016 the bank's headcount did not include employees of the Multichannel Communication Centre (which operated as an outsourced function until September 2016), PSA Finance Polska and PSA Consumer Finance Polska, which came under control of SCB as of 1 October 2016.

General and Administrative Expenses

In 2017, general and administrative expenses of Bank Zachodni WBK Group declined by 3.4% YoY to PLN 1,376.8m. Costs incurred by SCB Group totalled PLN 270.3m and were 8.6% higher YoY, mainly on account of IT usage costs and also marketing and entertainment costs.

In the reporting period, fees payable by BZ WBK Group to market regulators declined by 20.3% YoY to PLN 224.2m as in 2017 neither Bank Zachodni WBK nor SCB had any obligations resulting from their participation in the deposit guarantee scheme (vs. PLN 13.5m in 2016). In addition, the two banks paid lower contributions to the BFG guarantee fund and the bank resolution fund (PLN 211m in 2017 vs. PLN 252.4m in 2016).

A significant decrease in marketing and entertainment costs (-8.7% YoY) in 2017 results from a smaller number of wide-ranging marketing initiatives carried out by the bank. In the reporting period, a mass campaign was held for a consolidation loan and the Account As I Want It (Konto Jakie Chce), while in 2016 four large advertising campaigns were held.

Renegotiation of line rental and data transmission service contracts brought significant savings in the cost of data transmission (-21.0% YoY), while branch network rationalisation measures led to the reduction of building maintenance and lease costs (-2.0% YoY). The cost of the repair of machines decreased (-19.2% YoY) mainly as a result of the high base connected with the commissioning and fit-out of the bank's new Business Support Centre building in Poznań in 2016.

Costs increased as a result of numerous business and development initiatives, including IT projects undertaken by SCB Group, (which led to a growth in IT usage costs by 7.9% YoY), strategic programmes (increasing consulting costs by 8.6% YoY), and mailing communication campaigns on the Account As I Want It (Konto Jakie Chce), which generated the growth in postal and telecommunications fees (+10.1% YoY).

Tax on Financial Institutions

Pursuant to the Act on tax imposed on certain financial institutions, bank assets above PLN 4bn are subject to tax of 0.0366% per month. Due to the above regulations effective from 1 February 2016, the taxable period in the corresponding period of 2016 covered eleven rather than twelve months, as a result of which the ensuing charge to the income statement increased by PLN 36.6m YoY to PLN 423.8m.

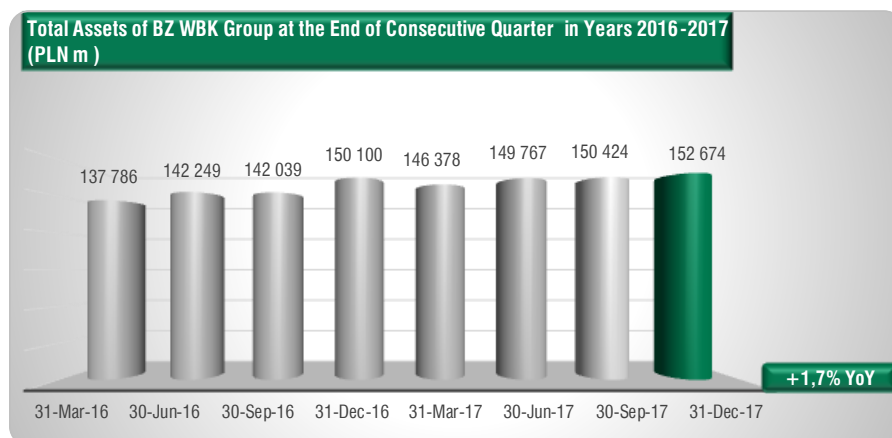
Effective Tax Rate

The effective tax rate for 2017 was 24.5% vs. 23.6% in 2016 due to changes in the regulations which govern the tax treatment of BFG costs, a higher loss on the sale of credit receivables and the Group's higher charge on account of the banking tax, and items which are not tax deductible.

2. Financial Position of Bank Zachodni WBK Group

Consolidated Assets

As at 31 December 2017, the total assets of Bank Zachodni WBK Group were PLN 152,674.4m, an increase of 1.7% YoY. The value and structure of the Group's financial position is determined by the parent entity, which accounts for 87.0% of consolidated total assets vs. 87.6% as at the end of December 2016.



Structure of Consolidated Assets

Assets of BZ WBK Group (condensed presentation for analytical purposes)	PLN m				
	31.12.2017	Structure 31.12.2017	31.12.2016	Structure 31.12.2016	YoY Change
	1	2	3	4	1/3
Loans and advances to customers ¹⁾	107 839,9	70,6%	103 068,5	68,7%	4,6%
Financial assets available for sale	28 415,8	18,6%	29 307,9	19,5%	-3,0%
Cash and operations with Central Banks	4 146,2	2,7%	4 775,7	3,2%	-13,2%
Financial assets held for trading and hedging derivatives	3 634,1	2,4%	3 248,6	2,2%	11,9%
Fixed assets, intangibles and goodwill	3 133,1	2,1%	3 053,6	2,0%	2,6%
Loans and advances to banks ²⁾	2 136,5	1,4%	3 513,3	2,3%	-39,2%
Other assets ³⁾	3 368,8	2,2%	3 132,1	2,1%	7,6%
Total	152 674,4	100,0%	150 099,7	100,0%	1,7%

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

2) Excludes receivables from repurchase transactions disclosed under other assets.

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

As at 31 December 2017, consolidated net loans and advances to customers totalled PLN 107,839.9m, up 4.6% on the end of December 2016 on account of credit delivery to business and retail customers. SCB Group contributed PLN 14,331.4m to this line (after intercompany and consolidation adjustments), up 3.8% YoY.

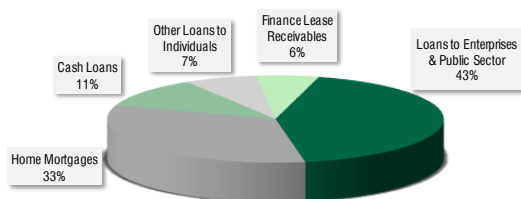
In the condensed statement of financial position a pronounced increase of 11.9% YoY was also noted in an aggregated line item "Financial assets held for trading and hedging derivatives", an effect of the growth of the trading bond portfolio. Fixed assets, intangibles and goodwill increased by 2.6% YoY on account of PLN 23.5m goodwill arising from the settlement of the acquisition of a controlling stake in PSA Finance Polska by SCB as well as growth in the other components of this line item driven by capital expenditure and development initiatives connected with the Group's transformation.

As part of the Group's ongoing liquidity management, the balance of funds placed with NBP and in the interbank market decreased, which caused the "Cash and operations with central banks" and "Loans and advances to banks" to fall by 13.2% YoY and 39.2% YoY, respectively. A decline of 3.0% YoY in financial assets available for sale reflects a lower share of NBP bills in the debt securities portfolio. SCB Group contributed PLN 2,608.4m to this item, which is a decline of 11.9% YoY.

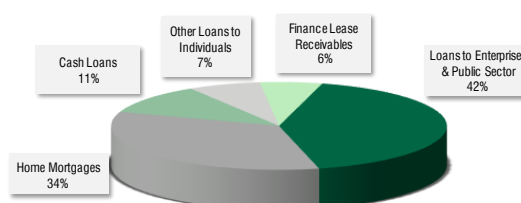
Credit Portfolio of Bank Zachodni WBK Group

Gross Loans and Advances to Customers of BZ WBK Group	PLN m		
	31.12.2017	31.12.2016	Ytd Change
	1	2	1/2
Loans and advances to individuals	57 822,4	56 291,4	2,7%
Loans and advances to enterprises and public sector customers	48 005,2	45 375,7	5,8%
Finance lease receivables	6 849,0	6 098,5	12,3%
Other	9,4	181,8	-94,8%
Total	112 686,0	107 947,4	4,4%

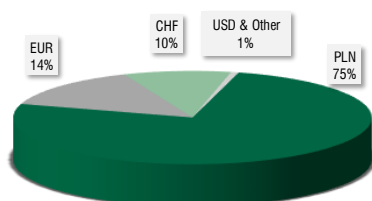
Product Structure of Consolidated Loans & Advances to Customers as at 31.12.2017



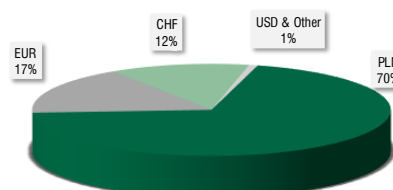
Product Structure of Consolidated Loans & Advances to Customers as at 31.12.2016



FX Structure of Consolidated Loans and Advances to Customers as at 31.12.2017



FX Structure of Consolidated Loans and Advances to Customers as at 31.12.2016

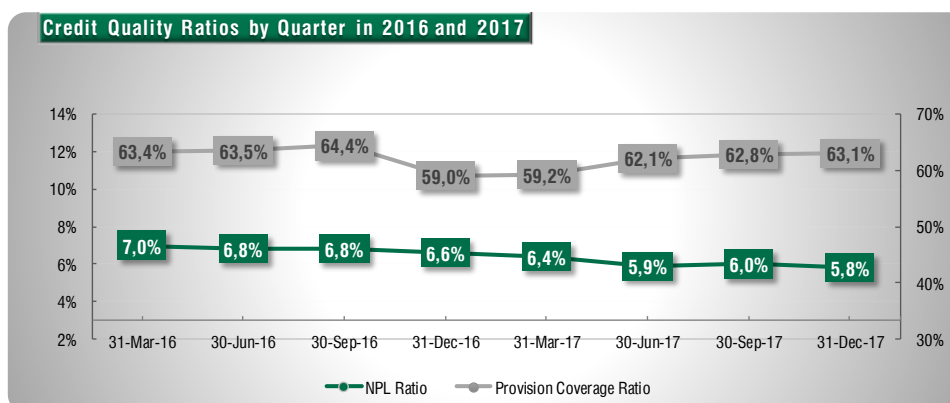


As at 31 December 2017, consolidated gross loans and advances to customers were PLN 112,686.0m and higher by 4.4% YoY. On a constant currency basis, the figure increased by 4.6% YoY.

Loans and advances to individuals increased by 2.7% YoY to PLN 57,822.4m as at 31 December 2017. Home loans, which represent the major portion of loans and advances to individuals, increased by 0.8% YoY to PLN 37,293.3m, with home loans of Bank Zachodni WBK growing by 3.1% YoY and SCB's mortgage portfolio decreasing by 17% YoY. The second significant constituent item, i.e. cash loans, went up by 9.4% YoY to PLN 13,051.3m.

Loans and advances to enterprises and public sector entities were PLN 48,005.2m, 5.8% higher vs. 31 December 2016, mainly driven by lending to SME and large corporate customers. Finance leases, which include the portfolios of BZ WBK Leasing, Santander Consumer Multirent and PSA Finance Polska, increased by 12.3% to PLN 6,849.0m on account of dynamic growth in the sale of machines and equipment. Loans granted by BZ WBK Leasing to finance machines and vehicles for business customers, which totalled PLN 2,027.7m as at 31 December 2017 (vs. PLN 1,642.4m as at 31 December 2016), are disclosed outside the lease portfolio, as loans and advances to enterprises.

Credit Quality Ratios by Quarter in 2016 and 2017



As at 31 December 2017, non-performing (impaired) loans to customers accounted for 5.8% of the gross portfolio of Bank Zachodni WBK Group vs. 6.6% twelve months before. The provision coverage ratio for impaired loans was 63.1% compared with 59.0% as at 31 December 2016.

Structure of Consolidated Equity and Liabilities

PLN m

Liabilities & Equity of BZ WBK Group S.A. (condensed presentation for analytical purposes)	Structure 31.12.2017		Structure 31.12.2016		YoY Change 1/3
	1	2	3	4	
Deposits from customers ¹⁾	111 481,1	73,0%	112 522,5	75,0%	-0,9%
Subordinated liabilities and debt securities in issue	7 384,4	4,9%	5 969,6	4,0%	23,7%
Deposits from banks ¹⁾	2 783,1	1,8%	2 561,3	1,7%	8,7%
Sell-buy-back transactions	2 650,9	1,7%	1 632,6	1,1%	62,4%
Financial liabilities held for trading and hedging derivatives	1 816,5	1,2%	3 832,4	2,5%	-52,6%
Other liabilities ²⁾	3 214,8	2,1%	2 562,8	1,7%	25,4%
Total equity	23 343,6	15,3%	21 018,5	14,0%	11,1%
Total	152 674,4	100,0%	150 099,7	100,0%	1,7%

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

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

In the condensed consolidated statement of financial position of Bank Zachodni WBK Group, significant YoY changes occurred within the line item composed of the subordinated liabilities and debt securities in issue, which increased as an aggregate by 23.7% YoY on account of securities issued in 2017. The contribution of SCB Group to this line item was PLN 3,955.5m, up 5.6% YoY.

In the reporting period, Bank Zachodni WBK issued three series of certificates of deposit with a total nominal value of PLN 1,420.0m and issued subordinated debt in the form of green bonds with a nominal value of EUR 137.1m. BZ WBK Faktor issued bonds with a nominal value of PLN 700m and SCB issued bonds with a nominal value of PLN 873.5m as part of a debt securities issuance programme guaranteed by Santander Consumer Finance.

In 2017, Bank Zachodni WBK and SCB redeemed matured bonds and certificates of deposit for a total amount of PLN 1,430m and PLN 665m, respectively.

Pursuant to the KNF decision, two Bank Zachodni WBK issues of 10Y bonds for a nominal value of EUR 120.0m (issued on 2 December 2016) and EUR 137.1m (green bonds issued on 22 May 2017) were reclassified from debt securities in issue to subordinated liabilities.

A significant increase was also reported in liabilities due to sell-buy-back transactions (+62.4% YoY), driven by deals with Bank Zachodni WBK customers.

Compared with 31 December 2016, a downward trend was observed in financial liabilities held for trading and hedging derivatives, which fell 52.6% YoY under the impact of hedging and interest swap transactions. Deposits from banks reduced by 8.7% YoY, whereas deposits from customers were broadly stable (-0.9% YoY).

The total equity of Bank Zachodni WBK Group increased by 11.1% as the bank's profit generated in the current period and the whole profit for 2016 were retained in accordance with guidelines issued by the regulator.

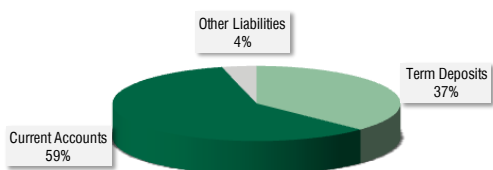
Deposit Base of Bank Zachodni WBK Group

PLN m

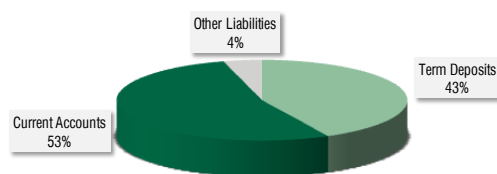
Deposits of BZ WBK Group from Customers	31.12.2017		31.12.2016		Ytd Change 1/2
	1	2	3	4	
Deposits from individuals	64 987,7		63 547,9		2,3%
Deposits from enterprises and public sector customers	46 493,4		48 974,6		-5,1%
Total	111 481,1		112 522,5		-0,9%

Consolidated deposits from customers were generally stable YoY (-0.9% YoY) and amounted to PLN 111,481.1m as at the end of December 2017, including PLN 8,148.6m relating to SCB Group after intercompany transactions (vs. PLN 8,224.7m as at the end of December 2016).

Structure of Consolidated Customer Deposits as at 31.12.2017



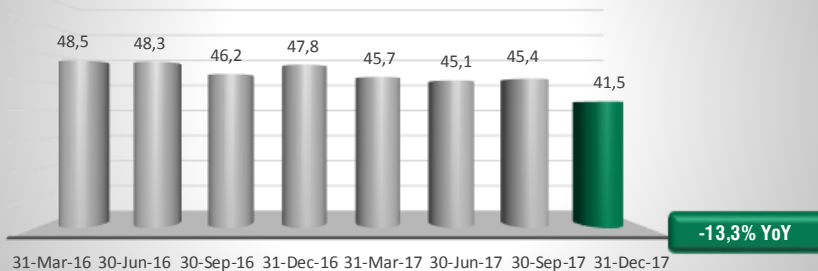
Structure of Consolidated Customer Deposits as at 31.12.2016



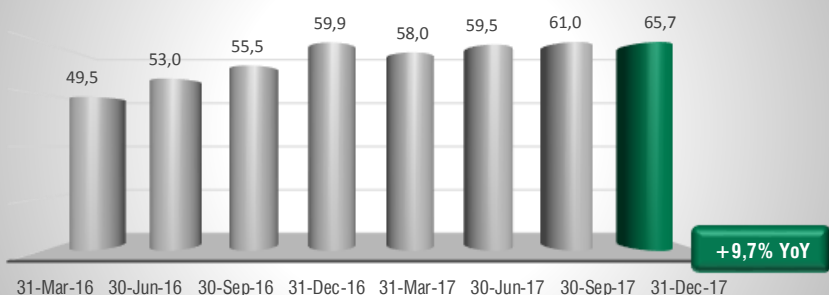
In 2017, the management of deposit products focused on increasing the strength of relationship with deposit customers and building deposit volumes and structure on the back of an optimised product range. During the year, balances of low-interest bearing current and savings accounts gradually increased, while balances of term deposits reduced. Investment funds offered by the Group became more popular among customers due to record low interest rates and improved stock market conditions. In effect, the transfer of deposits to BZ WBK TFI investment funds increased significantly.

The Group's total term deposits from customers amounted to PLN 41,483.5m and decreased by 13.3% YoY. Current account balances increased by 9.7% YoY to PLN 65,663.4m, and other liabilities were PLN 4,334.2m, down 10.4% on 31 December 2016.

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



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



* Including savings accounts

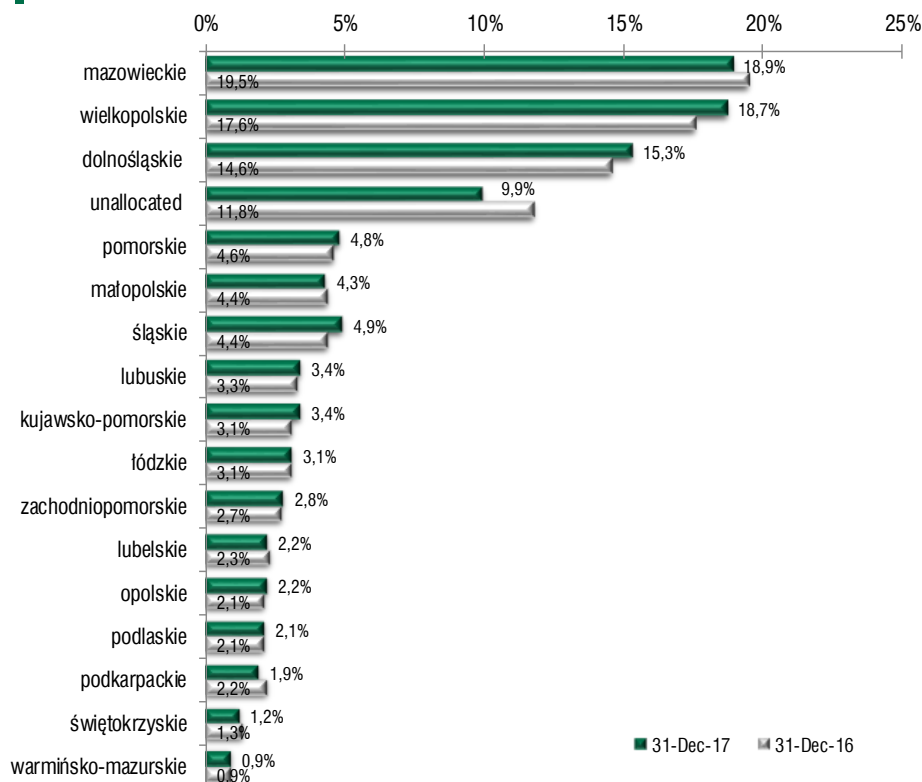
The retail deposit base stood at PLN 64,987.7m, higher by 2.3% YoY as a result of an increase in current account balances (+8.3% YoY), including savings accounts. During the year, the acquisition of new money was supported by special deals on savings accounts, including the campaign for Max Savings Account (Konto Max Oszczędnościowe) and the campaign for the Account As I Want It (Konto Jakiej Chce), with a possibility of opening the Regular Savings Account (Konto Systematyczne).

In 2017, deposits from enterprises and the public sector decreased by 5.1% YoY to PLN 46,493.4 at the end of 2017 (-18.8% YoY), outpacing the growth of current account balances (+12.4% YoY).

The largest constituent of other liabilities were loans and advances (PLN 3,552,4m vs. PLN 4,075.9m as at 31 December 2016), reported under deposits from enterprises which included loans granted by international financial organisations (the European Investment Bank, the European Bank for Reconstruction and Development and the Council of Europe Development Bank) to finance the bank's credit delivery and the lease business of the bank's subsidiaries.

A decrease in loans and advances is the combined effect of scheduled repayments of matured loans from the European Investment Bank, disbursement of the second tranche of PLN 42.2m by the Council of Europe Development Bank under an agreement signed on 13 June 2016 and the financing of EUR 100m obtained by BZ WBK Leasing from the Council of Europe Development Bank.

Geographical structure of deposits (by provinces) as at 31.12.2016 and 31.12.2017



Diversification of Funding Sources of Bank Zachodni WBK and Bank Zachodni WBK Group

In 2017, measures continued to diversify the funding sources of Bank Zachodni WBK Group.

Measure	Date	Funding Provided by Banks and International Financial Institutions
Bank Zachodni WBK		
Agreements of BZ WBK	10.02.2017	<ul style="list-style-type: none"> A guarantee agreement signed with the European Investment Bank (EIB) providing security for lending up to EUR 300m to be granted by BZ WBK. In order to activate the guarantee, the bank undertook to provide financing of up to EUR 600m to SMEs (including lease facilities) and mid-caps (as per the EU definition).
	10.11.2017	<ul style="list-style-type: none"> An agreement signed with the EIB providing for EUR 80m to finance projects under the bank's Digital Transformation.
Drawdowns/repayments/other measures	15.09.2017	<ul style="list-style-type: none"> Full repayment of a EUR 50m facility granted to the former Kredyt Bank by the EIB under an agreement signed on 4.01.2010.
	27.12.2017	<ul style="list-style-type: none"> The 2nd tranche of PLN 42.2m drawn under a credit agreement signed with the Council of Europe Development Bank (CEB) for EUR 100m (13.06.2016).

Measure	Date	Funding Provided by Banks and International Financial Institutions (ctd.)
Subsidiaries		
Agreements of BZ WBK Leasing ¹⁾	01.06.2017	<ul style="list-style-type: none"> A EUR 100m financing agreement signed with the CEB to promote lending to SMEs for their growth and investments. Disbursement of two tranches of EUR 50m each (June and September 2017) under the above facility agreement.
	05.12.2017	<ul style="list-style-type: none"> A EUR 50m agreement signed with the EBRD to finance improvements that increase efficiency and reduce energy consumption.
Agreements of BZ WBK Faktor ¹⁾	20.10.2017	<ul style="list-style-type: none"> A EUR 100m loan granted to BZ WBK Faktor by Industrial and Commercial Bank of China, Branch in Poland (ICBC), maturing on 20.10.2018.
Repayments	24.02.2017	<ul style="list-style-type: none"> Repayment of a PLN 324m credit facility to PKO BP granted to BZ WBK Leasing based on the agreement of July 2013.
	19.10.2017	<ul style="list-style-type: none"> Repayment of a EUR 100m loan granted on 19 October 2016 to BZ WBK Faktor by ICBC.
	19.12.2017	<ul style="list-style-type: none"> Repayment of EUR 15m loan granted to BZ WBK Leasing S.A. by EBRD on 19.12.2012.

1) Agreements secured by guarantees issued by Bank Zachodni WBK

Date	Own issues of securities and major redemptions
Bank Zachodni WBK	
Issues of BZ WBK	<ul style="list-style-type: none"> Issues of certificates of deposits as part of the Issuance Programme of 18.03.2015, for a total value of PLN 3bn, aimed at financing the bank's general corporate purposes: <ul style="list-style-type: none"> ✓ series D certificates of deposit with a nominal amount of PLN 420m, an interest rate of 1.81% and a maturing date of 17.08.2017; ✓ series E certificates of deposit with a nominal amount of PLN 250m, an interest rate of 1.81% and a maturing date of 17.10.2017; ✓ series F certificates of deposit with a nominal amount of PLN 750m, an interest rate of 1.81% and a maturing date of 19.02.2018.
	<ul style="list-style-type: none"> Issuance of subordinated debt in the form of variable-rate green bonds of EUR 137.1m (equivalent of USD 150m) taken up by the International Finance Corporation (IFC). The funds raised were used to finance projects promoting efficient energy use.
	<ul style="list-style-type: none"> Consent granted by the Polish Financial Supervision Authority (KNF) to allocate the following items to subordinated bonds: <ul style="list-style-type: none"> ✓ bonds issued on 2.12.2016, with a total nominal value of EUR 120m and a maturity date of 3.12.2026; ✓ green bonds issued on 22.05.2017, with a total nominal value of EUR 137.1m and a maturity date of 22.05.2027.
	<ul style="list-style-type: none"> Consent granted by the Polish Financial Supervision Authority (KNF) to allocate the following items to subordinated bonds: <ul style="list-style-type: none"> ✓ bonds issued on 2.12.2016, with a total nominal value of EUR 120m and a maturity date of 3.12.2026; ✓ green bonds issued on 22.05.2017, with a total nominal value of EUR 137.1m and a maturity date of 22.05.2027.
Subsidiaries	
Issues of Santander Consumer Bank	<ul style="list-style-type: none"> Nine issues of variable-rate bonds with a nominal value of PLN 873.5m and maturity ranging from three to five years as part of the debt securities issuance programme underwritten by Santander Consumer Finance, with funds earmarked to finance the bank's general corporate purposes:
	<ul style="list-style-type: none"> Issuance of bonds with a nominal value of PLN 700m (as a private placement), a WiBOR1M-based floating interest rate and maturity date of 18.02.2018. Proceeds from the issue have been earmarked for reducing the overdraft balance of the company.
	<ul style="list-style-type: none"> Issuance of bonds with a nominal value of PLN 700m (as a private placement), a WiBOR1M-based floating interest rate and maturity date of 18.02.2018. Proceeds from the issue have been earmarked for reducing the overdraft balance of the company.

3. Income Statement of Bank Zachodni WBK

Profit of Bank Zachodni WBK

PLN m

Condensed Unconsolidated Income Statement of BZ WBK (for analytical purposes)	2017	2016	YoY Change
Total income	6 123,0	6 311,5	-3,0%
- Net interest income	3 785,6	3 480,4	8,8%
- Net fee & commission income	1 726,6	1 604,7	7,6%
- Other income ¹⁾	610,8	1 226,4	-50,2%
Total costs	(2 679,3)	(2 722,7)	-1,6%
- Staff, general and administrative expenses	(2 323,2)	(2 360,2)	-1,6%
- Depreciation/amortisation	(274,9)	(234,1)	17,4%
- Other operating expenses	(81,2)	(128,4)	-36,8%
Impairment losses on loans and advances	(540,4)	(583,5)	-7,4%
Tax on financial institutions ²⁾	(388,0)	(356,1)	9,0%
Profit before tax	2 515,3	2 649,2	-5,1%
Tax charges	(599,1)	(567,5)	5,6%
Net profit for the period	1 916,2	2 081,7	-8,0%

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

The figure for 2016 includes one-off gains of PLN 305.9m reported by BZ WBK as a result of the settlement of acquisition of Visa Europe Ltd. by Visa Inc. (in the full version of the income statement this amount is reported as part of gains on other financial instruments).

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

The unconsolidated profit before tax of Bank Zachodni WBK for 2017 was PLN 2,515.3m and 5.1% lower YoY as an effect of high base arising from the recognition of the remuneration of PLN 305.9m in respect of the settlement of the merger between Visa Inc. and Visa Europe Ltd. and substantial dividend income, including:

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

Excluding dividend income and one-off gains on equity instruments from the current and corresponding periods, the underlying profit before tax of Bank Zachodni WBK increased by 16.4% YoY as the combined effect of the following:

- a major improvement in net interest income (+8.8% YoY) driven by lending to retail and corporate customers and the optimisation of a deposit range focused on the development of current account balances and long-term relationships with deposit customers;
- an increase in net fee and commission income (+7.6% YoY) attributed to higher volumes in the majority of product lines (in particular investment funds, brokerage services, loans and credit and debit cards) which were partly offset by a decrease in insurance fee income arising from regulatory and statutory changes in the insurance services model;
- lower impairment losses on loans and advances (-7.4% YoY) supported by economic growth, favourable labour market conditions, effective risk management mechanisms and decision making tools as well as the sale of debt owed by retail and business customers;
- lower total operating costs (-1.6% YoY) resulting from a decrease in general and administrative expenses and other operating costs with a concurrent increase in staff expenses and amortisation/depreciation (on account of the development of IT infrastructure);
- a decrease in net trading income (-31.2% YoY) mainly in relation to derivatives and interbank FX transactions;
- lower gains on other financial instruments (-53.2% YoY) amid lower trading in bonds;

Profit for 2017 was PLN 1,916.2m and 8.0% lower YoY. On a comparable basis, profit increased by 4.5% YoY (including dividend income) and 15.9% (excluding dividend income). An effective tax rate increased from 21.4% in 2016 to 23.8% in 2017 as a result of changes in regulations which govern the tax treatment of BFG costs, a higher loss on the sale of a portion of debt, a longer taxable period in 2017 in relation to the tax on financial institutions and lower dividend income.

Components of Total Income of Bank Zachodni WBK.

Total income of Bank Zachodni WBK for 2017 decreased by 3.0% YoY to PLN 6,123.0m. Adjusting the base period for one-off gains from the settlement of the sale of Visa Europe Ltd., the bank's underlying total income went up by 2.0% YoY. Excluding also dividend income from both periods under review, the figure increased by 4.6% YoY.

Net Interest Income

In 2017, the bank posted net interest income of PLN 3,785.6m, up 8.8% YoY on account of the growth of credit and deposit portfolios driven by effective management of product parameters, sales structure and balance sheet as well as favourable macroeconomic environment. In 2017, cumulative net interest margin was 3.2% compared with 3.1% a year before.

	PLN m		
Interest Revenue of BZ WBK due to:	2017	2016	Zmiana r/r
Loans and advances to individuals	2 140,4	1 922,9	11,3%
Loans and advances to enterprises and the public sector	1 661,2	1 614,4	2,9%
Debt securities	609,5	576,0	5,8%
Interest on hedging IRS	204,4	284,4	-28,1%
Other revenues ¹⁾	87,7	72,2	21,5%
Total	4 703,2	4 469,9	5,2%
Interest Expense of BZ WBK due to:	2017	2016	Zmiana r/r
Deposits from individuals	(433,9)	(495,9)	-12,5%
Deposits from enterprises and the public sector	(345,8)	(379,0)	-8,8%
Subordinated liabilities and issue of securities	(73,1)	(65,0)	12,5%
Other expenses ²⁾	(64,8)	(49,6)	30,6%
Total	(917,6)	(989,5)	-7,3%
Net Interest Income	3 785,6	3 480,4	8,8%

1) Other interest revenue due to deposits from banks and buy-sell-back transactions.

2) Other interest expense due to deposits from banks and sell-by-back transactions.

Net Fee and Commission Income

In 2017, Bank Zachodni WBK earned net fee and commission income in the total amount of PLN 1,726.6m, up 7.6% YoY.

	PLN m		
Net Fee and Commission Income of BZ WBK	2017	2016	YoY Change
E-Business and payments ¹⁾	402,5	378,2	6,4%
Account maintenance and cash transactions ²⁾	329,2	326,7	0,8%
FX fees	346,1	320,0	8,2%
Credit fees ⁴⁾	238,3	192,9	23,5%
Asset management and distribution	167,5	133,8	25,2%
Insurance fees ³⁾	61,5	85,0	-27,6%
Credit cards	72,8	67,2	8,3%
Guarantees	62,4	65,6	-4,9%
Brokerage activities	77,0	61,3	25,6%
Other ⁵⁾	(30,7)	(26,0)	18,1%
Total	1 726,6	1 604,7	7,6%

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

2) Fee and commission income from account maintenance and cash transactions has been reduced by the corresponding expenses which in Note 6 of the Financial Statements of Bank Zachodni WBK for 2017 are included in the line item "Other" (PLN 0.7m for 2017 vs. PLN 2.6m for 2016).

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

4) Fee and commission income from lending which is not amortised to net interest income. This line item includes inter alia the cost of credit agency fees..

5) Issue arrangement fees and others.

The highest YoY growth in net fee and commission income was generated by brokerage services (+25.6% YoY), which reflected higher volumes of trading in the secondary market and increased demand for IPO services amid favourable stock exchange trends.

Higher net fee and commission income from fund distribution and asset management (+25.2% YoY) reflects an increase in the sales of units of investment funds managed by BZ WBK TFI, mainly equity, corporate bond and stable growth funds, driven by stronger management results and an improvement in investor sentiment compared with the previous year. The structure of sales of investment funds changed in 2017, with a bigger share of high-margin solutions, such as equity funds or mixed funds with an equity component.

Net fee and commission income aggregated under the "eBusiness and payments" line item rose by 6.4% YoY as a result of an increase in income from issuance and management of debit cards driven by their growing portfolio (+6.2 YoY), higher non-cash turnover initiated with such instruments and the revision of fees and charges applicable to card services for individuals and companies (August 2016).

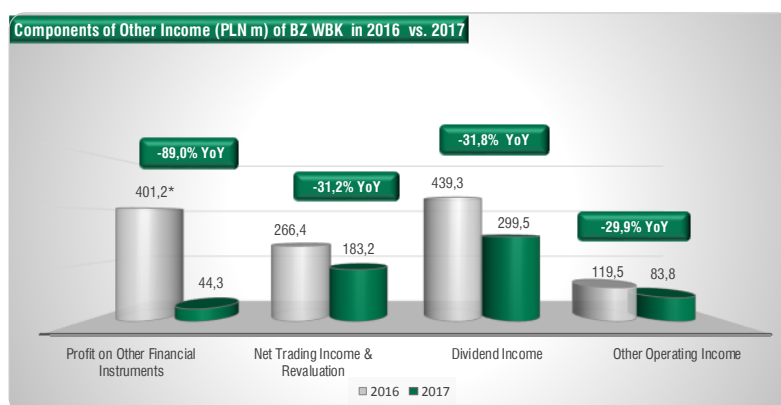
Net income from credit fees went up by 23.5% YoY on account of satisfactory growth of credit exposures and changes to the collection and classification of reimbursed BFG fees.

An improvement in net FX fee income (+8.2% YoY) is attributed to higher foreign trade volumes and the development of e-FX services in the iBiznes24 platform.

Net fee and commission income from issuance and management of credit cards went up by 8.3% YoY on account of a 3.0% YoY increase in the size of the credit card portfolio, a higher volume of credit card transactions and the last year's revision of selected credit card fees and charges.

A decline of 27.6% YoY in net fee and commission income from insurance results from regulatory and statutory changes to the bancassurance model and lower insurance coverage for cash loans.

Components of Other Income of Bank Zachodni WBK (other than net interest income or net fee and commission income)



* Gains on other financial instruments and subordinate entities include PLN 305.9m arising from the settlement of the acquisition of Visa Europe Ltd. by Visa Inc. in June 2016.

The bank's other income totalled PLN 610.8m and decreased by 50.2% YoY. Adjusted for the impact of the one-off equity transaction of 2016, the decrease was 33.6% YoY.

Gains on other financial instruments and subordinate entities were PLN 44.3m in 2017 and down 89.0% YoY as an effect of a high base including, among other things, a gain of PLN 307.7m on equity instruments available for sale (including PLN 305.9m on account of the settlement of the acquisition of Visa Europe Ltd. by Visa Inc.) and a relatively high gain on debt securities (PLN 92.8m) which is dependent on developments in the financial markets and the bank's risk and balance sheet structure management strategy. In the current reporting period, the corresponding figures were as follows: PLN 26.4m on account of the sale of shares of Polimex-Mostostal, PBG and WSE, and PLN 20.5m on account of the sale of bonds.

In 2017, Bank Zachodni WBK generated net trading income of PLN 183.2m, down 31.2% YoY due to derivatives, interbank FX transactions and debt instruments.

Dividend income from the equity related entities of Bank Zachodni WBK decreased by PLN 139.8m YoY to PLN 299.5m because of lower dividends from the bank's subsidiaries (particularly SCB and BZ WBK TFI) and from the portfolio of financial assets available for sale (notably Aviva Group companies), which were down 35.2% and 19.8%, respectively.

Other operating income fell by 29.9% YoY to PLN 83.8m due to a decrease of PLN 53.8m YoY in reimbursements of fees from the Bank Guarantee Fund (BFG) as a result of changed reclassification of such revenues, which are recognised as fee and commission income following ratification of the Act of 10 June 2016 on the Bank Guarantee Fund, deposit guarantee scheme and resolution, which introduced a new methodology for calculating BFG contributions.

Impairment Charge

PLN m			
Impairment Losses of BZ WBK on Loans and Advances	2017	2016	YoY Change
Collective and individual impairment charge	(513,0)	(609,6)	-15,8%
Impaired but not reported losses charge	(28,1)	(0,2)	13950,0%
Recoveries of loans previously written off	(2,1)	(1,1)	90,9%
Off-balance sheet credit related facilities	2,8	27,4	-89,8%
Total	(540,4)	(583,5)	-7,4%

In 2017, the loan impairment charge to the income statement of Bank Zachodni WBK was PLN 540.4m, and decreased by 7.4% YoY as a result of reduction in loan loss provisions on individually assessed business loans and collectively assessed retail loans.

In 2017, Bank Zachodni WBK sold non-performing matured receivables of PLN 1,088.2m vs. PLN 1,383.6m in the corresponding period (including the principal amount of PLN 1,008.0m and PLN 1,281.4m, respectively), which contributed PLN 172.7m and PLN 103.9m to the profit before tax in both periods, respectively. Receivables sold included claims on retail and business customers.

The YoY decrease in impairment losses was combined with a 3.8% YoY increase in the gross loan book and steady improvement in the credit risk ratio from 0.67% in 2016 to 0.59% in 2017.

Staff and General Expenses of Bank Zachodni WBK

PLN m			
Total costs of BZ WBK	2017	2016	YoY Change
Staff, general and administrative expenses, of which:	(2 323,2)	(2 360,2)	-1,6%
- Staff expenses	(1 255,0)	(1 220,8)	2,8%
- General and administrative expenses	(1 068,2)	(1 139,4)	-6,2%
Depreciation/amortisation	(274,9)	(234,1)	17,4%
Other operating expenses	(81,2)	(128,4)	-36,8%
Total costs	(2 679,3)	(2 722,7)	-1,6%

The total costs of Bank Zachodni WBK for 2017 amounted to PLN 2,679.3m, and were 1.6% lower YoY. In the period under review, there was a drop in general and administrative expenses (-6.2% YoY) and other operating expenses (-36.8% YoY), which reflects the reduction of BFG fees (PLN 184.1m in 2017 vs. PLN 220.8m in 2016), lower cost of marketing and entertainment (-19.7% YoY) and lower provisions for legal disputes (-55.1% YoY). On the other hand, staff expenses went up by 2.8% YoY as a result of an increase in the average headcount following the incorporation of the Multichannel Communication Centre in the bank's structures in September 2016, and salary and bonus schemes reviews conducted in H2 2016 and 2017. Depreciation and amortisation went up by 17.4% YoY due to the extension of IT infrastructure.

Excluding gains on a one-off equity transaction from total income for 2016, the Group's cost to income ratio decreased from 45.3% to 43.8% in 2017.

4. Financial Position of Bank Zachodni WBK

PLN m

Assets of BZ WBK (condensed presentation for analytical purposes)	31.12.2017	31.12.2016	YoY Change
Loans and advances to customers ¹⁾	90 537,0	87 102,4	3,9%
Financial assets available for sale	25 784,0	26 322,4	-2,0%
Cash and operations with Central Banks	4 114,8	4 696,6	-12,4%
Financial assets held for trading and hedging derivatives	3 568,3	3 265,0	9,3%
Fixed assets, intangibles and goodwill	2 970,0	2 932,7	1,3%
Loans and advances to banks ²⁾	2 012,1	3 308,8	-39,2%
Other assets ³⁾	3 877,1	3 790,1	2,3%
Total	132 863,3	131 418,0	1,1%
Liabilities & Equity of BZ WBK (condensed presentation for analytical purposes)	31.12.2017	31.12.2016	YoY Change
Deposits from customers ⁴⁾	102 155,5	103 381,2	-1,2%
Subordinated liabilities and debt securities in issue	2 728,9	2 223,8	22,7%
Financial liabilities held for trading and hedging derivatives	1 842,7	3 771,8	-51,1%
Deposits from banks ⁴⁾	1 414,4	1 212,8	16,6%
Sell-buy-back transactions	1 479,7	-	-
Other liabilities ⁵⁾	2 403,3	1 798,9	33,6%
Total equity	20 838,8	19 029,5	9,5%
Total	132 863,3	131 418,0	1,1%

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

2) Excludes receivables from repurchase transactions disclosed under other assets.

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

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

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

As at 31 December 2017, the total assets of Bank Zachodni WBK were PLN 132,863.3m, an increase of 1.1% YoY. With its 87.0% contribution to the total consolidated assets, the bank sets development directions for the Group's core business. Consequently, YoY movements reported in the Bank Zachodni WBK's statement of financial position are also reflected in the consolidated statement presented in Section 2 of this chapter.

In terms of the bank's assets, there was an increase in net loans and advances to customers (+3.9% YoY), and a decline in the following line items: loans and advances to banks (-39.2% YoY), cash and balances with central banks (-12.4% YoY) and financial assets available for sale (-2.0% YoY).

The unconsolidated liabilities reported sell-buy-back transactions (+PLN 1.5bn) which went down to nil a year before and subordinate debt and debt securities in issue which grew by 22.7% YoY on account of two new bond issues, including three series of certificates of deposit with a total nominal value of PLN 1,420.0m and subordinated debt in the form of green bonds with a nominal value of EUR 137.1m. YoY increase in total equity by 9.5% was driven by the current period profit and the entire profit for 2016 retained by the bank in with a regulatory requirement. Deposits from customers decreased by 1.2% YoY and so did financial liabilities held for trading (-30.2% YoY) and hedging derivatives (-70.5% YoY), which fell by 51.1% in an aggregated line item presented in the table above.

Gross Loans and Advances to BZ WBK Customers

PLN m

Gross Loans and Advances to BZ WBK Customers	31.12.2017	31.12.2016	YoY Change
Loans and advances to individuals	44 322,8	42 995,9	3,1%
Loans and advances to enterprises and public sector customers	49 239,0	47 007,3	4,7%
Other	7,3	181,6	-96,0%
Total	93 569,1	90 184,8	3,8%

As at 31 December 2017, gross loans and advances to customers were PLN 93,569.1m and higher by 3.8% YoY. The business loan portfolio grew by 4.7% YoY due to increased lending to SME and large corporate customers. Solid YoY growth rate was also witnessed in home loans (+3.1% YoY) and cash loans for retail customers (+5.8% YoY), which totalled PLN 33,723.9m and PLN 7,628.5m, respectively.

As at 31 December 2017, non-performing (impaired) loans and advances to customers accounted for 5.0% of the gross portfolio of Bank Zachodni WBK vs. 6.0% twelve months before. The provision coverage ratio for impaired loans was 56.6% vs. 50.9% as at 31 December 2016.

Deposits from BZ WBK Customers

	PLN m		
Deposits of BZ WBK Customers	31.12.2017	31.12.2016	YoY Change
Deposits from individuals	59 310,8	57 845,4	2,5%
Deposits from enterprises and public sector customers	42 844,7	45 535,9	-5,9%
Total	102 155,5	103 381,3	-1,2%

In 2017, deposits from customers decreased by 1.2% to PLN 102,155.5 as at 31 December 2017. A decline in term deposits from retail and corporate customers (-15.7% YoY) was combined with an increase in current account balances (+9.7% YoY), often resulting from the transfer of funds from the time deposit facilities to current and savings accounts. Other deposits from customers dropped by 21.6% YoY as a result of the repayment of loans from the European Investment Bank, which reduced the balance of loans and advances.

5. Selected Financial Ratios of Bank Zachodni WBK and BZ WBK Group

Selected Financial Ratios of BZ WBK Group	2017	2016 ¹⁾
Total costs/Total income	43,4%	46,2%
Net interest income/Total income	68,0%	65,4%
Net interest margin ²⁾	3,84%	3,68%
Net commission income/Total income	25,9%	26,3%
Customer net loans/Customer deposits	96,7%	91,6%
NPL ratio	5,8%	6,6%
NPL coverage ratio	63,1%	59,0%
Credit risk ratio ³⁾	0,63%	0,75%
ROE ⁴⁾	12,2%	12,8%
ROTE ⁵⁾	14,3%	15,3%
ROA ⁶⁾	1,5%	1,5%
Capital ratio ⁷⁾	16,69%	15,05%
Tier I ratio ⁸⁾	15,28%	14,56%
Book value per share (in PLN)	235,0	211,8
Earnings per share (in PLN) ⁹⁾	22,3	19,4
Selected Financial Ratios of BZ WBK	2017	2016 ¹⁾
Total costs/Total income	43,8%	45,3%
Net interest income/Total income	61,8%	58,0%
Net interest margin ²⁾	3,2%	3,1%
Net commission income/Total income	28,2%	26,7%
Customer net loans/Customer deposits	88,6%	84,3%
NPL ratio	5,0%	6,0%
NPL coverage ratio	56,6%	50,9%
Credit risk ratio ³⁾	0,59%	0,67%
ROE ⁴⁾	11,0%	12,6%
ROTE ⁵⁾	13,0%	15,1%
ROA ⁶⁾	1,5%	1,6%
Capital ratio ⁷⁾	18,95%	16,52%
Tier I ratio ⁸⁾	17,37%	16,08%
Book value per share (in PLN)	209,8	191,8
Earnings per share (in PLN) ⁹⁾	19,3	18,6

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

6. Additional Financial Information on Bank Zachodni WBK and BZ WBK Group

Selected Transactions with Related Entities

Key Intercompany Transactions with Subsidiaries

Transactions between Bank Zachodni WBK and its related entities are banking operations carried out on an arm's length basis as part of their ordinary business and mainly represent loans, bank accounts, deposits, guarantees and leases.

As at 31 December 2017, the bank's total exposure in respect of loans to subsidiaries (e.g. BZ WBK Faktor, BZ WBK Leasing) amounted to PLN 8,816.5m compared with PLN 7,952.3m as at 31 December 2016.

The deposits held with the bank by its subsidiaries (e.g. BZ WBK Finanse, BZ WBK TFI) totalled PLN 154.5m vs. PLN 152.9m as at 31 December 2016.

Contingent financial liabilities totalled PLN 1,185.4m compared with PLN 1,837.6m as at 31 December 2016. Guarantees to subsidiaries amounted to PLN 63.5m vs. PLN 67.0m as at 31 December 2016.

These intercompany items are excluded from the consolidated accounts.

Leaseback

On 16 April 2016, Bank Zachodni WBK signed an agreement with BZ WBK Leasing regarding finance leaseback of the existing properties (building, land and perpetual usufruct) and the lease of the planned property (office building to be developed within three years) located in Wrocław.

The final total value of the assets arising from the lease agreement (building and land) was estimated at PLN 156.3m as at the start date of the transaction. As at 31 December 2017, the current value of the fixed assets under the finance leaseback agreement was PLN 39m, and the value of fixed assets under construction totalled PLN 78m.

The basic lease period was set at 153 months. The purchase of the assets and construction of the office building by BZ WBK Leasing is financed with a loan from Bank Zachodni WBK.

Intercompany Transactions with Parent Entity

The bank's receivables from the parent entity (Banco Santander) were PLN 308.7m compared with PLN 594.0m as at 31 December 2016, while obligations were PLN 63m compared with PLN 271.3m as at 31 December 2016.

A full disclosure on related party transactions is available in Note 48 of the Consolidated Financial Statements of Bank Zachodni WBK Group for 2017 and in Note 46 of the Financial Statements of Bank Zachodni WBK for 2017.

Selected Off-Balance Sheet Items

Guarantees and Derivatives

The tables below present contingent liabilities of Bank Zachodni WBK Group and nominal amounts of derivative transactions.

	PLN m	
Guarantees and Commitments of BZ WBK Group	31.12.2017	31.12.2016
Financial commitments:	24 642,3	23 243,1
- credit lines	20 279,5	19 134,4
- credit cards debits	3 730,7	3 419,0
- import letters of credit	624,2	655,6
- term deposits with future commencement term	7,9	34,1
Guarantees	4 885,7	4 182,8
Allowance for impairment	(50,7)	(50,7)
Total	29 477,3	27 375,2

PLN m		
Nominal Value of Derivatives of BZ WBK Group	31.12.2017	31.12.2016
Derivatives - Forward (hedging)	25 301,4	32 810,5
Derivatives - Forward (trading)	282 611,4	289 441,5
Current FX transactions	2 894,1	1 540,2
Trading in equities	817,7	1 335,7
Total	311 624,6	325 127,9

Description of Guarantees Issued

Bank Zachodni WBK guarantees obligations arising from customers' operating activities. These are: payment guarantees, performance bonds, warranty bonds, bid bonds, loan repayment guarantees and customs guarantees. In justified cases, the bank issues counter-guarantees and standby letters of credit.

All guarantees are granted in accordance with the Polish Banking Law and the Polish Civil Code. Guarantees issued by the bank to secure cross-border transactions may be subject to applicable rules as agreed by the parties (e.g. Uniform Rules for Demand Guarantees) or to foreign law if a guarantee is governed by such law.

The process and information required in the case of guarantees are similar to the lending process. The bank adopts the same approach to credit risk here as in the case of balance sheet exposures.

Operating Lease

Bank Zachodni WBK and Santander Consumer Bank lease offices under operating lease agreements. Typically, Bank Zachodni WBK signs its lease agreements for a term of 5-10 years, while lease agreements of Santander Consumer Bank are signed for a term of 3-5 years (except for lease agreements for the premises of mobile units which are entered for an indefinite period subject to one to three months' notice).

PSA Finance Polska – together with its subsidiary PSA Consumer Finance Polska – generally operates from the premises leased under an agreement which expires in 2021. Both companies lease printers/photocopiers, laptops and personal computers from Banque PSA Finance.

The table below shows total liabilities arising from irrevocable operating leases (including the value of land in perpetual usufruct).

PLN m		
Lease payments by maturity	31.12.2017	31.12.2016
less than 1 year	208,0	235,7
between 1 and 5 years	474,2	494,5
over 5 years	384,5	467,6
Total	1 066,7	1 197,8

Collateral

As at 31 December 2017, the value of borrowers' accounts, assets or leased assets pledged as collateral to Bank Zachodni WBK Group amounted to PLN 89,730.0m, of which PLN 69,462.5m was pledged to Bank Zachodni (+5.8% YoY).

7. Factors which May Affect Financial Results of Bank Zachodni WBK and BZ WBK Group in 2018

The following external developments will have a significant impact on the financial performance and activity of Bank Zachodni WBK and Bank Zachodni WBK Group in 2018:

- The policy pursued by the US president and possible reshuffles in the US Congress following the elections in November 2018;
- Possible changes in the monetary policy of the ECB and Federal Reserve;
- Effects of the negotiations regarding the British exit from the European Union;
- Conflict between the USA and North Korea, and other geopolitical risks;
- Price changes in commodity markets;
- Stabilisation of the economic growth in Poland;
- Growth in real disposable income of households on account of the continued employment and wage growth;
- Possible rise of labour market tension due to the lack of qualified workforce and the reduction of retirement age;
- Growth of consumer prices;
- Possible changes to the monetary policy by NBP, entry into force of NBP resolutions amending the rate of the minimum reserve requirement to 0.50% (January 2018) and reducing it to 0% for funds raised for at least two years (March 2018);
- Low financing costs for households and businesses should stimulate demand for bank debt. At the same time, low interest on deposits should encourage bank customers to seek alternative savings/investment options.
- Changes in asset funding costs dependent on the pace and degree of changes in base rates, movements in the PLN exchange rate, liquidity position of the banking sector and the degree of price competition between banks seeking to attract customer deposits;
- A possible increase in volatility in financial markets in the event of a more negative outlook for global economic growth, growing concerns about potential monetary policy tightening by the Federal Reserve or about outcomes of the elections to be held in Italy in March 2018 (the latest polls see eurosceptic party on the rise);
- Further developments in the global equity markets and their impact on demand for investment fund units or safe bank deposits;
- Possible new bills e.g. on foreign exchange loans, causing banks to incur additional costs;
- Further developments in relation to Article 7 of the EU Treaty.

IX. Investor Relations

1. Investor Relations at Bank Zachodni WBK

As a listed company with an established market position, Bank Zachodni WBK is required to actively communicate with its stakeholders in order to satisfy their information requirements in accordance with the highest market standards and prevailing laws.

Particularly important is communication with capital market participants: shareholders, investors and analysts. Bank Zachodni WBK is committed to providing the above stakeholders with regular and timely access to high quality and clear information in order to facilitate the accurate assessment of the bank's financial standing, market position and the effectiveness of its strategy and business model.

The BZ WBK Investor Relations Office maintains relationships with institutional investors and stock market analysts, informing them proactively of the bank's development, performance and other relevant aspects which may affect their decisions. This is to ensure adequate transparency of the company, build trust and promote the bank's image in capital markets.

In 2017 - as part of standard activities in the area of investor relations investors - shareholders and stock market analysts had the opportunity to meet representatives of the bank's Management Board at numerous brokers' conferences in Poland and abroad as well as investor road-shows and individual meetings.

In 2017, Bank Zachodni WBK was present at five international investor conferences. As usual, four conferences were held to present market analysts with the bank's quarterly performance. In line with best practice, they were broadcast online in both Polish and English, and recordings were made available on the bank's website (www.bzwbk.pl/investor-relations/bz-wbk-investor-relations.html).

Up-to-date information on key developments regarding Bank Zachodni WBK is published at (www.bzwbk.pl/investor-relations/bz-wbk-investor-relations.html).

2. Share Capital, Ownership Structure and Share Price

Share Capital and Ownership Structure of Bank Zachodni WBK

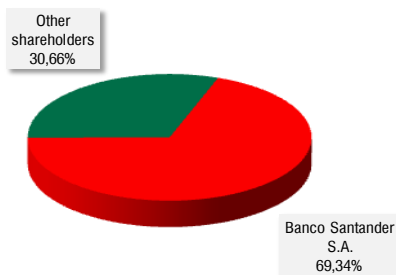
As at 31 December 2017, the share capital of Bank Zachodni WBK totalled PLN 993,334,810, divided into 99,333,481 ordinary bearer shares at a nominal value of PLN 10 each.

As the criteria for granting awards under the share-based 5th Incentive Programme had been satisfied, the bank's share capital was increased by way of issuing 98,947 series M shares without pre-emptive rights, with a nominal value of PLN 10 each.

The newly issued shares were taken up and paid up by eligible participants of the above-mentioned programme. The increase in the share capital was approved by the bank's Annual General Meeting of 17 May 2017 and recorded in the National Court Register on 3 August 2017. The above-mentioned shares were registered in the Central Securities Depository of Poland (KDPW) on 14 September 2017. On 1 December 2017, the shares were admitted to trading on the main floor of the Warsaw Stock Exchange starting from 19 December 2017.

Chapter XI "Statement on Corporate Governance in 2017" (part 4 "Equity Securities of the Issuer") presents general information about shares of Bank Zachodni WBK, respective share issues, as well as the number of shares and voting power held by shareholders with more than a 5% stake in the bank's share capital as at the end of 2016 and 2017.

Ownership Structure of Bank Zachodni WBK Share Equity
as at 31.12.2017

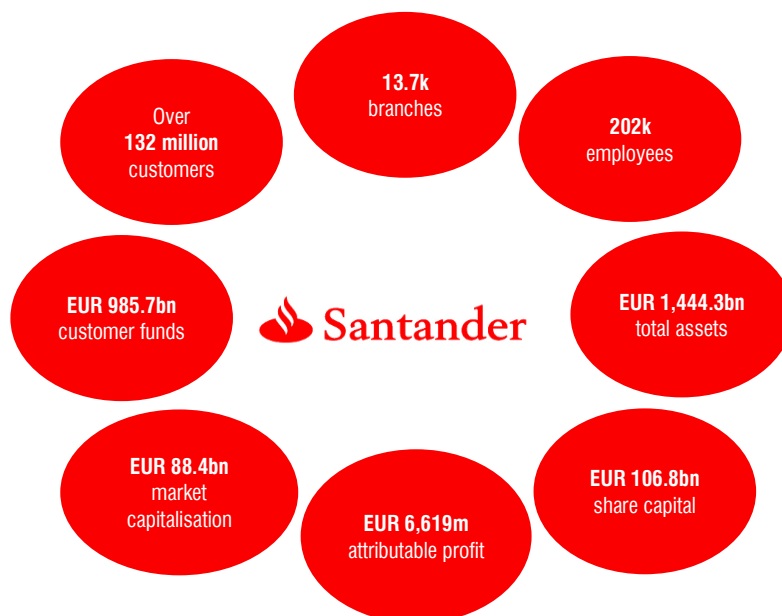


Majority Shareholder

Banco Santander, a parent entity of Bank Zachodni WBK, is a commercial bank with a history of nearly 160 years, having its registered office in Santander and operational headquarters in Madrid (Spain). While it specialises in retail banking services, the bank is also very active in the private banking, business and corporate banking, asset management and insurance markets. Banco Santander, which is characterised by the significant geographic diversification of its business, currently focuses on its 10 core markets, both developed and emerging. It has a strong market position in Spain, Argentina, Brazil, Chile, Mexico, the USA, Poland, Portugal and the UK. It is also present in consumer finance markets in Europe (Germany, France, Italy, Poland and the Scandinavian countries).

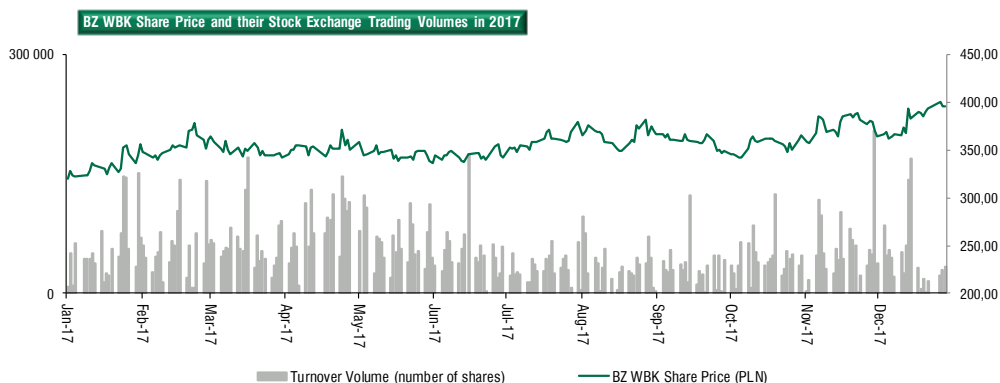
According to the data published on the statistical portal (www.statista.com) as at 25 April 2017, Banco Santander was the second largest bank in Europe and the 12th bank globally in terms of capitalisation.

Key figures presenting the scale of consolidated activity of Banco Santander Group as at 31 December 2017



Banco Santander has been listed on the Warsaw Stock Exchange since 3 December 2014. A total of 16,136.2m ordinary shares of the bank with a nominal value of EUR 0.50 each are traded there. In addition to the WSE, Banco Santander shares are quoted on stock exchanges in Madrid, Milan, Lisbon, London, New York, Buenos Aires and in other cities

Share Price of Bank Zachodni WBK vs. Indices



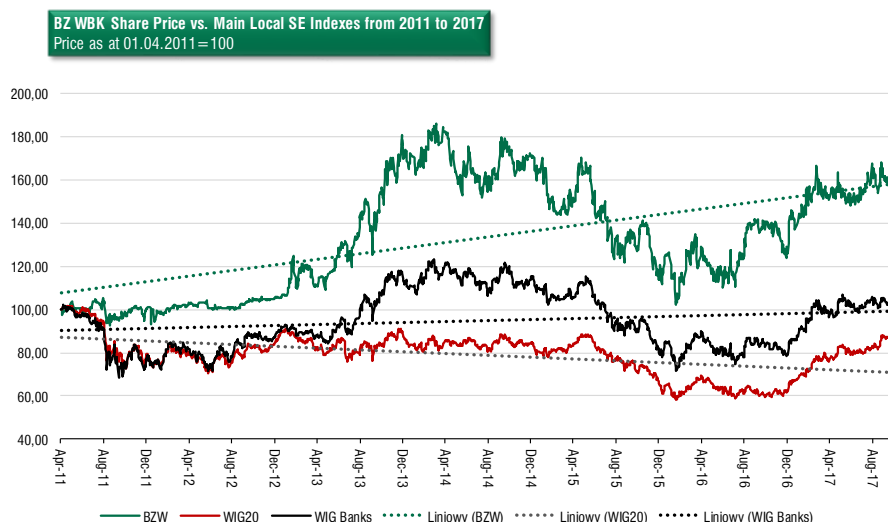
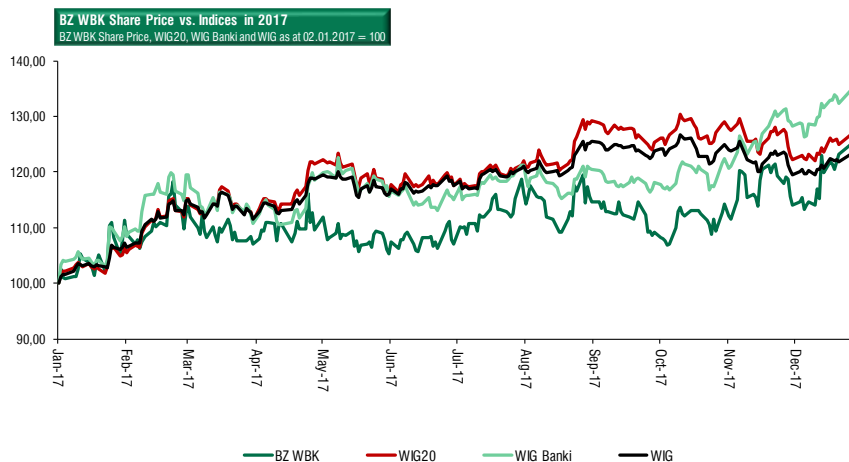
Key Data on BZ WBK Shares	2017	2016
Share price at the year-end (in PLN)	396,25	316,00
Maximum closing share price over the year (in PLN)	400,00	331,50
Date of maximum closing share price	27.12.2017	13.12.2016
Minimum closing share price over the year (in PLN)	319,90	232,50
Date of minimum closing share price	02.01.2017	18.01.2016
Price per earning ratio (P/E) at the year-end	20,54	15,06
Number of shares at the year-end (items)	99 333 481	99 234 534
Market capitalisation at the year-end (PLN m)	39 360,9	31 358,1
Dividend per share ¹⁾ (PLN)	5,40	13,00

¹⁾ Details in "Dividend per Share" section below.

The share price of Bank Zachodni WBK rose by more than 25.4% over the last 12 months, ranging from PLN 319.90 on 2 January 2017 to PLN 400.00 on 27 December 2017. The highest peaks were observed during the first and last months of the year. The bank's market capitalisation increased from PLN 31,358.1m as at 31 December 2016 to PLN 39,360.9m as at 31 December 2017 due to buoyant stock market conditions, in particular improved sentiment in the banking sector, with the WIG-Banks index gaining more than 35% at that time. Adjusting for a dividend of PLN 5.40 per share paid out in the first half of the year (from retained earnings for 2014 and 2015) and dividends paid in the previous years, the share price of Bank Zachodni WBK hit an all-time high at the close of 2017. Aside from solid growth in domestic consumption, the increase in the bank's stock price was stimulated by a stronger Polish zloty, which improved the structure of BZ WBK's credit portfolio. Rising inflation and the dovish policy kept by the Monetary Policy Council also had a positive effect on the price of BZ WBK shares amid expectations for interest rate hikes in 2018.

Due to strong liquidity and high market capitalisation, BZ WBK shares are traded in a number of stock market indices, including WIG-Banks (industry index), WIG20 (index of blue chip companies), and RESPECT (index of socially responsible companies).

The charts below show the BZ WBK share price against main stock exchange indices throughout 2017 and from the acquisition of a controlling stake by Banco Santander on 1 April 2011.



Dividend per Share

On the basis of a proposal from the Management Board and the Supervisory Board, and in accordance with the recommendation of the Polish Financial Supervision Authority (KNF) of 21 December 2016 on the principles of banks' dividend policies in 2017, and the individual recommendation for the bank of 9 March 2017, the bank's AGM of 17 May 2017 approved the distribution of the net profit for 2016 without making any dividend allocation.

Taking into account the strong capital position of the bank and its Group, the Management Board and the Supervisory Board made a proposal, subsequently approved by the AGM of 17 May 2017, to allocate to dividend an amount of PLN 535.9m from the retained profit for 2014 and 2015. The dividend of PLN 5.4 per share was paid out on 14 June 2017.

Last year, the AGM of 20 April 2016 decided to allocate PLN 702.5m of the net profit earned by Bank Zachodni WBK in 2015 and PLN 587.6m of the undistributed net profit for 2014 for a dividend payment. The dividend of PLN 13 per share was paid on 16 May 2016.

Dividend payments for the last five years are summarised in "Development of Bank Zachodni WBK Group over 5 Years" in Chapter I "Overview of Bank Zachodni WBK and BZ WBK Group Performance for 2017".

3. Bank Zachodni WBK Rating

Bank Zachodni WBK Rating

Bank Zachodni WBK has bilateral credit rating agreements with Fitch Ratings and Moody's Investors Service.

Rating Actions by Fitch Ratings

The table below shows rating actions taken by Fitch Ratings in relation to Bank Zachodni WBK in 2016 and 2017.

Fitch Rating	Ratings ¹⁾ confirmed as at 9.11.2016 and 20.10.2017	Ratings ¹⁾ updated as at 4.08.2016	Ratings confirmed as at 29.02.2016
International Ratings			
Long-term Issuer Default Rating (long-term IDR)	BBB+	BBB+	BBB+
Outlook for the long-term IDR rating	stable	stable	stable
Short-term Issuer Default Rating (short-term IDR)	F2	F2	F2
Viability rating (VR)	bbb+	bbb+	bbb+
Support rating	2	2	2
National Ratings			
National long-term rating	AA(pol)	AA(pol)	AA-(pol)
Outlook for the national long-term rating	stable	stable	stable
Senior unsecured debt national long-term rating	AA(pol)	AA(pol)	AA-(pol)

1) BZ WBK Ratings as at 31 December 2017 and 31 December 2016

Ratings of Bank Zachodni WBK as at 31 December 2017 were affirmed by Fitch Ratings on 20 October 2017 due to the lack of major changes to the bank's financial metrics over the past 12 months.

Fitch believes that Bank Zachodni WBK is a strategically important subsidiary for Banco Santander and there is a high probability of support from the parent entity if need be. This view is reflected in the Support Rating (SR) of 2 assigned to the bank.

The IDR of BZ WBK is driven by the bank's intrinsic strength, as reflected in its VR of bbb+. The IDR is also underpinned by potential shareholder support from Banco Santander rated A-/Stable/a-.

The Stable Outlook on BZ WBK reflects broadly balanced risks related to the credit profile of the bank and Banco Santander.

The individual rating takes into account the bank's strengths such as a well-established domestic market franchise, stable business model, conservative risk appetite, strong capitalisation, sound asset quality and robust liquidity and funding.

Rating Actions by Moody's Investors Service

The table below shows rating actions taken by Moody's Investors in relation to Bank Zachodni WBK in 2016 and 2017.

Category of Moody's Ratings	Ratings updated as at 29.01.2018	Ratings updated as at 1.03.2017 i 9.08.2017 ¹⁾	Ratings confirmed as at 9.09.2016
Bank Deposit	A3/P-2	A3/P-2	A3/P-2
Baseline Credit Assessment	baa3	baa3	baa3
Adjusted Baseline Credit Assessment	baa2	baa2	baa2
Outlook	positive	stable	stable
Counterparty Risk Assessment	A2 (cr)/ P-1 (cr)	A2 (cr)/ P-1 (cr)	A2 (cr)/ P-1 (cr)

1) BZ WBK Ratings as at 31 December 2017 and 31 December 2016

Ratings of Bank Zachodni WBK as at 31 December 2017 were affirmed by Moody's Investors Service in the credit opinion dated 9 August 2017.

Bank Zachodni WBK A3/Prime-2 deposit ratings incorporate the bank's standalone basic credit assessment (BCA) of baa3, the results of the Advanced Loss Given Failure (LGF) analysis, the assumption of parental support from Banco Santander and the low likelihood of support from the Polish Government if need be.

BZ WBK's BCA of baa3 is supported by Poland's Macro Profile of Strong-, and reflects the bank's expanding franchise in the Polish market, improved asset quality, strong profitability and good liquidity profile. At the same time, the bank's capitalisation, although at a good level, may come under pressure from rapid lending growth and potential Government initiatives on CHF mortgages.

On 29 January 2018 r. Moody's Investors Service changed the outlook to positive from stable on BZ WBK's long-term deposit ratings and affirmed the existing ratings. This rating action reflects improving asset quality, resilient capitalization and strong profitability. It also factors in positive impact of BZ WBK's upcoming acquisition of a carve-out of Deutsche Bank's and the assessment of the costs associated with the draft legislation regarding foreign currency mortgages.

X. Risk and Capital Management

1. Risk Management Principles and Structure in Bank Zachodni WBK and BZ WBK Group

Risk Management Principles

Bank Zachodni WBK and other members of BZ WBK Group are exposed to various risks within their day-to-day activities which adversely affect the delivery of strategic priorities of the organisation. The main types of risks include: credit risk, concentration risk, market risk (in the banking book and in the trading book), liquidity risk, operational risk, compliance risk and reputational risk.

The main objective of risk management in the bank and BZ WBK Group is to ensure effective and safe operations to support development within approved risk parameters. Risk management practice is in keeping with the industry benchmark, regulatory guidance and recommendations from supervisory authorities, and covers operational risk, credit risk, market risk and liquidity risk, among other things.

Risk management in the bank and BZ WBK Group is consistent with the risk profile which corresponds to the general risk appetite defined by the Group. Risk appetite is expressed as quantitative limits and captured in the Risk Appetite Statement approved by the Management Board and the Supervisory Board. Limits are set using stress tests and scenario analyses to ensure the stability of the bank's position even if adverse circumstances materialise. Global limits are used to set watch limits and shape risk management policies.

The integrated risk management structure contains separate units responsible for identification, measurement, monitoring and mitigation of risks in a way that ensures independence of risk management functions from risk-taking units. The responsibilities of risk management units are defined by the risk management framework that governs the process of identifying, measuring and reporting the risks taken. Furthermore, limits are set on a regular basis to mitigate exposure to individual risks.

Risk Management Structure

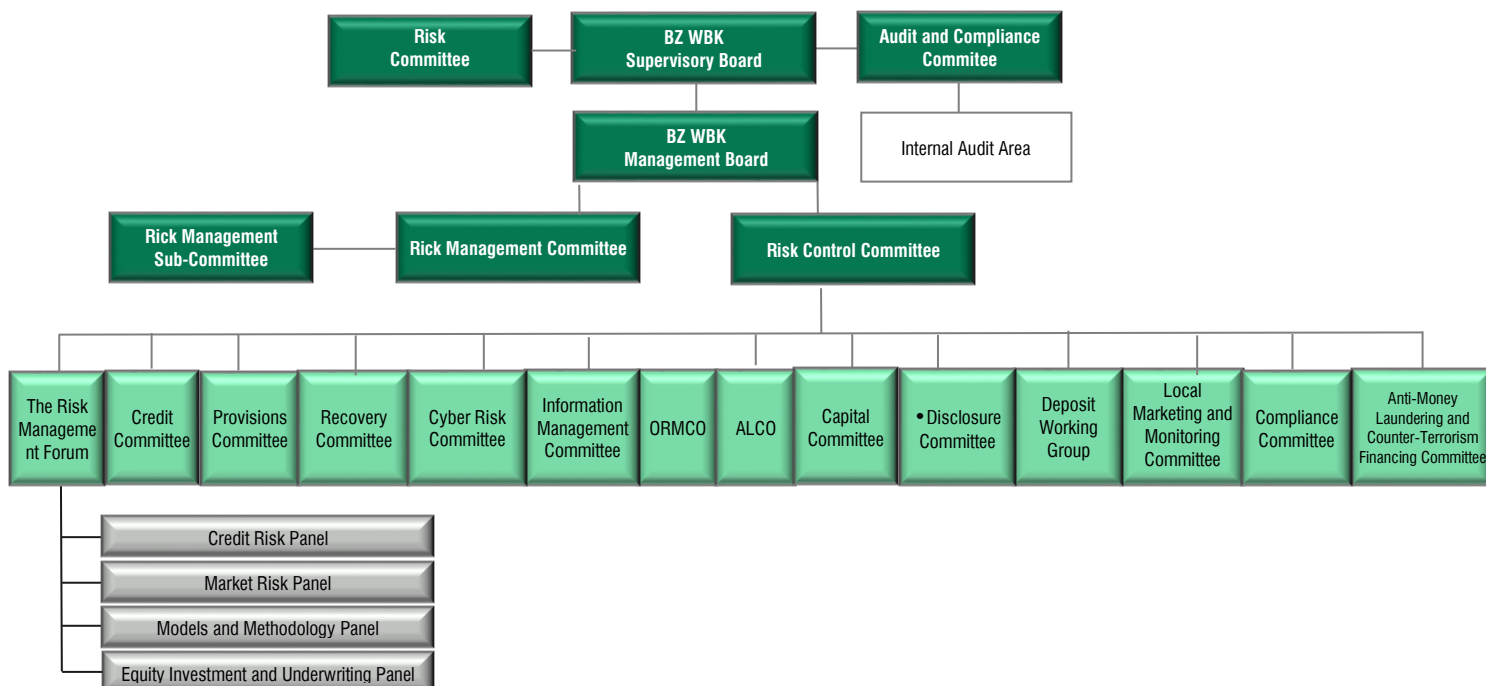
The bank's Supervisory Board is responsible for ongoing supervision of the risk management system in Bank Zachodni WBK, supported by the Audit and Compliance Committee of the Supervisory Board and the Risk Committee. The Supervisory Board approves the strategy, key risk management policies and risk appetite, and monitors the use of internal limits from the perspective of current business strategy and the macroeconomic environment. It conducts reviews of key risk areas, the identification of threats and the process of defining and monitoring remedial actions. The Supervisory Board also assesses the effectiveness of measures taken by the Management Board.

The bank's Management Board is responsible for implementing an effective risk management system compliant with the bank's regulatory obligations and internal regulations. Specifically, the bank's role in this regard is to set up an organisational structure tailored to the size and profile of the risks taken, to segregate responsibilities in order that risk assessment and control functions remain independent of operational functions, to introduce and update a risk management strategy and ensure an adequate information policy.

The Management Board fulfils its risk management role through the following three committees:

- The Risk Management Committee, which is an executive committee responsible for taking key decisions concerning risk management across the Group;
- The Risk Management Sub-Committee, which was set up as part of the Risk Management Committee to approve the key decisions taken by the main lower-level risk committees;
- The Risk Control Committee, which monitors the risk level across different areas of the bank's operations and supervises the activities of lower-level risk management committees set up by the Management Board.

Corporate Governance Structure for Risk Supervision and Management



The Risk Control Committee supervises the following committees responsible for risk management in the Group:

- The Risk Management Forum composed of panels dedicated to credit risk, market risk, models and methodology and equity investment and underwriting
- Credit Committee
- Recovery Committee
- Provisions Committee
- Information Management Committee
- Operational Risk Management Committee / ORMCO
- Cyber Risk Committee
- Assets and Liabilities Management Committee / ALCO
- Capital Committee
- Disclosure Committee
- Deposit Working Group
- Local Marketing and Monitoring Committee
- Compliance Committee
- Anti-Money Laundering and Counter-Terrorism Financing Committee

These committees, acting within the respective remits defined by the Management Board, are directly responsible for developing risk management methods and monitoring risk levels in specific areas. Through these committees, the bank also supervises the risk attached to the operations of its subsidiaries.

The subsidiaries have risk management policies and procedures in place that reflect the approach adopted by Bank Zachodni WBK, which ensures that risk management processes are consistent across the Group.

Acting under the applicable law, the bank exercises oversight of 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 Retail Banking 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 the adopted plans and operational security procedures. The bank monitors the profile and level of SCB risk via BZ WBK risk management committees.

2. Credit Risk Management

Credit Risk

Credit risk is defined as the possibility of suffering a loss if the borrower fails to meet their credit obligation, including payment of interest and fees. It results in the impairment of credit assets and contingent liabilities as a consequence of the borrower's worsening 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 in the event of the borrower's default.

Credit risk in the bank and 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 and discretionary limits. The internal system of credit grading and monitoring used by the bank and BZ WBK Group allows for the early identification of potential defaults that might impair the loan book. Additionally the bank and the Group use a large set of credit risk mitigation tools, both collateral (financial and non-financial) and specific credit provisions and clauses (covenants).

Credit risk management in the bank and BZ WBK Group involves actions taken as a result of the ongoing analysis of the macroeconomic environment and internal reviews of particular credit portfolios. These advanced credit risk assessment tools allow quick remedial actions to be effected in response to the first signs of any change in the portfolio's quality or structure.

Credit Policy

The credit policy adopted by the bank and BZ WBK Group is a set of principles and guidelines included in credit policies and procedures which are reviewed on a regular basis. Internal limits are crucial components of the lending policy because they facilitate the monitoring of exposure concentration within individual sectors, geographical regions and foreign currencies. Pursuant to the policy, the bank and BZ WBK Group ensure adequate diversification of the credit portfolio in terms of exposure towards individual customers and sectors.

In 2017, the bank and the Group continued their existing credit risk management policy, keeping credit risk at a safe level while ensuring the high profitability of loan portfolios, the growth of business volumes and an increase in market share. Credit policies were optimised in response to macroeconomic developments.

The most important measures taken by the bank to manage credit risk included:

- Intensive work done to implement a new approach to the calculation of provisions for credit risk under IFRS 9;
- Alignment of the bank's risk appetite through the amendment of the BZ WBK Business Lending Policy and the BZ WBK Lending Policy for Construction Sector Companies, significantly reducing provisions in the corporate portfolio;
- Optimisation of the lending policy for retail and SME customers with substantial credit exposure by extending the scope of credit risk assessment to include the expected loss arising from the recovery process.

The lending activity of subsidiaries is modelled on the bank's credit policies. In the decision making process, the bank and BZ WBK Group follow a consistent approach to credit risk and use the same IT platform to assign rating/scoring (this does not apply to SCB). Subsidiaries have credit risk management procedures in place which are consistent with the regulations applied by the bank.

Credit Risk Management Process

Key elements of the credit risk management process in the bank and BZ WBK Group	
Credit decision making process	<ul style="list-style-type: none"> Discretionary limits are governed by the Guidelines on Discretionary Limits in Bank Zachodni WBK. The guidelines define roles and responsibilities of individual units and staff members involved in the credit delivery process. The credit decision making process is based upon individual credit discretions vested in credit officers, commensurate with their knowledge and experience relating to particular activities and specific needs of respective segments (branch banking, SME banking, business banking and corporate banking). Large 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 signed off by the Management Board's Risk Management Sub-Committee. The existing system of credit discretion ensures segregation of the credit risk approval function from the sales function.
Credit grading	<ul style="list-style-type: none"> The credit risk assessment tools conform to KNF guidelines, International Accounting Standards/International Financial Reporting Standards (IAS/IFRS) and best market practice. The Group uses credit risk grading models for its key credit portfolios, including corporate customers, SMEs, home loans, property loans, cash loans, credit cards and personal overdrafts. Credit grading is subject to regular monitoring which is carried out in accordance with the rules described in the lending manuals. Additionally, for selected models, automated processing of credit grade verification is carried out based on the number of overdue days or an analysis of behavioural factors. Credit grade is also verified at subsequent credit assessments.
Credit reviews	<ul style="list-style-type: none"> 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 and verify compliance with procedures and credit decisions.
Collateral	<ul style="list-style-type: none"> The Collateral and Credit Agreements Department is a central unit responsible for ensuring that security covers are duly established and held effective in line with the lending policy for respective business segments. The unit develops standardised internal procedures with respect to collateral and ensures that the establishment, monitoring and release of security covers is duly effected. In addition, the Collateral and Credit Agreements Department provides assistance to credit units in credit decision making, development of credit policies, the collection of data on security covers and also ensuring adequate management information.
Credit risk stress testing	<ul style="list-style-type: none"> Stress testing is a part of the credit risk management process used to evaluate the potential effects of specific events, movements in financial and macroeconomic ratios or changes in the risk profile on the condition of the bank and BZ WBK Group. Stress tests are conducted to assess potential changes in credit portfolio quality when faced with adverse conditions. The process also delivers management information about the adequacy of the agreed limit and internal capital allocation.
Calculation of impairment	<ul style="list-style-type: none"> Impairment charges reflect credit impairment, which is recognised if the bank or the Group presents objective evidence that such amounts cannot be recovered in line with the signed loan agreement. Impairment is calculated on the basis of the estimated recoverable amount. Impairment analysis is performed using both an individual (for individually significant exposures with objectively evidenced impairment) and collective approach (individually insignificant exposures with objectively evidenced impairment, and incurred but not reported losses). Twice a year, the Group compares the assumptions and parameters used for impairment calculations with the actual situation, including changes of economic conditions, and amendments to the Group's credit policies and recovery process. This process provides assurance that impairment charges are recognised correctly. The responsibility for ensuring the adequacy of impairment charges rests with the Provisions Committee.
Forbearance	<ul style="list-style-type: none"> As part of proactive management of credit risk and credit portfolio quality, Bank Zachodni WBK Group takes measures aimed at the early implementation of debt restructuring (forbearance solutions) with respect to customers in financial difficulty. The purpose of debt restructuring is to better match repayment terms with the current and projected financial standing of the customer, minimise default risk and/or maximise recovery. A portfolio subject to restructuring is monitored on a regular basis. The debt is classified as restructured until the customer's circumstances stabilise. For more on forbearance, see Note 4 "Risk Management" in "Consolidated Financial Statements of Bank Zachodni WBK Group for 2017".

Credit Portfolio Quality

BZ WBK Group loans and advances to customers by impaired and non-impaired loan portfolios

PLN m

Należności od klientów wg rodzaju portfeli z utratą wartości	31.12.2017	31.12.2016
Portfel brutto oceniany indywidualnie	2 378,3	2 641,2
Odpis z tytułu utraty wartości	(1 225,2)	(1 266,0)
Portfel netto oceniany indywidualnie (z utratą wartości)	1 153,1	1 375,2
Portfel brutto oceniany kolektywnie	4 129,3	4 460,5
Odpis z tytułu utraty wartości	(2 882,4)	(2 921,9)
Portfel netto oceniany kolektywnie (z utratą wartości)	1 246,9	1 538,6
Portfel brutto bez utraty wartości	106 169,0	100 664,0
- nieprzeterminowany	102 153,8	94 535,4
- przeterminowany	4 015,2	6 128,6
Rezerwa IBNR	(738,5)	(691,1)
Portfel netto bez utraty wartości	105 430,5	99 972,9
Pozostałe należności	9,4	181,8
Razem należności netto od klientów	107 839,9	103 068,5
Wskaźnik kredytów objętych utratą wartości	5,8%	6,6%
Wskaźnik pokrycia rezerwą kredytów objętych utratą wartości	63,1%	59,0%

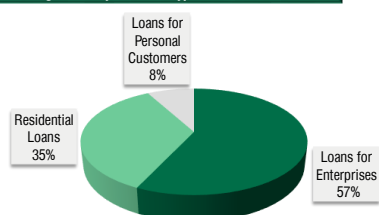
BZ WBK loans and advances to customers by impaired and non-impaired loan portfolios

PLN m

BZ WBK Loans and Advances to Customers by Impaired and Non-Impaired Loan Portfolios	31.12.2017	31.12.2016
Individually impaired (gross amount)	2 246,0	2 501,4
Allowance for impairment	(1 144,5)	(1 196,4)
Net amount (individually impaired)	1 101,5	1 305,0
Collectively impaired (gross amount)	2 477,6	2 883,6
Allowance for impairment	(1 530,2)	(1 544,5)
Net amount (collectively impaired)	947,4	1 339,1
IBNR portfolio (gross amount)	88 838,2	84 497,9
- non-past due	85 800,6	80 792,5
- past due	3 037,6	3 705,4
IBNR provisions	(357,4)	(341,6)
Net amount (non-impaired)	88 480,8	84 156,3
Other receivables	7,3	181,6
Total net loans and advances to customers	90 537,0	86 982,0
Impaired loan ratio	5,0%	6,0%
Impaired loan coverage ratio	56,6%	50,9%

Value and structure of BZ WBK Group debt subject to forbearance

Structure of Gross Loans and Advances Subject to Forbearance Arrangements by Customer Type as at 31.12.2017



Loans and Advances to Customers Subject to Forbearance Arrangements (PLN m)	31.12.2017	31.12.2016
Loans and advances to customers in the gross amount	3 460,8	4 041,7
Allowance for impairment amount	(847,6)	(954,6)
amount	2 613,2	3 087,1

3. Market Risk and Liquidity Risk Management

Market Risk

Market risk within the bank's and Group's operations is derived mainly from customer service operations, transactions effected to maintain liquidity on the money market and the capital market as well as proprietary trading in debt, FX and equity instruments.

The key objective of the market risk policy adopted by the bank and BZ WBK Group is to reduce the impact of interest and FX rates movements on the Group's profitability and market value as well as to increase income within strictly defined risk limits and to ensure the Group's liquidity.

Market Risk Management

The Risk Management Forum approves market risk management strategies and policies as well as limits that define the maximum acceptable exposure to individual risk types, in accordance with the Risk Appetite Statement.

The Management Board takes its strategic decisions on the basis of recommendations put forward by the Risk Management Forum, to which direct supervision of market risk management has been delegated.

ALCO – supported by the Financial Management Division – is responsible for managing market risk in the banking book, while the market risk in the trading book is managed by the bank's Global Corporate Banking Division.

Identification and Assessment of Market Risk

Interest rate and FX risks associated with the banking book are managed by the Financial Management Division, which is also responsible for managing open positions in interest rate and FX risks of companies from BZ WBK Group.

The Global Corporate Banking Division, which includes the Brokerage Office of Bank Zachodni WBK, is responsible for managing market risk in the trading book.

The responsibility for measurement, monitoring and reporting of market risk and compliance with risk limits is vested in the Risk Management Division, which is responsible for regular reviews of market risk exposure and reporting results to the Risk Management Forum.

With the division of roles, the management of risk in the banking book is fully separate from the management of risk in the trading book, and the risk measurement and reporting functions are separate from the risk managing and taking units.

The market risk management policies adopted by the bank and the Group set out a number of measures in the form of obligatory and watch limits and ratios. Limits are reviewed and risk appetite is updated on an annual basis. The process is coordinated by the Financial Risk Department in the Risk Management Division.

To control the banking book risk, the following maximum sensitivity limits have been set for the risk of interest rate changes:

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

Sensitivity of banking book to interest rate movements as at 31.12.2017 and 31.12.2016

PLN k 1 day holding period	NII Sensitivity		MVE Sensitivity	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Maximum	238	218	377	250
Average	211	184	267	198
As at the end of period	238	218	347	218
Limit	310	280	380	340

In 2017, the global NII and MVE limits for the banking book were not exceeded.

The bank and BZ WBK Group use the following measures and limits to mitigate and control exposure to market risk in the trading book:

- daily VaR limit for interest rate risk, FX risk and the repricing risk of equity instruments held by the Brokerage Office;
- PV01 limit set for individual currencies and transaction repricing dates;
- stop-loss mechanism used to manage the risk of loss on trading positions subject to fair value measurement through profit or loss;
- maximum limit of the total position and an open position for individual currencies.

As these measures relate to the calculation of a potential loss under normal market conditions, the bank and BZ WBK Group also use stress tests which show the estimated potential losses in the event of the materialisation of adverse market conditions.

VAR as at 31.12.2017 and 31.12.2016 for interest rate, currency and equity risk in the trading book of Bank Zachodni WBK Group

PLN k	Interest Rate Risk VAR		FX Risk VAR		Equity Securities Risk VAR	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
1 day holding period						
Average	1 559	1 706	414	393	304	301
Maximum	4 777	3 681	1 725	3 096	694	742
Minimum	373	659	50	30	46	50
as at the end of the period	839	1 509	175	319	90	77
Limit	6 266	7 523	2 611	3 134	3 621	4 346

Financial Instruments Used for the Management of Market and Other Risks

The bank and the Group use the following financial instruments in relation to repricing risk, credit risk, cash flow risk and liquidity risk:

- derivative instruments held for trading – proprietary transactions in connection with treasury services rendered to bank customers in order to mitigate market risk, maintain liquidity or as part of underwriting services;
- other financial instruments, including investment securities held for sale, hedging derivatives and equity instruments.

Market risk associated with open positions in financial instruments is mitigated through a set of limits (defined separately for the trading book and the banking book). The credit risk of such positions is curbed using concentration limits in respect of individual counterparties. In order to mitigate liquidity risk, the bank and the Group keep an adequate level of liquid financial assets bearing low credit risk (in particular treasury bonds and NBP money market bills) in line with the liquidity risk appetite defined by the bank and the Group.

No derivative instruments were used by the bank or the Group to hedge credit risk, while FX options, interest rate options and commodity derivatives were executed on a back-to-back basis and therefore did not expose the bank or the Group to market risk.

The market risk of the balance sheet is managed by the bank and the Group using, among other things, derivative instruments and hedge accounting with respect to:

- mortgage loans bearing the WIBOR rate – interest rate swaps are used to receive fixed interest and pay floating interest thus hedging the risk of movements in cash flows relating to floating interest loans;
- mortgage loans in CHF and EUR – basis swaps are used to hedge the risk of movements in interest rates (CHF LIBOR, EURIBOR) and exchange rates (CHF/PLN and EUR/PLN);
- fixed interest cash loans – interest rate swaps are used to receive floating interest and pay fixed interest thus hedging the fair value of positions;
- selected fixed coupon bonds – interest rate swaps are used to hedge the fair value of bonds whereby the bank and the Group receive floating interest and pay fixed interest.

Liquidity Risk

Liquidity risk is the risk of failure to meet contingent and non-contingent obligations made to customers and counterparties.

The Liquidity Management Policy adopted by the bank and the Group is to ensure that all outflows expected in the short term are fully covered by anticipated inflows or liquid assets. In addition, the aim of the policy is to ensure an adequate structure of funding for the bank's and the Group's operations by maintaining medium- and long-term liquidity ratios at a pre-defined level and monitoring stress testing results. This policy covers all assets and liabilities as well as off-balance sheet items impacting the liquidity level.

Liquidity Risk Management

ALCO and the Risk Management Forum have overall responsibility for the supervision of liquidity risk on behalf of the Management Board. As part of their roles, they make recommendations to the Management Board on appropriate strategies and policies for strategic liquidity management. Liquidity risk reports and stress test results are regularly reviewed by senior management.

ALCO also supervises the liquidity management process in subsidiaries.

Liquidity management is the role of the Financial Management Division, which is responsible for the development and maintenance of appropriate strategies. The Risk Management Division is responsible for the independent measurement and reporting of liquidity risk and defining liquidity risk management policies. The Financial Risk Department in the Risk Management Division is also responsible for the regular performance of stress tests with respect to liquidity, and for the review of the Contingency Liquidity Plan approved by the Management Board and the Supervisory Board.

Identification and Assessment of Liquidity Risk

Liquidity risk is identified and measured daily, mainly using modified liquidity gap reports, intraday liquidity reports and regulatory reports. These reports include a number of internal and regulatory limits. Cyclical liquidity measurement reports are supported by stress test results. The bank regularly calculates the measures laid down in CRD IV/CRR (LCR and NSFR) and in KNF Resolution No. 386/2008. As at 31 December 2017, LCR was 144.6% and NSFR was 115.0%.

Economic liquidity gap analysis as at 31.12.2017 and in the comparable period

31.12.2017 PLN m	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
Contractual liquidity mismatch/ gap	(2 557,6)	(22 395,2)	(13 701,1)	(1 661,3)	(1 247,2)	5 374,2	19 057,2	17 131,0
Cumulative liquidity gap	(2 557,6)	(24 952,8)	(38 653,9)	(40 315,2)	(41 562,4)	(36 188,2)	(17 131,0)	-
Net derivatives	-	(64,0)	13,8	(76,8)	(33,3)	12,9	(6,0)	(119,7)
31.12.2016 PLN m	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
Contractual liquidity mismatch/ gap	(39 223,2)	(9 705,7)	(9 534,1)	(5 191,2)	1 026,7	13 768,0	24 440,9	24 418,5
Cumulative liquidity gap	(39 223,2)	(48 928,9)	(58 463,0)	(63 654,2)	(62 627,5)	(48 859,5)	(24 418,6)	-
Net derivatives	-	12,2	(145,3)	(11,5)	(51,2)	(173,8)	(187,4)	(1 018,8)

According to the Group's policy, the bank should have sufficient funds to cover in full the outflows expected over a one-month horizon, including that of the selected stress test scenarios. The liquidity position over a longer time horizon and the level of qualified liquid assets are also monitored.

In 2017, the bank's funds significantly exceeded the level required to cover the expected outflows. The bank also met the regulatory quantitative requirements for liquidity. Key regulatory indicators (i.e. the short term liquidity ratio and ratio of coverage of non-liquid assets and assets of limited liquidity with own funds and core external funds and relationship between liquid assets and net inflows/LCR) comfortably exceeded the required levels.

4. Operational Risk Management

According to the definition of the Basel Committee, operational risk is the risk of loss resulting from external factors or inadequacy or failure of internal processes, human resources and systems.

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

Employees across the bank and BZ WBK Group are involved in operational risk management – this process covers a number of interrelated concepts. Operational risk is inherent in all the bank's and Group's business processes, including outsourced functions or services delivered jointly with third parties.

The bank and the Group apply the Operational Risk Management Strategy.

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 the strategic direction for operational risk management, and determines and monitors objectives for managing operational risk, including business continuity, information security, outsourcing/insourcing and money laundering risk in all business areas of Bank Zachodni WBK. As part of ORMCO, there are dedicated forums which deal with specific operational risk aspects: the Anti-Money Laundering Forum and the Insurance Forum. The results of ORMCO's work are reported to the Risk Control Committee.

In view of the growing cyber threat, the Cyber Risk Committee was set up as a forum for direct cooperation and communication among all organisational units involved in the processes related to cyber security in a broad sense. The Committee also supervises the adherence to the cyber security strategy in Bank Zachodni WBK.

Operational Risk Management Tools

Tools used by the bank and the Group to manage operational risk	
Identification and assessment of operational risk	<ul style="list-style-type: none"> In the self-assessment process, the bank and BZ WBK Group identify the risks they may be exposed to when delivering their functions, assess inherent and residual risks in terms of their likelihood and impact, and evaluate the design and effectiveness of existing controls. The process of identification and assessment of operational risk is additionally supported by such tools as: scenario analyses, business impact analyses and an analysis of risk in new initiatives.
Reporting	<ul style="list-style-type: none"> Each organisational unit is required to report operational risk events identified in its area of responsibility. Relevant operational risk events are escalated to senior management using a fast-track procedure. The bank and the Group run a database of operational risk events identified across the organisation with data utilised to analyse the root cause and consequences of such events, so as to capture lessons learned and take preventive and corrective measures. The Group contributes inputs to the external database of operational risk 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	<ul style="list-style-type: none"> Bank Zachodni WBK Group monitors financial, operational and technological risk indicators. Risk indicators provide an early warning of emerging threats and operational losses and support the monitoring of risk in the bank's and Group's operations.
Business continuity management (BCM)	<ul style="list-style-type: none"> 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 Bank Zachodni WBK Group that critical business processes may be restored at the required service level and within the agreed time frame. The bank and the Group have backup locations in place where critical processes can be restored and continued should an incident occur.
Information security	<ul style="list-style-type: none"> Bank Zachodni WBK has the Information Security Management System in place which has a certificate of compliance with the ISO/IEC 27001:2013 standard. The purpose of the system is to supervise information security in BZ WBK Group's business environment, and assess specific information and system security requirements.
Insurance	<ul style="list-style-type: none"> For the purpose of operational risk mitigation, Bank Zachodni WBK Group has an insurance scheme in place which covers various financial risks, plus motor, property and professional indemnity insurance.
Reporting to the Risk Management Committee and Supervisory Board	<ul style="list-style-type: none"> The aim of operational risk reporting is to provide up-to-date and adequate information to the management team. Operational risk reports record details on operational risk events and losses, information security incidents, risk indicators and defined mitigants.

5. Legal and Compliance Risk Management

Bank Zachodni WBK and BZ WBK Group companies provide a wide array of specialist financial services and are exposed to legal and compliance risks mainly in the following areas:

- general regulations regarding labour law, taxes, accounting and personal data protection;
- domestic and international (mainly: EU) trade regulations in the area of reporting, prudential standards, prevention of money laundering and counter-terrorism financing, etc.;
- domestic and international regulations concerning the type of products offered and service delivery methods applied by the bank and BZ WBK Group (in particular: the legislation on consumer and competition protection, capital markets, financial markets, etc.);
- codes of good practice and other regulations implemented by the Group, including in relation to the membership of domestic or international trade associations.

One of the main objectives of compliance risk management in the Group is to ensure that general laws and domestic and international reporting regulations are adhered to in order to strengthen the perception of Bank Zachodni WBK Group as a dependable organisation.

At the bank and BZ WBK Group, legal and compliance risks are managed as part of a number of processes, which are coordinated and executed by relevant organisational units:

- Responsibilities of the Legal and Compliance Division relate to “conduct of business” compliance obligations, in particular with regard to: the protection of consumer rights, the implementation and sale of new products, the prevention of money laundering, ethical issues, the protection of sensitive information, the protection of personal data, and conflict 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 labour law – Business Partnership Division;
 - ✓ compliance with taxation law and reporting requirements – Financial Accounting and Control Division;
 - ✓ compliance with prudential regulation – Risk Management Division.

In July 2017, the bank’s Management Board adopted the new Compliance Policy approved by the Supervisory Board. The policy provides the Compliance Area and the Anti-Money Laundering Department, which form the Compliance Function within the Legal and Compliance Division, with the relevant mandate to support managers in the effective management of compliance risk and to escalate issues to the Risk Management Committee and the Audit and Compliance Committee of the Supervisory Board. These Committees ensure the fulfilment of regulatory obligations and approve internal control principles and the compliance policy framework. They also provide necessary resources to the Compliance Function and ensure that it is independent of business units. The Audit and Compliance Committee regularly reviews key compliance issues identified by the Compliance Area and the Anti-Money Laundering Department based on test monitoring exercises, the monitoring of new products and transactions in financial instruments executed by employees, information about regulatory measures and pending legislation and the review of anti-money laundering and ethical issues as well as customer complaints.

The Compliance Function delivers its tasks through:

- independent identification, monitoring and assessment of compliance risk that the bank and the Group are exposed to (with particular focus on new products and services, protection of confidential information, conflicts of interest or share dealing by employees);
- preventing the use of the financial system for money laundering and terrorist financing;
- providing advice and reporting to the Risk Management Committee, the bank’s Management Board and Audit and Compliance Committee on the effectiveness of processes established to ensure compliance with laws and regulations;
- communication of policies and procedures, providing the management and staff with guidance on compliance risk management;
- coordination of contacts with market regulators (KNF, UOKiK, GIIF, GIODO);
- coordination of the approval of new products;
- coordination and support for compliance processes regarding a model for the sale of investment products and the MiFID Directive;
- strengthening the principles of ethical business conduct;
- cooperation with the compliance functions in BZ WBK Group and Santander Group.

The Compliance Function also actively cooperates with the Communications, Marketing and Quality Management Area in relation to the monitoring of reputational risk, and coordinates the activities of specialised committees supporting the management of compliance risk in specific areas: the Compliance Committee, the Local Marketing and Monitoring Committee, the Local Volcker Steering Committee, the Anti-Money Laundering and Counter-Terrorism Financing Committee and the Business Ethics Commission.

In 2017, the Compliance Function worked on adapting the bank's regulations in line with the Regulation of the Minister of Development and Finance dated 6 March 2017 on the risk management system and the internal control system, remuneration policy and detailed method of internal capital estimation in banks, and Recommendation H on the internal control system in banks issued by the KNF in April 2017.

6. Reputational Risk Management

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

Potential sources of this risk are internal operational incidents and external events, such as adverse publicity, dissemination of negative feedback from customers, e.g. via the Internet, social media or other mass media, as well as customer complaints and claims. They may refer directly to BZ WBK Group and its products as well as the bank's shareholders and the entire banking and financial sectors (both domestic and international).

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

The owners of reputational risk are the Corporate Communication and Marketing Area and the Compliance Area.

The objective of the reputational risk management process is to protect the image of the bank and BZ WBK Group with a view to limiting and eliminating negative events which affect the reputation and financial results of Bank Zachodni WBK Group.

The key risk mitigation measures include:

- The information policy of Bank Zachodni WBK;
- The monitoring of local, nationwide and certain international mass media sources;
- Daily monitoring of social media sources (in particular: Facebook, Twitter) in the context of references to BZ WBK;
- Analysis of image-sensitive information by the Press Office;
- Response to information which poses a threat to public perception of the bank's image;
- Keeping the representatives of national and local media up to date about new products and changes to terms of existing products;
- Customer satisfaction surveys;
- Recommendations and preventive actions arising from the analysis of complaints;
- Preparation and control by relevant Bank Zachodni WBK units of all important communiqués and reports for shareholders, the Polish Financial Supervision Authority (KNF) and the Warsaw Stock Exchange and the timely publication of such communiqués and reports;
- Evaluation of new products or their modifications, procedures, communication, commercial materials, initiatives addressed to customers (promotions, contests) and training materials for sales staff in respect of their compliance with laws and regulatory guidelines;
- Participation in the process of handling customer complaints, especially those addressed to the regulators;
- Supervision of after-sales control of investment products;
- Mystery shopping surveys for investment products;
- Regular monitoring of reputational risk associated with products offered by Bank Zachodni WBK Group through the analysis of customer complaints, sales volumes, the number of customers and rate of return.

7. Capital Management

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

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

The Management Board has delegated ongoing capital management to the Capital Committee which conducts a regular assessment of the capital adequacy of the bank and the Group, including in extreme conditions, the monitoring of the actual and required capital levels and the initiation of transactions affecting these levels (e.g. by recommending the value of dividends to be paid). The Capital Committee is the first body that defines capital policy, principles of capital management and principles of capital adequacy assessment. However, ultimate decisions regarding any increase or decrease in capital are taken by relevant authorities within the bank and its 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 Bank Zachodni WBK Group as at 31 December 2017".

In 2017, Bank Zachodni WBK Group met all regulatory requirements regarding capital management.

Capital Policy

Pursuant to the 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 2017, the minimum capital ratios satisfying the regulatory recommendations and additional own fund requirements under Pillar 2 were as follows:

for Bank Zachodni WBK

- a Tier 1 capital ratio of 11.16%;
- a total capital ratio of 14.29%.

for Bank Zachodni WBK Group

- Tier 1 capital ratio of 11.08%;
- a total capital ratio of 14.19%.

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 an other systemically important institution, plus a conservation buffer.

Pursuant to the KNF decisions of 15 December 2017 and 20 November 2017, Bank Zachodni WBK and Bank Zachodni WBK Group maintain own funds to cover an additional capital requirement for risk attached to foreign currency home mortgages for households. As at 31 December 2017, the buffer was set at 0.54 p.p. above the total capital ratio for Bank Zachodni WBK and at 0.44 p.p. for Bank Zachodni WBK Group. The buffer includes at least 75% of Tier 1 capital and at least 56% of 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 the introduction of a conservation buffer.

On 4 October 2016, the KNF identified Bank Zachodni WBK as an other systemically important institution and imposed an additional capital buffer of 0.5 p.p. In accordance with the KNF decision of December 2017, BZ WBK Group maintained its capital buffer at the same level as in previous periods.

From 1 January 2018, Bank Zachodni WBK and the Group will have to comply with the systemic risk buffer of 300 p.p. and the conservation buffer of 1.875 p.p., which in turn will affect the minimum ratios.

More information on the subject is provided in note 4 of Consolidated Financial Statement of Bank Zachodni WBK Group.

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 2017.

Bank Zachodni WBK uses a 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 and Bank Zachodni WBK as at 31.12.2017 and 31.12.2016

BZ WBK Group (including SCB)		PLN m	
		31.12.2017	31.12.2016
I	Total capital requirement (Ia+Ib+Ic+Id), of which:	9 520,3	8 816,6
Ia	- due to credit risk	8 361,5	7 713,6
Ib	- due to market risk	107,8	93,3
Ic	- due to settlement / counterparty risk	42,4	42,7
Id	- due to operational risk	1 008,6	967,0
II	Total own funds ¹⁾	22 314,6	19 179,7
III	Reductions	2 454,1	2 594,9
IV	Own funds after reductions (II-III)	19 860,5	16 584,8
V	Capital Ratio [IV/(I*12.5)]	16,69%	15,05%
VI	Tier 1 Ratio	15,28%	14,56%

Bank Zachodni WBK		PLN m	
		31.12.2017	31.12.2016
I	Total Capital requirement (Ia+Ib+Ic+Id), of which:	7 542,3	7 068,6
Ia	- due to credit risk & counterparty credit risk	6 606,7	6 183,4
Ib	- due to market risk	120,6	103,6
Ic	- due to credit valuation adjustment risk	38,3	41,2
Id	- due to operational risk	776,6	740,4
II	Total own funds ¹⁾	20 931,0	18 078,7
III	Reductions	3 067,6	3 481,8
IV	Own funds after reductions (II-III)	17 863,4	14 596,9
V	CAD [IV/(I*12.5)]	18,95%	16,52%
VI	Tier I ratio	17,37%	16,08%

1) On 30 September 2017, the bank included part of its current year profit of PLN 519,865k for the period between 1 January 2017 and 30 June 2017 to own funds in accordance with consent granted by the KNF on 11 September 2017.

Calculation of capital ratio for Santander Consumer Bank as at 31.12.2017 and 31.12.2016

Santander Consumer Bank		PLN m	
		31.12.2017	31.12.2016
I	Capital Ratio	17,19%	16,22%
II	Tier 1 Ratio	17,19%	16,22%

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 assessment 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 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, plus 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 (PD) of BZ WBK Group customers and loss given default (LGD).

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's judgement.

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

Subordinated Liabilities

As part of its strategy aimed at increasing Tier 2 capital, on 2 December 2016, the bank issued bonds worth EUR 120m and allocated them to the above mentioned capital based on the KNF consent granted on 24 February 2017.

On 22 May 2017, the bank issued additional subordinated bonds with a nominal value of EUR 137.1m, which were allocated to Tier 2 capital pursuant to the KNF decision of 19 October 2017.

A year before, the bank amended the issue agreement for subordinated bonds issued on 5 August 2010 (a maturity extension to 5 August 2025) and taken up by the European Bank for Reconstruction and Development, and was granted a consent by the KNF (decision of 18 May 2016) to allocate the bonds of EUR 100m to Tier 2 capital.

For more on subordinated liabilities, see Note 33 of the Consolidated Financial Statement of Bank Zachodni WBK Group for 2017.

XI. Statement on Corporate Governance in 2017

1. Legal Basis

The corporate governance framework applicable in Bank Zachodni WBK is based on existing laws (in particular the Commercial Companies Code, Banking Law and capital market regulations) as well as recommendations included in the following documents: the "Code of Best Practice for WSE Listed Companies" and "Rules of Corporate Governance for Supervised Institutions".

This Statement on Corporate Governance in 2017 was prepared in accordance with Paragraph 91(5)(4) of the Finance Minister's Ordinance of 19 February 2009 on current and financial reports published by the issuers of securities and the rules of equal treatment of the information required by the laws of a non-member state.

2. Code of Best Practice

Code of Best Practice for WSE Listed Companies

In 2017, Bank Zachodni WBK was subject to the rules of corporate governance and conduct applicable to the relationship between listed companies and their market environment as conveyed in the 2016 Code of Best Practice for WSE Listed Companies, and appended to WSE Supervisory Board Resolution No. 26/1413/2015 of 13 October 2015.

This version of the Code became effective on 1 January 2016 with approval for use by Bank Zachodni WBK by virtue of the decision of the Management Board (resolution No. 160/2015 of 2 December 2015) accepted by the Supervisory Board (resolution No. 61/2015 of 16 December 2015). The full text is available on the WSE website (www.gpw.pl), "Companies"/"Best Practice" tab, and the bank's website (www.bzwbk.pl), "Investor Relations"/"Corporate Governance" tab.

Bank Zachodni WBK has complied with the official corporate governance rules since 2002 when the first issue of the code of best practice was published (Best Practice for Public Companies in 2002).

Corporate Governance Rules for Supervised Institutions

Bank Zachodni WBK also abides by Rules of Corporate Governance for Supervised Institutions as published by the KNF on 22 July 2014. The document describes internal and external relations of supervised institutions, including the relationship with shareholders and customers, their organisation, corporate governance framework and key internal systems and functions, as well as statutory bodies and the rules of their cooperation. The aforementioned Rules are available on the KNF website (www.knf.gov.pl), "About the market"/"Corporate Governance Rules for Supervised Institutions" tab, and on the bank's website (www.bzwbk.pl), "Investor Relations"/"Corporate Governance" tab.

Rules of Corporate Governance for Supervised Institutions were adopted by Bank Zachodni WBK as of 1 January 2015 by virtue of Management Board Resolution No. 116/2014 of 9 October 2014 and Supervisory Board Resolution No. 58/2014 of 17 December 2014. As the above guidelines are also applicable to shareholders, they were submitted to and approved by the General Meeting (GM) of Bank Zachodni WBK on 23 April 2015.

In order to ensure compliance with obligations arising from corporate governance rules, the bank selected business units responsible for the implementation of individual rules according to the scope of their operations. In addition, an appropriate control system was put in place.

Since 2016, the application of corporate governance rules for supervised institutions by Bank Zachodni WBK has been regularly assessed in the Annual Report on the activities of the Supervisory Board. The results of the assessment are published in a current report containing resolutions adopted by the bank's General Meeting of Shareholders.

3. Management Board's Statement on Corporate Governance

In 2017, Bank Zachodni WBK duly complied with all corporate governance rules set out in the existing version of the Code of Best Practice for WSE Listed Companies. In this period, no corporate governance breaches were reported.

4. Equity Securities of the Issuer

Structure of Share Capital

The table below presents entities with significant holdings of Bank Zachodni WBK shares as at 31.12.2017 and 31.12.2016.

Shareholder	Number of Shares and Voting Rights Held		% in the Share Capital & Voting Power at AGM	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Banco Santander S.A.	68 880 774	68 880 774	69,34%	69,41%
Nationale Nederlanden OFE	n/a	5 110 586	n/a	5,15%
Others	30 452 707	25 243 174	30,66%	25,44%
Total	99 333 481	99 234 534	100,0%	100,0%

According to information held by the BZ WBK Management Board, as at 31 December 2017, Banco Santander was the only shareholder holding at least 5% of the total number of votes at the BZ WBK General Meeting of Shareholders, with a shareholding of 69.34%. Compared with the end of 2016, this shareholding has been diluted as a result of the issuance of 98,947 own shares as part of the 5th Incentive Programme.

On 7 August 2017, Nationale Nederlanden OFE sold part of its holding of BZ WBK shares, reducing its stake in the bank's capital and voting power to a level below 5%.

As at 31.12.2017, the structure of share capital of Bank Zachodni WBK by share series was as follows:

Series/issue	Type of share	Type of preferences	Limitation of rights to shares	Number of shares	Nominal value of series/issue (in PLN)
A	bearer	none	none	5 120 000	51 200 000
B	bearer	none	none	724 073	7 240 730
C	bearer	none	none	22 155 927	221 559 270
D	bearer	none	none	1 470 589	14 705 890
E	bearer	none	none	980 393	9 803 930
F	bearer	none	none	2 500 000	25 000 000
G	bearer	none	none	40 009 302	400 093 020
H	bearer	none	none	115 729	1 157 290
I	bearer	none	none	1 561 618	15 616 180
J	bearer	none	none	18 907 458	189 074 580
K	bearer	none	none	305 543	3 055 430
L	bearer	none	none	5 383 902	53 839 020
M	bearer	none	none	98 947	989 470
Total				99 333 481	993 334 810

Rights and Restrictions Attached to the Issuer's Securities

The shares of Bank Zachodni WBK are ordinary bearer shares. Each share carries one vote at a General Meeting of Shareholders. The nominal value is PLN 10 per share. All the shares issued have been fully paid up.

The bank did not issue any series of shares that would give their holders any special control rights towards the issuer or would limit their voting power or other rights. Neither are there any restrictions on the transfer of title to the issuer's shares.

The control rights of Banco Santander as a parent entity of Bank Zachodni WBK arise from the number of shares and the resulting share of the capital and voting power at a General Meeting of Shareholders of Bank Zachodni WBK.

5. Governing Bodies

General Meeting of Shareholders

Annual General Meeting of 2017

The Annual General Meeting of Shareholders of Bank Zachodni WBK held on 17 May 2017 (AGM) approved the reports for 2016 submitted by the Management Board and the Supervisory Board, granted discharge to members of these governing bodies for the performance of their duties in the previous year and agreed on the distribution of the net profit for 2016 and dividend payment from retained earnings for 2014 and 2015 (see Chapter IX "Investor Relations"). The AGM appointed the Supervisory Board, including the Supervisory Board Chairman, for a new term of office and set remuneration of the Supervisory Board members. The AGM also approved the application of a higher maximum ratio between fixed and variable components of remuneration for individuals holding managerial positions in Bank Zachodni WBK Group. As the criteria for exercising awards by participants of the 5th Incentive Programme had been satisfied, the AGM adopted a resolution increasing the bank's share capital by way of issuing series M ordinary shares, depriving the existing shareholders of all their pre-emptive rights to those shares and undertaking actions to ensure introduction of the newly issued shares to trading in the regulated market of the Warsaw Stock Exchange. In addition, the AGM approved the 6th Incentive Programme for 2017–2019, providing for a conditional entitlement of its participants to acquire a stated number of shares of a new issue at a price equal to their nominal value. The AGM also approved changes to the bank's Statutes concerning the scope of business and share capital, as described in the section "Method of Changing the Statutes" below.

Organisation and powers of the General Meeting of Shareholders

The General Meeting of Bank Zachodni WBK Shareholders (GM) is held as provided for in the Commercial Companies Code of 15 September 2000, BZ WBK Statutes and Terms of Reference for the BZ WBK GM. The Statutes as well as the Terms of Reference are available on the bank's website.

The GM agrees on the issues within its remit, as defined by the above laws and internal regulations.

The resolutions are voted on using an electronic voting system which returns the number of votes ensuring that they correspond to the number of shares held and, in the case of a secret ballot, allows shareholders to remain anonymous. Each share carries one vote.

Candidates for the Supervisory Board attain votes on an individual basis, in alphabetical order.

The General Meeting is broadcast live online to all interested parties and a recording is available on the bank's website for later review.

Shareholders' Rights

The rights of shareholders of Bank Zachodni WBK are set out in the Terms of Reference of BZ WBK GM in line with the Commercial Companies Code.

In particular, shareholders have the following rights with respect to the GM:

- Each shareholder may request that a list of shareholders be e-mailed free-of-charge to a valid address. Each shareholder may have access to the list of shareholders in the bank's MB office and request a copy of the list at their own expense.

- Shareholders may:
 - ✓ demand copies of requests included in the GM agenda one week before the GM;
 - ✓ have access to the GM's minutes and request copies of resolutions confirmed by the bank's Management Board as true copies;
 - ✓ request voting by secret ballot;
 - ✓ appeal against resolutions made by the GM in cases permitted in the Commercial Companies Code;
 - ✓ seek information from the Management Board regarding issues on the GM agenda, as provided for by the Commercial Companies Code;
 - ✓ exercise their voting rights (each share equates to one vote at the GM).
- Shareholders may attend the GM and vote personally or through proxies. In line with the Terms of Reference, shareholders may also participate in the GM via electronic communication channels.

Method of Changing the Statutes

Bank Zachodni WBK changes its Statutes through the method prescribed by the applicable law.

Pursuant to the resolutions of the Annual General Meeting of 17 May 2017, the bank's Statutes were changed with respect to:

- the scope of business:
 - ✓ The provisions of § 7(2)(6a) of the Statutes re activities of the bank were changed to reflect the amendment to the provisions of Article 6(1)(6a) of the Banking Law and the obligation arising from Article 136 of the Act of 5 September 2016 on trust services and electronic identification;
 - ✓ The amendment of § 54 of the Statutes enabled the bank to confirm the ePUAP trusted profile and perform ePUAP authorisations through electronic identification means used for authorisation purposes in the bank's ICT system, as required by the Act of 17 February 2005 on informatization of entities performing public tasks;
- share capital:
 - ✓ In § 10 of the Statutes, the amount of the bank's share capital was increased as a result of the issuance of series M ordinary bearer shares.

The bank was granted consent from the KNF to amend the Statutes as indicated above. Changes related to the scope of business were registered with the National Court Register on 26 July 2017, while those connected with the share capital increase – on 3 August 2017.

Supervisory Board

Below is the composition of the Bank Zachodni WBK Supervisory Board as at 31 December 2017 vs. 31 December 2016.

Role in the Supervisory Board	Ref.	Composition as at 31.12.2017	Ref.	Composition as at 31.12.2016
Chairman of the Supervisory Board:	1.	Gerry Byrne	1.	Gerry Byrne
Vice Chairman of the Supervisory Board:	2.	José Luis de Mora	2.	José Luis de Mora
	3.	José Manuel Campa	-	-
	4.	José Garcia Cantera	3.	José Garcia Cantera
	5.	Danuta Dąbrowska	4.	Danuta Dąbrowska
	6.	David R. Hexter	5.	David R. Hexter
Members of the Supervisory Board:	7.	Witold Jurcewicz	6.	Witold Jurcewicz
	8.	John Power	7.	John Power
	9.	Jerzy Surma	8.	Jerzy Surma
	10.	Marynika Woroszyńska-Sapieha	9.	Marynika Woroszyńska-Sapieha
	-	-	10.	José Manuel Varela

The bank's Supervisory Board, in its composition as at 31 December 2017, was appointed for a new term of office by the Annual General Meeting held on 17 May 2017. Compared with the Supervisory Board composition as at 31 December 2016, the Supervisory Board was joined by Mr José Manuel Campa, while Mr José Manuel Varela stepped down as a Supervisory Board member.

Detailed information about the qualification, academic background and professional experience of the bank's Supervisory Board members can be found on the bank's website: <https://www.bzwbk.pl/investor-relations/company/supervisory-board/supervisory-board.html> and https://static3.bzwbk.pl/asset/r/a/p/raport-13-2017-Zyciorysy_Czlonkow_RN_78174.pdf.

As at 31 December 2017, the following members of the Supervisory Board held independent status: Ms Danuta Dąbrowska, Mr David R. Hexter, Mr Witold Jurcewicz, Mr Jerzy Surma and Ms Marynika Woroszyńska-Sapieha.

In the period from 1 January to 31 December 2017, 9 Supervisory Board meetings were held at which 96x resolutions were passed. Average attendance of the Supervisory Board Members was 94.4%.

Role of the Supervisory Board

The Supervisory Board of Bank Zachodni WBK operates strictly under the Banking Law of 29 August 1997, the Commercial Companies Code of 15 September 2000, the bank's Statutes and the Terms of Reference of the Supervisory Board, available on the bank's website.

The Supervisory Board consists of at least five members appointed for a joint, three-year term of office. The Supervisory Board members, including the Chairman of the Supervisory Board, are appointed and removed by a General Meeting of Shareholders. The Management Board notifies the Polish Financial Supervisory Authority (KNF) about Supervisory Board membership.

Pursuant to the bank's Statutes, at least half the members of the Supervisory Board should be of independent status.

The Supervisory Board exercises ongoing supervision over all aspects of the bank's activities. The Supervisory Board takes decisions in the form of resolutions which are adopted by an absolute majority of votes in open voting. Resolutions are voted upon in a secret ballot in cases stipulated by law, in personal matters or at the request of any Supervisory Board member accepted by the Supervisory Board in a secret vote. The Supervisory Board's meetings are held as and when required and at least three times in any financial year. The Supervisory Board's members convene in a single location, or in different locations communicating via telephone or video links.

Supervisory Board Committees

The Supervisory Board may establish committees and designate individuals responsible for managing the work of such committees. These committees are designed to facilitate the current activities of the Supervisory Board by preparing draft Supervisory Board recommendations and decisions with regard to their own motions or the motions presented by the Management Board.

The following Supervisory Board committees operate at Bank Zachodni WBK: Audit and Compliance Committee, Risk Committee and Remuneration and Nominations Committee. The responsibilities of the Committees are set out in their respective Terms of Reference introduced by virtue of Supervisory Board resolutions.

The membership of the Supervisory Board committees is presented below.

Role in the Supervisory Board	Ref.	Composition as at 31.12.2017	Supervisory Board Committees as at 31.12.2017			
			Audit and Compliance Committee	Risk Committee	Nominations Committee	Remuneration Committee
Chairman of the Supervisory Board:	1.	Gerry Byrne			●	●
Vice Chairman of the Supervisory Board	2.	José Luis de Mora			●	●
	3.	José Manuel Campa		●		
	4.	José Garcia Cantera				
Members of the Supervisory Board:	5.	Danuta Dąbrowska	●		●	●
	6.	David R. Hexter	●	●		
	7.	Witold Jurcewicz	●		●	●
	8.	John Power		●		
	9.	Jerzy Surma	●	●	●	
	10.	Marynika Woroszyńska-Sapieha	●		●	●

● Chairman
● Members

The **Audit and Compliance Committee** evaluates the adequacy, scope and effectiveness of the accounting, internal control and financial/non-financial risk management systems. Together with the Management Board and internal auditors, it reviews significant controls of the Group, including internal financial controls. The Committee supervises the bank's financial reporting process, ensuring the adequate quality of financial reports and compliance of disclosure practices with the law, KNF requirements and accounting principles. Furthermore, the Committee reviews the work performed by the statutory auditor, ensuring that the entity is independent and effective. It also monitors the effectiveness of risk, capital and liquidity management model. In addition, it reviews the actions undertaken by the Management Board in terms of their compliance with legal and regulatory requirements, the bank's by-laws, codes of conduct and business ethics.

The majority of the Audit and Compliance Committee is comprised of independent Supervisory Board members.

The **Risk Committee** is responsible for providing a comprehensive opinion about the bank's current and prospective risk-bearing capacity. It examines and reviews the Management Board's risk management strategy and its delivery, supports the Supervisory Board in supervising the process of implementing the risk management strategy by senior management and checks compliance of the bank's risk policy with its strategy and financial plan. The Risk Committee also checks if the bank's business model and risk strategy are duly reflected in the prices of liabilities and assets offered to customers. If the result is negative, it makes a proposal to the Management Board to ensure adequacy of asset and liability prices vis-à-vis different risk types.

The Audit and Compliance Committee and the Risk Committee convene at least four times per year at dates corresponding to the reporting and audit cycle. Additional meetings are held if the Chairman or members consider it necessary.

The **Nominations Committee** presents the Supervisory Board with recommendations with regard to appointing and removing members of the Supervisory Board and the Management Board as well as other senior managers. It defines the policy on the selection and suitability assessment of Supervisory Board and Management Board members and participates in the competence assessment of candidates for members of these governing bodies. The Committee analyses succession plans for the Management Board and recommends them to the Supervisory Board.

The **Remuneration Committee** supervises and reviews the bank's remuneration system, including policy on variable components of remuneration paid to individuals holding managerial positions at the bank. In particular, the Committee defines the remuneration policy and the individual pay packages for Management Board members and performs annual reviews of the remuneration payable to Management and Supervisory Board members. The Committee has oversight of the bonus scheme for Management Board members, and carries out analyses of incentive solutions and other bonus schemes proposed for implementation at the bank and its subsidiaries.

The Remuneration Committee and Nominations Committee convene at least three times a year. Additional meetings are held at the request of the Chairman.

The Annual Reports on activities of the Supervisory Board and its committees, the Supervisory Board's reports on the examination of the bank's and the Group's annual report along with an assessment of the Group's operations, including internal control and the risk management system, are included in materials submitted to shareholders before the General Meeting of Bank Zachodni WBK and published in current reports containing the resolutions passed by this body.

Management Board

The table below presents the composition of the Bank Zachodni WBK Management Board as at 31 December 2017 and the roles and responsibilities of its members

Role in the Management Board	Ref.	Composition as at 31.12.2017	Reporting Areas as at 31.12.2017	Role in the Management Board	Ref.	Composition as at 31.12.2016	Reporting Areas as at 31.12.2016
President:	1.	Michał Gajewski	Units reporting directly to the President: Internal Audit Area, Corporate Communications, Marketing and Service Quality Management Area, Business Model Transformation Area, Board Office, Strategic Transformation Office	President:	1.	Michał Gajewski	Units reporting directly to the President: Internal Audit Area, Corporate Communications & Marketing Area, Business Model Transformation Area, Board Office, Strategic Transformation Office, Business Partnership Division
Vice Presidents:	2.	Andrzej Burliga	Risk Management Division, Business Intelligence Area	Board Members:	2.	Andrzej Burliga	Risk Management Division
	3.	Michael McCarthy	Business & Corporate Banking Division		3.	Michael McCarthy	Business & Corporate Banking Division
	4.	Juan de Porras Aguirre	Global Corporate Banking Division		4.	Juan de Porras Aguirre	Global Corporate Banking Division
	5.	Mirosław Skiba	Wealth Management Programme		5.	Mirosław Skiba	Retail Banking Division
	6.	Feliks Szyszkowski	Digital Transformation Division		6.	Feliks Szyszkowski	Digital Transformation Division
Board Members:	7.	Artur Chodacki	Small & Medium Enterprise Banking Division	7.	Artur Chodacki	Small & Medium Enterprise Banking Division	
	8.	Maciej Reluga	Financial Management Division	8.	Eamonn Crowley	Financial Management Division	
	9.	Carlos Polaino Izquierdo	Financial Accounting & Control Division	9.	Carlos Polaino Izquierdo	Financial Accounting & Control Division	
	10.	Marcin Prell	Legal & Compliance Division, Classified Data Protection Unit	10.	Marcin Prell	Legal & Compliance Division, Classified Data Protection Unit	
	11.	Arkadiusz Przybył	Retail Banking Division	-	-	-	
	12.	Dorota Strojowska	Business Partnership Division	-	-	-	

In the period from 31 December 2016 to 31 December 2017, the following changes took place at the Bank Zachodni WBK Management Board:

- On 16 February 2017, Mr Eamonn Crowley resigned with an immediate effect as a Management Board member. On the same day, the bank's Supervisory Board appointed Mr Maciej Reluga as a Management Board member, effective as of 16 February 2017.
- Following the expiry of her previous employment commitments, on 1 April 2017 Ms Dorota Strojowska took up the position of a member of the bank's Management Board to which she was appointed on 14 December 2016. Until that time, Mr Michał Gajewski, the President of the Management Board, was in charge of the Business Partnership Division.
- On 10 March 2017, the Supervisory Board nominated Mr Arkadiusz Przybył as a Management Board member and appointed the existing Management Board members: Mr Andrzej Burliga, Mr Michael McCarthy, Mr Juan de Porras Aguirre, Mr Mirosław Skiba and Mr Feliks Szyszkowski as Vice Presidents of the Management Board. Mr Arkadiusz Przybył, the newly appointed Management Board member, was initially in charge of the Retail Distribution Area. Since October 2017, he has been the head of the Retail Banking Division. The former head of the Retail Banking Division Mr Mirosław Skiba is now in charge of the Wealth Management Programme, including the Private Banking Department.

The table below presents academic background and key professional experience of Bank Zachodni WBK Management Board members.

Role in the Management Board	Ref.	Composition as at 31.12.2017	Major Educational Background	Main Areas of Professional Experience
President:	1.	Michał Gajewski	university degree in law, legal attorney traineeship, specialist studies	Banking
	2.	Andrzej Burliga	university degree in maths, specialist programmes and studies	Banking
Vice-Presidents:	3.	Michael McCarthy	MBA	Banking, financial services
	4.	Juan de Porras Aguirre	university degree in law, MBA, specialist studies	Banking
	5.	Mirosław Skiba	degree from the university of technology, specialist studies	Banking
	6.	Feliks Szyszkiwki	degree from the university of technology and the university of economics, specialist studies	Banking
	7.	Artur Chodacki	university degree in finance and banking and in English philology	Banking
Board Members:	8.	Maciej Reluga	university degree in economics, specialist programmes and studies	Banking
	9.	Carlos Polaino Izquierdo	university degree in business management	Banking, consultancy
	10.	Marcin Prell	university degree in law, specialist programmes and studies	Banking
	11.	Arkadiusz Przybył	university degree in management and marketing, and finance and banking, specialist studies	Banking, consultancy
	12.	Dorota Strojowska	university degree in philology, specialist programmes and studies	Banking

Detailed information about the qualifications, academic background and professional experience of the bank's Management Board members can be found on the bank's website: <https://www.bzwbk.pl/investor-relations/company/management-board/management-board.html>.

Appointment and Removal of Executives

Members of the Bank Zachodni WBK Management Board are appointed and removed in accordance with the Commercial Companies Code, Banking Law and the bank's Statutes.

The bank's Management Board consists of at least three persons (including the Management Board President) appointed for a joint three-year term of office by the Supervisory Board. At least half of the Management Board's members, including the President, are required to have completed higher education, be permanent residents of Poland, speak Polish, have good knowledge of the Polish banking market and sufficient experience of the home market to manage a Polish banking institution. Two Management Board members, including the Management Board President, are appointed with the approval of the Polish Financial Supervision Authority (KNF). Management Board members may be removed by the Supervisory Board or General Meeting at any time.

Powers of Executives

The Bank Zachodni WBK Management Board manages and represents the bank. The Management Board possesses comprehensive powers that are not otherwise governed or stipulated by law or Statutes within the remit of other governing bodies of the bank.

The Management Board takes decisions to raise obligations or transfer assets where the total value for one entity exceeds 5% of the bank's own funds. The Management Board can also, by way of resolution, delegate its powers to refer such decisions to other committees or persons in the bank. The Management Board members run the bank's affairs jointly, and in particular: define the bank's mission, set long-term action plans and strategic objectives, prepare assumptions for the bank's business and financial plans, approve proposed plans and monitor their performance, regularly report to the Supervisory Board on the bank's position in the scope and at the dates agreed with the Supervisory Board, appoint permanent or ad hoc committees and designate individuals responsible for managing the work of such committees. The committees are composed of both Management Board members and persons from outside the Management Board.

Permanent committees operating at the bank include: Credit Committee, Provisions Committee, Risk Management Forum, Credit Policy Forum for Retail Portfolios, Credit Policy Forum for SME Portfolios, Credit Policy Forum for Business and Corporate Portfolios, Assets and Liabilities Committee (ALCO), Capital Committee, Operational Risk Management Committee (ORMCO), Cyber Risk Committee, Deposit Working Group, Customer Value Committee, Investment Advisory Committee, Electronic Banking Steering Committee, CRM Committee, Settlement Committee, Anti-Money Laundering and Counter-Terrorism Financing Committee, Compliance Committee, Marketing Forum, Local Marketing and Monitoring Committee, Transformation Committee, Special Situations Management Committee, Information Management Committee, Disclosure Committee, CSR and Sustainability Committee.

Management Board members acting severally do not have any specific powers and cannot take decisions on issuing or redeeming shares.

Role of the Management Board

The Management Board's operations are primarily governed by Banking Law, the Commercial Companies Code, the bank's Statutes and the Terms of Reference of the Management Board, available on the bank's website.

The Management Board is responsible for running the bank's affairs and representing the bank. According to the bank's Statutes, the following individuals are authorised to represent and bind the bank: a) the Management Board President acting individually, and b) two members of the Management Board acting jointly, or a member of the Management Board acting jointly with a commercial representative (proxy), or two commercial representatives (proxies) acting jointly. Representatives may be appointed and authorised to act individually or jointly with any of the persons indicated in b) or with another appointed and authorised representative.

The Management Board deals with all issues which have not been restricted to the remit of the General Meeting of Shareholders or the Supervisory Board. The Management Board takes decisions in the form of resolutions which are adopted by an absolute majority of votes in open voting. Secret ballots may be held in cases stipulated by law, in personal matters or at the request of any Management Board member accepted by the Management Board in a secret vote. Management Board meetings are held as required. Management Board members convene at the same time in a single location, or in different locations communicating via telephone or video links.

Remuneration of Management and Supervisory Boards

Remuneration of Supervisory Board Members

As at 31 December 2017, the remuneration for BZ WBK Supervisory Board members was set by virtue of Resolution No. 41 of the General Meeting of Shareholders of Bank Zachodni WBK of 17 May 2017. The remuneration was determined in accordance with EU guidelines, latest domestic laws, corporate governance rules for supervised entities and the Remuneration Policy for BZ WBK Supervisory Board Members. Mr Gerry Byrne, Mr José Manuel Campa, Mr José García Cantera and Mr José Luis de Mora did not receive remuneration for their membership of the Supervisory Board.

The table below presents the remuneration paid to BZ WBK Supervisory Board members in 2016 and 2017.

First and last name	Position	2017 ²⁾		2016	
		Period	PLN k	Period	PLN k
Gerry Byrne ¹⁾	Chairman of the Supervisory Board	01.01.2017-31.12.2017	-	01.01.2016-31.12.2016	-
José Luis de Mora ¹⁾	Vice Chairman of the Supervisory Board	01.01.2017-31.12.2017	-	01.01.2016-31.12.2016	-
José Manuel Campa ¹⁾	Member of the Supervisory Board	17.05.2017-31.12.2017	-		
José García Cantera ¹⁾	Member of the Supervisory Board	01.01.2017-31.12.2017	-	01.01.2016-31.12.2016	-
Danuta Dąbrowska	Member of the Supervisory Board	01.01.2017-31.12.2017	234	01.01.2016-31.12.2016	244
David Hexter	Member of the Supervisory Board	01.01.2017-31.12.2017	263	01.01.2016-31.12.2016	275
Witold Jurcewicz	Member of the Supervisory Board	01.01.2017-31.12.2017	240	01.01.2016-31.12.2016	247
John Power	Member of the Supervisory Board	01.01.2017-31.12.2017	272	01.01.2016-31.12.2016	303
Jerzy Surma	Member of the Supervisory Board	01.01.2017-31.12.2017	244	01.01.2016-31.12.2016	256
Marynika Woroszyńska-Sapieha	Member of the Supervisory Board	01.01.2017-31.12.2017	214	01.01.2016-31.12.2016	194
José Manuel Varela	Member of the Supervisory Board	01.01.2017-17.05.2017	89	01.01.2016-31.12.2016	193

- 1) Mr Gerry Byrne, José Manuel Campa, Mr José García Cantera and Mr José Luis de Mora did not receive remuneration for their membership of the Supervisory Board.
2) Changes to the composition of the Supervisory Board in 2017 are presented in the "Supervisory Board" item of Section 5 "Governing Bodies".

Mr John Power received additional remuneration for the supervision over acquisition of a carve-out business of Deutsche Bank Poland by BZ WBK in the amount of PLN 84.0 k and PLN 28.7 from a subsidiary for his membership in its Supervisory Board (PLN 35 k in 2016).

Except for Mr John Power, no other Supervisory Board member sat on the boards of the subsidiaries or associates of Bank Zachodni WBK.

Remuneration of Management Board members

Agreements between Bank Zachodni WBK and its Executives

The Management Board members signed employment contracts with Bank Zachodni WBK for the current term of office. The terms and conditions of employment comply with general laws and internal regulations, including the Remuneration Policy for BZ WBK Management Board members and the Remuneration Policy of Bank Zachodni WBK Group.

BZ WBK Management Board members also signed agreements prohibiting competitive activity after termination of their employment with Bank Zachodni WBK.

A Management Board member who is not appointed for a new term of office or is removed from the Board is entitled to one-off severance pay. It does not apply to Management Board members who accept a new role in the bank, are removed due to gross negligence, resign or are not granted discharge.

Changes to Internal Regulations Concerning Remuneration for Executives

On 20 April 2017, BZ WBK Group Remuneration Policy was adopted, containing the provisions for Management Board members and material risk takers, and repealing the Remuneration policy for individuals holding managerial positions in Bank Zachodni WBK Group and the Policy on variable components of remuneration paid to individuals holding managerial positions in Bank Zachodni WBK Group.

Fixed Remuneration

Pursuant to the Statutes of Bank Zachodni WBK and the BZ WBK Group Remuneration Policy, the remuneration of the President and members of the Management Board is set by the Supervisory Board, having due regard to recommendations of the Remuneration Committee. The Committee establishes a remuneration policy for Management Board members and individual terms and conditions as part of remuneration packages for each Management Board member.

The table below presents the total remuneration and additional benefits received by BZ WBK Management Board members in 2016 and 2017 for their membership of the Management Board.

First and last name	Position	2017 ¹⁾			2016 ²⁾		
		Period	Remuneration (PLN k)	Additional benefits ³⁾ (PLN k)	Period	Remuneration (PLN k)	Additional benefits ³⁾ (PLN k)
Michał Gajewski	President of the Management Board	01.01.2017-31.12.2017	1 931	92	29.11.2016-31.12.2016	176	6
Andrzej Burłaga	Vice President of the Management Board	01.01.2017-31.12.2017	1 012	92	01.01.2016-31.12.2016	1 012	95
Artur Chodacki	Member of the Management Board	01.01.2017-31.12.2017	716	93	22.06.2016-31.12.2016	316	29
Eamonn Crowley	Member of the Management Board	01.01.2017-16.02.2017	167	3	01.01.2016-31.12.2016	1 004	9
Beata Daszyńska-Muzyczka	Member of the Management Board				01.01.2016-31.10.2016	637	126
Michael McCarthy	Vice President of the Management Board	01.01.2017-31.12.2017	1 162	23	01.01.2016-31.12.2016	1 161	21
Carlos Polaino Izquierdo	Member of the Management Board	01.01.2017-31.12.2017	1 347	246	01.01.2016-31.12.2016	1 319	226
Juan de Porras Aguirre	Vice President of the Management Board	01.01.2017-31.12.2017	1 222	99	01.01.2016-31.12.2016	1 221	55
Marcin Prell	Member of the Management Board	01.01.2017-31.12.2017	912	93	01.01.2016-31.12.2016	912	94
Arkadiusz Przybył	Member of the Management Board	10.03.2017-31.12.2017	978	69			
Maciej Reluga	Member of the Management Board	16.02.2017-31.12.2017	631	71			
Miroslaw Skiba	Vice President of the Management Board	01.01.2017-31.12.2017	1 032	93	01.01.2016-31.12.2016	1 032	93
Dorota Strojowska	Member of the Management Board	01.04.2017-31.12.2017	632	69			
Feliks Szyszkiwiak	Vice President of the Management Board	01.01.2017-31.12.2017	1 032	93	01.01.2016-31.12.2016	1 032	94
Paweł Wieczorek	Member of the Management Board				01.01.2016-20.06.2016	339	44

1) Changes to the composition of the Management Board in 2017 are presented in the "Management Board" item of section 5 "Governing Bodies".

2) Changes in the membership of the Management Board in 2016 result from the resignation of Mr Paweł Wieczorek and Ms Beata Daszyńska-Muzyczka as Management Board members as of 20 June 2016 and 31 October 2016, respectively.

3) Additional benefits received by the Management Board members include, among other things, life insurance cover without pension option and, in case of Mr Juan de Porras Aguirre and Mr Carlos Polaino Izquierdo, also medical cover, accommodation, travel expenses and school fees.

In 2017, Management Board members were paid an allowance of PLN 124.7k in lieu of annual leave (PLN 199k in 2016).

In both periods, no Management Board member received remuneration for their membership in the governing bodies of the subsidiaries or associates.

In 2016, Mr Paweł Wieczorek and Ms Beata Daszyńska-Muzyczka received PLN 708k and PLN 384k, respectively, in relation to the termination of their employment contracts and the non-competition clause.

Awards Paid

The rules for determining variable remuneration for Management Board members and material risk takers are laid down in the BZ WBK Group Remuneration Policy adopted on 20 April 2017, which repealed the Remuneration policy for individuals holding managerial positions in Bank Zachodni WBK Group and the Policy on variable components of remuneration paid to individuals holding managerial positions in Bank Zachodni WBK Group. These rules are regularly (at least annually) reviewed by the Remuneration Committee of the Supervisory Board.

Management Board members 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 the applicable bonus regulations for Management Board members (adopted by virtue of the Supervisory Board's resolution), which set out the principles for determination of a bonus and a bonus pool depending on the achievement of personal objectives as well as business and financial objectives of an organisational unit and the bank. The performance is assessed against the financial and non-financial criteria for the period of minimum three years to take into account the bank's economic cycle and business risk.

The total variable remuneration paid to Management Board members and material risk takers for a given calendar year cannot exceed 100% of the total fixed remuneration paid. However, in exceptional cases, this limit may be increased up to 200% of fixed remuneration subject to the approval of the General Meeting of Shareholders.

Variable remuneration is awarded in accordance with 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 is conditional and deferred for the period of three years. It is paid in arrears in equal annual instalments depending on the individual performance in the analysed period and the value of the phantom stock.

The table below presents awards paid to the Management Board members in 2017 and 2016.

PLN k

First and last name	Position	2017 ¹⁾		2016 ²⁾	
		Period	Benefits (in PLN k)	Period	Benefits (in PLN k)
Michał Gajewski	President of the Management Board	01.01.2017-31.12.2017	-	29.11.2016-31.12.2016	-
Andrzej Burliga	Vice President of the Management Board	01.01.2017-31.12.2017	1 049	22.06.2016-31.12.2016	888
Artur Chodacki	Member of the Management Board	01.01.2017-31.12.2017	198	22.06.2016-31.12.2016	-
Eamonn Crowley	Member of the Management Board	01.01.2017-16.02.2017	930	01.01.2016-31.12.2016	843
Beata Daszyńska-Muzyczka	Member of the Management Board			01.01.2016-31.10.2016	200
Michael McCarthy	Vice President of the Management Board	01.01.2017-31.12.2017	1 077	01.01.2016-31.12.2016	874
Carlos Polaino Izquierdo	Member of the Management Board	01.01.2017-31.12.2017	635	01.01.2016-31.12.2016	243
Juan de Porras Aguirre	Vice President of the Management Board	01.01.2017-31.12.2017	1 291	01.01.2016-31.12.2016	1 047
Marcin Prell	Member of the Management Board	01.01.2017-31.12.2017	849	01.01.2016-31.12.2016	707
Arkadiusz Przybył	Member of the Management Board	10.03.2017-31.12.2017	-		
Maciej Reluga	Member of the Management Board	16.02.2017-31.12.2017	-		
Mirosław Skiba	Vice President of the Management Board	01.01.2017-31.12.2017	1 074	01.01.2016-31.12.2016	955
Dorota Strojewska	Member of the Management Board	01.04.2017-31.12.2017	-		
Feliks Szyszkowiak	Vice President of the Management Board	01.01.2017-31.12.2017	1 083	01.01.2016-31.12.2016	953
Paweł Wieczorek	Member of the Management Board			01.01.2016-20.06.2016	200

1) The awards paid in 2017 include part of award for 2016, 2015 i 2014, which was conditional and deferred in time.

2) The awards paid in 2016 include part of award for 2015, 2014 i 2013, which was conditional and deferred in time.

Pursuant to the remuneration system applicable at the bank, Management Board members may be conditionally entitled to a bonus for 2017 which would be paid in part in 2018 and thereafter, if specific criteria are met. As at the date of these financial statements, the Supervisory Board did not take a decision in this respect.

Performance Share Programme

The Annual General Meeting of 17 May 2017 launched the sixth edition of the three-year incentive programme (6th Incentive Programme) for the employees of the bank and the subsidiaries that have a key contribution to the value of the organisation. The main objective of the programme is to retain and motivate top-performing executives.

The Incentive Programme covers no more than 250 key employees of Bank Zachodni WBK Group indicated by the Management Board and approved by the Supervisory Board, inclusive of all Management Board members. The participants include a specific group of material risk takers (identified participants) to whom separate vesting criteria apply. For the purpose of the Programme, the bank will issue up to 250,000 performance shares.

Having executed an agreement with the bank and satisfied the vesting criteria set out in an agreement, the participants will be eligible to subscribe for and acquire a stated number of the bank's shares at a nominal value of PLN 10 each. The award and its amount depends on the satisfaction of the economic criteria, i.e. the level of the compound annual growth rate of PAT and the annual average RoRWA in 2017-2019. The award for material risk takers is granted at the time of execution of an agreement and is either retained or reduced on the basis of the analysis of economic (PAT growth rate, RoRWA) and qualitative criteria (customer satisfaction, employee engagement) in the consecutive years of the programme.

The three-year long 6th Incentive Scheme is monitored on a monthly basis to verify if any employees have lost their participant status. The usual reason for the loss of such status is termination of employment, either with the bank or another entity of BZ WBK Group. Furthermore, the Business Partnership Division monitors the underlying financial ratios in cooperation with the Financial Accounting and Control Division.

Shares and Conditional Rights Held by Supervisory and Management Board members

As at the release dates of the Annual Reports of Bank Zachodni WBK Group for 2017 and 2016, respectively, none of the members of the Supervisory Board held any Bank Zachodni WBK shares or attached conditional rights.

The table below shows Bank Zachodni WBK shares and attached conditional rights held by Management Board members as at 31 December 2016 and 31 December 2017.

Management Board Members	13.02.2018		17.02.2017	
	No. of BZ WBK shares	Rights (6th Incentive Scheme)	No. of BZ WBK shares	Rights (5th Incentive Scheme)
Michał Gajewski	-	5 420	-	-
Andrzej Burliga	4 389	2 820	3 000	2 204
Artur Chodacki	790	2 030	-	1 253
Michael McCarthy	1 528	3 250	-	2 424
Carlos Polaino Izquierdo	631	2 820	-	1 000
Juan de Porras Aguirre	1 397	2 240	-	2 217
Marcin Prell	1 250	2 540	-	1 983
Arkadiusz Przybył	-	3 390		
Maciej Reluga	505	2 030	-	800
Mirosław Skiba	2 474	2 880	1 057	2 248
Dorota Strojowska	635	2 370		
Feliks Szyszkowiak	1 621	2 880	204	2 248
Razem	15 220	34 670	4 261	16 377

The Relationship between the Remuneration paid to Management Board Members and Key Managers and Long-term Business and Financial Objectives of the Company

The Remuneration Policy of Bank Zachodni WBK Group governing variable components of remuneration paid to material risk takers (identified employees) has an overall objective to incentivise employees, and is strictly connected with the achievement of strategic goals, short- and long-term operational objectives and the financial and non-financial results of the company.

Variable remuneration is awarded to material risk takers of Bank Zachodni WBK on the basis of an assessment of individual performance, results of the reporting organisational unit or the area of responsibility, and business performance of the bank, taking into account the bank's business cycle and risk arising from its operations. The assessment is made as part of the performance review system applicable at the bank.

In addition to financial ratios, the annual objectives of the bank's Management Board include qualitative (customer satisfaction, employee engagement) and risk metrics which reflect the sustainable management strategy. The objectives are described in detail in the balanced scorecard. They are communicated at the beginning of the year and monitored accordingly.

Pursuant to the policy on variable components of remuneration, min. 40% of variable remuneration to executives (min. 60% if above EUR 1m) is deferred for the period of three years and paid in three equal annual instalments, unless there are reasons for reduction or non-payment. Furthermore, min. 50% of remuneration is paid in the form of financial instruments, mainly phantom stock based on the bank's shares.

In addition, Management Board members and key employees may receive awards under long-term incentive programmes (and take up the bank's shares at their nominal value). The purpose of these programmes is to retain the above-mentioned staff and improve the efficiency and value of the organisation. The programmes set out in detail the criteria that must be met by Management Board members and other participants for an award to be granted, and the right of the bank's Supervisory Board to change the terms and conditions of the incentive programme, e.g. in the event of any substantial deterioration of the financial standing or the risk profile. For more on the 6th Incentive Programme, see the "Performance Share Programme" section.

Other Transactions with the Bank's Executives

Loans and Advances

Loans and advances granted by Bank Zachodni WBK to the bank's executives totalled PLN 11,054k as at 31 December 2017 vs. PLN 7,158k as at 31 December 2016. These facilities were sanctioned on the regular terms and conditions.

Deposits placed with Bank Zachodni WBK by the bank's executives totalled PLN 17,328k as at 31 December 2017 vs. PLN 13,312k as at 31 December 2016.

Provisions for Employee Benefits

Provisions for employee benefits disclosed in Note 51 of Consolidated Financial Statement of Bank Zachodni WBK Group for 2017 include the provision of PLN 797k for unused holidays related to members of the bank's Management Board (PLN 567k in 2016).

6. Diversity Policy

Diversity Policy at Bank Zachodni WBK

Management of Diversity within the Bank's Activities

For many years now, Bank Zachodni WBK has been committed to promoting diversity in accordance with best practice and ensuring equal treatment of employees and other stakeholders regardless of their gender, age, health conditions, race, religion, national or ethnic origin, political beliefs, trade union membership, family status or sexual orientation.

Aspects such as respect for individuality, promotion of equal treatment and the prevention of discrimination have been addressed by a number of policies and procedures applicable at the bank, including but not limited to:

- The BZ WBK Sustainability (CSR) Policy, which sets out the following principles with respect to employee relationships:
 - ✓ to respect diversity and prevent discrimination because of gender, race, age or on any other grounds;
 - ✓ to encourage equal treatment of employees and aspire to have a balanced representation between men and women in all functions and responsibilities.
- The BZ WBK Human Rights Policy, which establishes a set of principles regarding the relationships with various stakeholders, including commitment to:
 - ✓ ensure equal access to employment and promotion, and protection against discrimination based on age, gender, race, religion, origin, marital status or financial situation;
 - ✓ prevent and eliminate disrespect and abuse at work.
- The BZ WBK Speak Up Policy and the Dignity and Respect at Work Policy, which set out preventive measures and establish channels and procedures for reporting/analysing suspected violation of law, procedures, standards and employee relationships.

The principles promoting diversity and equal treatment are applied at each stage of the employee lifecycle, starting from recruitment and throughout each employee's time with the organisation (terms of employment, access to training and development initiatives, promotion opportunities) to the termination of employment with the bank.

As part of its diversity agenda, the bank takes measures to provide barrier-free banking for disabled customers and raise their awareness of existing facilities and enhancements (in cooperation with the Polska bez Barrier Foundation). The bank also has processes in place to recruit employees with disabilities.

On 24 May 2017, Bank Zachodni WBK signed up to the Diversity Charter as a testament to its commitment to:

- creating a corporate culture that encourages respect for diversity;
- developing policies and mechanisms that effectively support equal treatment and diversity management at work;
- promoting benefits of diversity among stakeholders (employees, communities, shareholders and customers);
- reporting on measures taken and their outcome.

Diversity Policy with Respect to Supervisory, Management and Administration Bodies

The BZ WBK Appointment and Succession Policy for Management Board members and key function holders is to ensure the continuity of business processes delivered by senior managers, while achieving the best possible balance of gender, knowledge, skills and experience. The promotion of diversity is also one of the objectives of the BZ WBK Policies on the selection and suitability assessment of members of the Management and Supervisory Boards and key function holders. Aside from relevant academic background, professional experience and impeccable reputation, these policies require that candidates for members of Supervisory and Management Boards have a wide range of skills and be able to offer independent judgements and opinions.

Bank Zachodni WBK makes every effort to ensure appropriate gender diversity on its Supervisory and Management Boards, having full regard to the applicable qualification criteria and diversity considerations. As at 31 December 2017, there were two women on the bank's Supervisory Board: Ms Danuta Dąbrowska and Ms Marynika Woroszylska-Sapieha, and one woman on the Management Board: Ms Dorota Strojowska, Head of the Business Partnership Division.

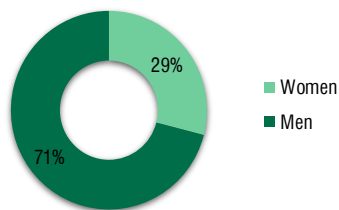
The current composition of the Supervisory and Management Boards as well as the population of other key function holders ensure diversity in terms of gender, age, experience and academic background. The tables and graphs below show diversity levels at the bank:

Sex	Women	Men
Supervisory Board	2	8
Management Board	1	11
Key Managers	33	69

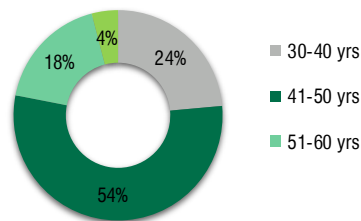
Age	30-40	41-50	51-60	over 60
Supervisory Board	-	-	6	4
Management Board	-	6	4	-
Key Managers	29	61	12	1

Years of employment with BZ WBK	up to 5	6-10	11-15	16-20	21-25	over 20
Supervisory Board	5	3	-	2	-	-
Management Board	3	3	-	2	3	1
Key Managers	15	12	15	25	26	9

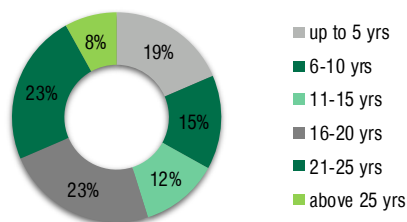
Sex of supervising staff and key executives of BZ WBK Group



Age of supervising staff and key executives of BZ WBK Group



Work experience of supervising staff and key executives of BZ WBK Group



7. Control System of Financial Statements

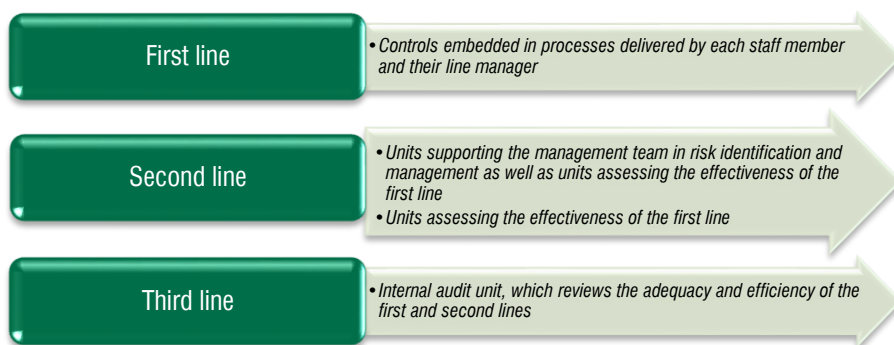
Internal Control and Risk Management System

Internal Control System

Bank Zachodni WBK Group operates an internal control system which supports decision-making processes, compliance with management rules and operational efficiency, and ensures the reliability of financial reporting and compliance with laws, international standards, internal regulations and best practice. The internal control system is tailored to the Group's organisational structure and risk management system, and covers the Business Support Centre, branches, Partner outlets and subsidiaries. The Management Board of the bank is charged with developing and implementing the internal control system, and ensuring that an adequate and effective internal control system is in place in each organisational unit. The Management Board is also responsible for updating the documented procedures and establishing adequacy and effectiveness criteria for evaluating the internal control system. Oversight of the implementation and the annual assessment of the internal control system is exercised by the Audit and Compliance Committee of the Supervisory Board of Bank Zachodni WBK.

The bank has adopted an Internal Control Policy which defines, inter alia, the purpose, structure and scope of the internal control system and lists related roles and responsibilities. In particular, the policy and other regulations describe the bank's internal control system, defining the rules and organisation of the process of identifying the risks that are material from the point of view of the control environment, along with their controls. The system includes monitoring, testing and reporting to ensure an effective control environment, both in terms of design and operation of the controls, and to strengthen the control culture at all levels within the organisation. The elements of the internal control system include: risk models, controls, tasks, organisational units and activities.

The internal control and risk management systems are based on three lines of defence:



Each organisational unit operates in line with their Terms of Reference approved by the head of the division. The document defines the roles and responsibilities within each business area, including the quality and processing of financial data. The internal control model in place allows for a systematic verification of controls in terms of their effectiveness. The results are regularly escalated to and reviewed by the bank's Management Board and the Audit and Compliance Committee of the Supervisory Board of Bank Zachodni WBK.

Controls in Financial Reporting Processes

One of the key objectives of the internal control system is to ensure full credibility of financial reporting.

Financial data preparation for the purpose of reporting is automated and based on the consolidated General Ledger and Data Warehouse. The underpinning IT systems are strictly controlled in terms of integrity and security of information.

Data inputs in the source systems are subject to formal operational and approval procedures which state the responsibilities of individual staff members. Data processing for the purpose of financial reporting is subject to a suite of specialist controls. Any manual corrections or management overrides are also under strict control. BZ WBK Group has a BCM plan in place, which covers all IT systems used to prepare financial reports. The plan is updated on an ongoing basis.

In order to manage risk associated with the preparation of financial statements, the bank follows legal and regulatory changes related to reporting obligations and updates its accounting rules and disclosures accordingly. The bank, through its representatives sitting on the supervisory boards of individual subsidiaries, exercises oversight of its consolidated subsidiaries.

Financial statements are approved by the Disclosure Committee, which is responsible for ensuring that the financial disclosures of BZ WBK Group comply with all legal and regulatory requirements before they are released.

The bank's management confirms that the controls in place effectively mitigate the risk of any failure to identify any material error in the financial statements.

The effectiveness of controls in financial reporting is additionally assessed by an independent external auditor as part of the annual certification process for compliance with the Sarbanes-Oxley Act.

Internal Control Compliant with the Sarbanes-Oxley Act

In the light of the Sarbanes-Oxley Act, Bank Zachodni WBK Group operates as a material and independent organisation within the structure of Santander Group and as such is required to implement, maintain and assess the effectiveness of the internal control environment pursuant to the above-mentioned act.

The certification process for compliance with the Sarbanes-Oxley Act in 2017 covered all key business areas of Bank Zachodni WBK and was carried out using solutions and methodology based on Santander Group's approach. The scope of testing included risk factors which were particularly significant for the reliability and accuracy of financial statements, taking into account the local control environment.

In view of the requirements arising from external regulations, Bank Zachodni WBK took measures to adjust the internal control system to satisfy the Volcker Rule (section 619 of Dodd-Frank Wall Street Reform and Consumer Protection Act) and ensure compliance with RDA/RRF (Basel Committee on Banking Supervision 239: Principles for effective risk data aggregation and risk reporting), the Regulation of the Minister of Development and Finance on the risk management system, the internal control system, remuneration policy and detailed method of internal capital estimation in banks, and KNF Recommendation H on the internal control system in banks.

The assessment of the design and effectiveness of the internal control system covers all available information and related recommendations, including those concerning audit and post-inspection. Results of assessments and tests form the basis for the bank's management to make representations on the effectiveness of the control environment.

As part of the SOX certification process for 2017, the bank's management confirmed that no incidents were identified in Bank Zachodni WBK Group which could significantly affect the relevant processes and threaten the effectiveness of the internal control over financial reporting.

Auditor

In accordance with the bank's Statutes and applicable regulations, on 19 April 2017 the bank's Supervisory Board passed a resolution appointing PricewaterhouseCoopers as the entity to:

- review the bank's unconsolidated financial statements and the Group's consolidated financial statements for H1 2017 and the entire year 2018;
- audit the bank's unconsolidated financial statements and the Group's consolidated financial statements for 2017 and 2018.

The bank signed agreements with PricewaterhouseCoopers Polska for the terms required to carry out the specified work.

The bank also contracted PricewaterhouseCoopers and other companies from PricewaterhouseCoopers Group for consulting services. In the bank's view, the above services do not affect the impartiality and independence of the auditor.

Employing the auditor from the same network for both Bank Zachodni WBK and Banco Santander ensures a consistent approach to the audit process across Santander Group.

Bank Zachodni WBK selects the entity authorised to audit financial statements pursuant to the Policy of Auditor Selection adopted on 4 October 2017 which is compliant with the EU law (Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities) and the Polish law (Act of 11 May 2017 on statutory auditors, audit firms and public supervision), in particular with regard to the principle of rotation of auditors.

Remuneration of external auditor

The table below shows the remuneration paid to PricewaterhouseCoopers Polska in 2017 and 2016 for audit/review of the financial statements of Bank Zachodni WBK Group pursuant to concluded agreements.

Remuneration of External Auditors	PLN k	
	Reporting Year ended on 31.12.2017	Reporting Year ended on 31.12.2016
Audit fees in respect of the parent bank ¹⁾	2 363	2 350
Audit fees in respect of the subsidiaries	2 107	1 659
Audit fees related to assurance services, including the review of the parent bank and subsidiaries ¹⁾	870	908
Fees for non-assurance services ²⁾	461	865

1) Remuneration for audit and review services performed in 2017 and 2016 based on the Agreement with BZ WBK on the audit of financial statements of 19 June 2017 and the Agreement with BZ WBK on the review and audit of financial statements of 23 July 2016 and an annex of 16 November 2016.

Audit fees related to assurance services are attributable in both periods to BZ WBK and include PLN 600 k for review of the financial statements and other assurance services of PLN 270 k in 2017 and 308 k in 2016.

2) Fees for non-assurance services include fees for BZ WBK of PLN 30 k in 2017 and PLN 716 k in 2016.

8. Pending Court Proceedings

As at 31 December 2017, no case was pending before any court or state administration agencies with regard to any claims made by or against Bank Zachodni WBK or its subsidiaries amounting to a minimum of 10% of the Group's equity.

	PLN m	
Court Proceedings with BZ WBK Group as a Party	31.12.2017	31.12.2016
Amounts claimed by the Group	717,6	518,3
Claims against the Group ¹⁾	359,4	221,6
Receivables due to bankruptcy or arrangement cases	3,8	40,9
Value of all litigation	1 080,8	780,8
Share [%] of all litigation in equity	4,6%	3,7%
Completed significant court proceedings	532,5	451,7

1) On 20.10.2017, Bank Zachodni WBK was notified of a class action instituted by the borrowers with loans indexed to the CHF, granted by the former Kredyt Bank. The total value of the claim, estimated as at the reporting date, was PLN 32.3m. This amount may change if new borrowers join the class action.

XII. Statement on Non-Financial Information of Bank Zachodni WBK and BZ WBK Group

1. Legal Basis

This statement is based on the Accounting Act, particularly Article 49b and Article 55. In addition to the statement which is a separate part of the Management Board Report on Bank Zachodni WBK and BZ WBK Group Performance, the bank also publishes its CSR Report for 2017, which gives a full picture of the bank's social and environmental impact.

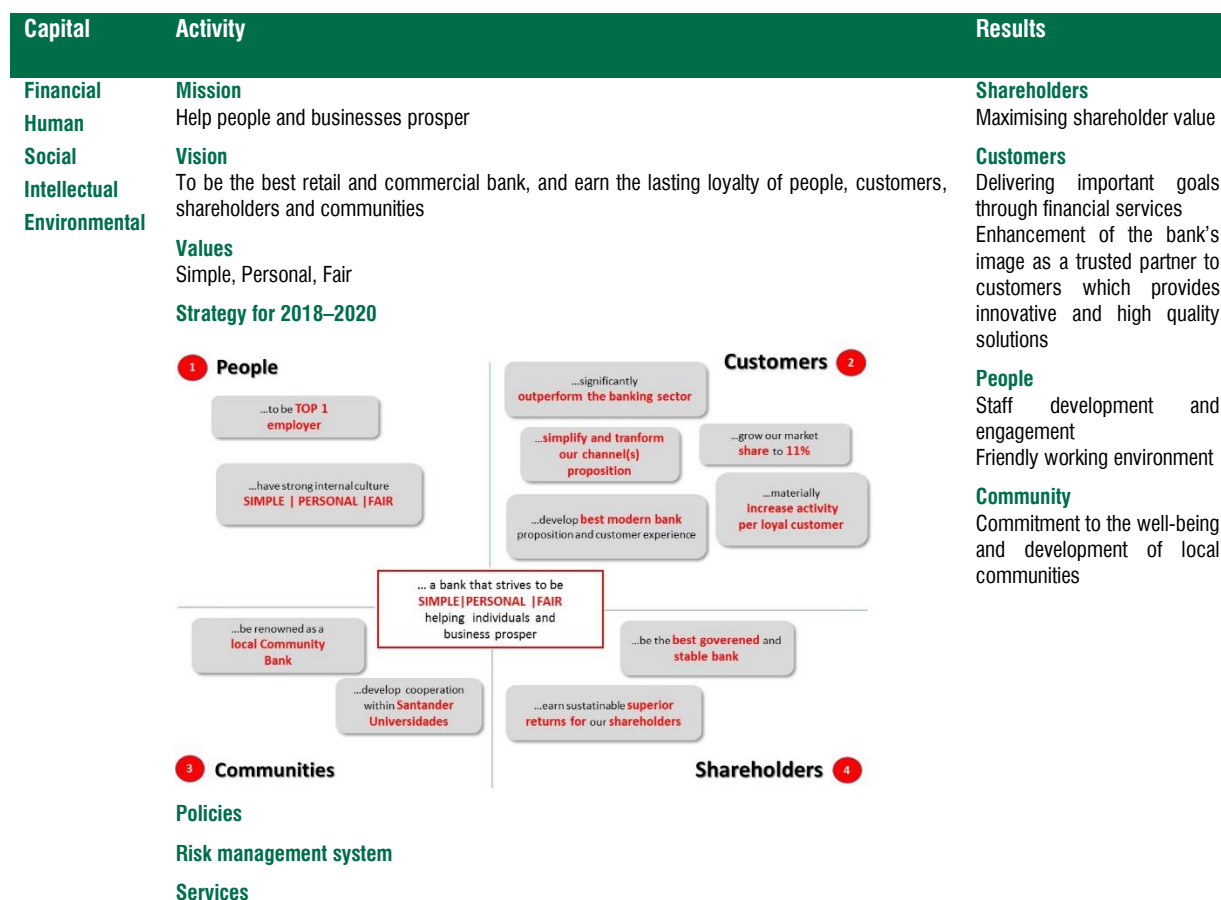
The statement has been prepared using the Global Reporting Initiative Standards, notably with regard to selection of the topics relating to employees, social and environmental matters, human rights and anti-corruption, and the presentation of selected ratios.

2. Business Model and Key Non-Financial Ratios

Bank Zachodni WBK is a universal bank which provides services to personal customers, businesses and institutions. The services provided by members of Bank Zachodni WBK Group are complementary to the bank's services as they provide customers with access to mutual fund units (shares), asset portfolios, insurance, leasing and factoring products.

The bank's (and the Group's) strategy and business model are founded upon the concept of "customer-centricity" or looking at each banking activity and process with the customer's eyes. In this model, the bank and the Group leverage their many different capitals to produce financial and non-financial results and affect the quality of people's lives and the social and economic growth.

Value Creation by the Bank and the Group



The adopted business model facilitates the achievement of satisfactory financial and non-financial results while allowing the bank's and the Group's customers to reach their objectives.

Key Ratios Depicting Business Activity of the Entity	2017	2016
Total number of bank customers in k (Group)	6 454	6 415
Total number of bank customers in k (Bank), including:	4 412	4 381
Number of BZWBK24 users in k, including:	3 388	3 221
Profit attributable to shareholders in PLN m	2 213,1	2 166,8
Profit for the period in PLN m	1 916,2	2 081,7
ROE (Group)	12,2%	12,8%
ROE (Bank)	11,0%	12,6%
Loans/Deposits (Group)	96,7%	91,6%
Loans/Deposits (Bank)	88,6%	84,3%
Capital ratio (Group)	16,69%	15,05%
Capital ratio (Bank)	18,95%	16,52%

3. Risk Management

The bank and the Group have a risk management system in place, which complies with the banking industry benchmark and legal and regulatory guidelines and recommendations. Selected units of the bank and BZ WBK Group are responsible for the identification, measurement, monitoring and mitigation of risks. The established risk profile is approved by the Risk Management Committee. Risk appetite is reflected in the **Risk Appetite Statement** approved by the Management Board and the Supervisory Board.

The risk management system includes the following significant risks: credit risk, market risk, liquidity risk, operational risk and compliance risk, which in turn encompasses regulatory risk, conduct risk, money laundering and terrorism financing risk and reputational risk. From the point of view of the negative impact of those risks on society, environment, employees, human rights, and anti-corruption measures, particular importance is attached to operational risk and reputational risk. In addition, the bank has identified social and environmental risks related to financing.

Risk	Risk description	Risk management	Possible significant negative impact on:				
			S	Em	En	HR	AC
Operational risk	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	The bank and the Group apply the Operational Risk Management Strategy. In addition, detailed procedures and guidelines are used to define how risks are identified, estimated, monitored and mitigated. The responsibility for setting operational risk management standards rests with the Operational Risk Management Committee (ORMCO).	✓	✓	✓	✓	✓
Compliance risk (regulatory risk, conduct risk, money laundering and terrorism financing risk and reputational risk).	Compliance risk is defined as the risk of legal or regulatory sanctions, significant financial loss or a negative impact on reputation that the bank may suffer due to its failure to comply with the law, internal regulations and market standards.	<p>Compliance risk is managed at the bank and in the Group as part of several processes, namely:</p> <ul style="list-style-type: none"> ✓ Identification of compliance risk ✓ Assessment of identified risk ✓ Use of controls ✓ Monitoring the risk size and profile ✓ Results reporting. ✓ Compliance assurance, as part of the control function, encompasses implementation of controls, independent monitoring of their observance and reporting. <p>The control function is performed under the so-called three lines of defence:</p> <p>At the first line of defence, compliance risk is managed as part of business areas (conduct of business), and in other areas (non conduct of business).</p> <p>The second line of defence includes ongoing vertical verification and vertical testing, the scope of which is adapted to the process characteristics and the risk level. The tasks of the second line of defence are carried out by the compliance function or another organisational unit operating in accordance with internal regulations, and in particular:</p> <ul style="list-style-type: none"> ✓ for labour law responsibilities – HR unit ✓ for commercial companies law responsibilities – corporate supervision unit ✓ for health and safety responsibilities – the health and safety unit ✓ for accounting, reporting and tax responsibilities – financial, accounting and tax units ✓ for prudential requirements' responsibilities – risk units. <p>The third line of defence is the internal audit function.</p> <p>In addition, risk management is supported by specialist committees, such as the Compliance Committee, the Local Marketing and Monitoring Committee, the Local Volcker Steering Committee, the Anti-Money Laundering and Counter-Terrorism Financing Committee and the Business Ethics Commission.</p> <p>The key policies are the General Code of Conduct and the Rules for preventing criminal responsibility.</p>	✓	✓			✓

S – Society, Em – Employees, En – Environment, HR – Human Rights, AC – Anti-Corruption

Risk	Risk description	Risk management	Possible significant negative impact on:				
			S	Em	En	HR	AC
Reputational risk (an element of compliance risk)	The risk of deterioration of the bank's and Santander Group's image, as seen by customers, employees, shareholders and the community at large, resulting from materialisation of other risk types, including individual categories of compliance risk.	Reputational risk is owned by the Communications, Marketing and Quality Management Area and by the Compliance Area, which employs a number of mechanisms, including the bank's Disclosure Policy, the Reputational Risk Management Policy, media monitoring, customer satisfaction surveys or mystery shopping.	✓	✓			
Social and environmental risks related to financing	Social and environmental risks resulting from customers' activities in sensitive sectors, constituting elements of reputational risk.	The key document on social and environmental risks is the BZ WBK Sustainability (CSR) Policy, which covers the whole Bank Zachodni WBK Group. The Policy is supplemented by policies on sectoral risk management for such "sensitive sectors" as defence, energy or soft commodities. Each sectoral policy defines the scope of its application, prohibited or restricted activities in relation to individual sectors, and the responsibility for each policy and its maintenance. Furthermore, the bank respects international best practices concerning social aid and environmental protection, particularly the Equator Principles.	✓	✓	✓	✓	

S – Society, Em – Employees, En – Environment, HR – Human Rights, AC – Anti-Corruption

The bank's and the Group's risk management system is described in Chapter X "Risk Management".

4. CSR Policies and their Outcomes

Anti-Corruption Policies and their Outcomes

Due to the nature of their operations, the bank and BZ WBK Group have the status of public trust institutions. For this reason, their activities are regulated by a number of domestic and EU guidelines, which ensure the safety of customer funds and stability of the banking system. Anti-corruption is high on the agenda. Both the bank and the Group have an efficient ethical infrastructure founded upon the **General Code of Conduct** (the “Code”), which is binding on all employees. It lays down ethical standards applied across Santander Group, and thus to BZ WBK Group as its member, covering specific situations, some of which are specifically related to corruption prevention. They are contained in the following sections of the Code:

- Conflicts of interest covering relations with the Group, banking transactions, investing into companies, relationships with suppliers and customers, gifts, commissions and other financial benefits. Both the bank and BZ WBK Group operate the General Conflict of Interest Policy, which supplements the Code.
- Cooperation with third parties and regulatory relations.
- Prevention of money laundering and terrorism financing.
- Corrupt practices.

The General Code of Conduct also determines the organisation and responsibilities of units. Implementation of the Code is the responsibility of compliance function’s management, Committee for Compliance with Santander Group’s Regulatory Requirements, Internal Audit, Audit and Compliance Committee, Supervisory Board, the HR function and the Business Ethics Commission. The Code also lays down the roles of heads of units, areas and divisions, and clearly defines the consequences for breaching its provisions.

The General Code of Conduct lays the foundations for a culture of openness, and facilitates whistleblowing. A part of the Code is dedicated to confidential reporting and dealing with complaints.

The bank’s and the Group’s approach is fleshed out in the **Anti-Corruption Programme**. The document emphasises the policy of “zero tolerance” for corruption, and sets out anti-corruption rules. The following elements make up the Anti-Corruption Programme:

- Controls
 - ✓ Register of gifts and invitations to public officials
 - ✓ Action taken by agents, intermediaries, advisers and business partners
 - ✓ Activities in high-risk countries
 - ✓ Accounting controls
 - ✓ Offering gifts or entertainment to the bank’s employees and managers
- A reporting channel
- Training
- Responsibility of the corporate compliance area.

Corruption prevention is also covered by the umbrella document **BZ WBK Sustainability (CSR) Policy**, which refers to the bank’s (and the Group’s) approach to running the business responsibly and in keeping with sustainable development principles.

As a result of implementation of the Code and its supporting documents, the bank’s and the Group’s employees participate in training on the anti-corruption policy and procedures.

Anti-corruption policy indicators in BZ WBK Group		2017
Percentage share of employees who are familiar with the anti-corruption policy and procedures.		
Grupa Kapitałowa		100%
Bank		100%
Percentage share of employees who completed anti-corruption training		
Grupa Kapitałowa		97%
Bank		97%

Employee Policies and their Outcomes

The employment at Bank Zachodni WBK was 11,291 in FTEs, while Bank Zachodni WBK Group reported 14,383 FTE employees. To be able to develop the business successfully and in compliance with law, the bank and the Group have a number of documents regulating employee matters.

The key aspects relating to the internal organisation of work and rights and obligations of the employees and the employer are set out in the bank's **Labour Regulations**. All members of the Group employing more than 50 people have their own Labour Regulations. The approach to workplace matters is laid down in HR Policies. The bank's and the Group's growth depends on developing staff competencies, and goals in this regard are outlined in the Training Policy. The bank is a signatory to the "**Diversity Charter**", an initiative administered by the Responsible Business Forum, designed to promote diversity management in Poland. Adoption of the "Diversity Charter" means that its provisions became applicable in the bank's working environment. In this context, particularly important is the **Respect and Dignity Policy**, which relates to building a diversified working environment with respect for ethical standards and the dignity of each employee, which prevents such negative behaviours as discrimination, bullying and harassment. Attached to the Policy is a document "**Support for new parents**", which describes the bank's and the Group's actions addressed to employees who have been absent for a long time due to pregnancy, or who are on maternity or parental leave.

Another key document, in addition to the Labour Regulations, is the **General Code of Conduct**, which sets out ethical standards and rules of conduct for all the bank's and the Group's employees, particularly in relation to special situations, such as conflicts of interest or corrupt practices. Each employee must be familiar with (and follow) the General Code of Conduct.

The General Code of Conduct is supplemented by the **BZ WBK Sustainability (CSR) Policy**, which applies both to the bank and the Group. It sets out the bank's (and the Group's) responsibilities in their relationships with stakeholders, including employees. It requires that the bank and the Group should comply with the following rules in respect of its employees:

- Full regard for diversity – preventing discrimination because of gender, race, age or on any other grounds;
- Promoting employment stability, flexible working hours and a work-life balance, and ensuring health and safety in the workplace;
- Encouraging equal opportunities among employees, aspiring to have a balanced representation between men and women in all functions and responsibilities;
- Making efforts to ensure that employees follow the rules of ethics and responsible behaviour based on the General Code of Conduct;
- Encouraging employees to engage in corporate volunteering to support the well-being of local communities and strengthen employee pride in being part of the organisation.

The bank's and the Group's employees participate in many social activities as volunteers. Corporate volunteering is understood as any initiatives promoted and supported by Bank Zachodni WBK, in which the bank's employees are involved voluntarily and in their free time (and partly during working hours), using their skills to support non-profit initiatives, projects or organisations for the good of local communities. Corporate volunteering is governed by the **BZ WBK Corporate Volunteering Policy**; this applies to all employees of Bank Zachodni WBK Group. The Policy determines three volunteering areas: 1. Supporting education; 2. Promoting equality of opportunity; 3. Building a civil society. In addition, the BZ WBK Corporate Volunteering Policy defines traceable volunteering indicators with their related procedures, including responsible units, i.e. the Bank Zachodni WBK Foundation and the Public Relations Department, acting in coordination with the HR function.

HR policies indicators	2017	
	Female	Male
Number of employees:		
Bank	8 330	3 159
Employee turnover:¹⁾		
Group (without SCB Group)	17,3%	17,2%
Bank	17,6%	17,3%
Average number of training hours per employee:		
Group	57,1	56,5
Bank	58,0	62,5

1) Number of terminations during the period per total employment at the end of the period

Human Rights Policies and their Outcomes

The overarching document which defines the bank's (and the Group's) approach to human rights is the **BZ WBK Sustainability (CSR) Policy**. In accordance with this Policy, the bank, as part of its business, "shall respect and promote the observance of human rights in relation to employees, customers, shareholders, suppliers and local communities."

The key document which establishes details of the bank's and the Group's approach is the **BZ WBK Human Rights Policy**. In this Policy, the bank sustains the obligation to respect and protect human rights. It applies to the bank's employees, its customers, suppliers and the local communities to which the bank provides its services. The policy relates to the bank's and the Group's activity, processes, services and operations. The **BZ WBK Human Rights Policy** establishes detailed rules and obligations relating to the observance of human rights.

BZ WBK Human Rights Policy	Areas covered
Relationship with Bank employees	✓ Preventing discrimination and practices against personal dignity
	✓ Forced labour and child labour
	✓ Respecting the right to form trade unions and enter into collective agreements
	✓ Protecting employees' health
	✓ The working environment
Cooperation with customers and suppliers	✓ Obligations to customers
	✓ Obligations to suppliers
	✓ Obligations to business partners
Cooperation with local communities	✓ Respecting, supporting and promoting the observance of human rights in local communities
	✓ Monitoring the impact of the business on local communities
	✓ Respecting human rights by ensuring safety
	✓ Taking anti-corruption measures

The bank's Management Board is responsible for human rights policy, while the bank's employees are obliged to report any breaches of the policy. In accordance with the General Code of Conduct, such cases are reported to etyka@bzwbk.pl, with an assurance of protection against any reprisal or similar negative consequences.

The BZ WBK Human Rights Policy is supplemented by the **Respect and Dignity Policy**, which relates to building a diversified working environment with respect for ethical standards and dignity for each employee, and the prevention of such negative behaviour as discrimination, bullying and harassment (including sexual harassment). The Respect and Dignity Policy establishes methods of reporting breaches of ethical standards and irregularities, including discrimination, bullying and harassment. It also determines the responsibility of management and each employee for its implementation. **Appendix 1 to the Respect and Dignity Policy** lays down the **Rules for dealing with alarming incidents relating to breaches of law, banking procedures, standards and employee relations reported by employees**.

Human rights issues are also covered by the sectoral document **BZ WBK Environment and Social Policy. Defence Sector**. It introduces exclusions and limitations to the bank's relationship with customers dealing with defence and dual-use technologies. The bank also notes risks related to projects carried out in countries which have not ratified key UN legal documents on human rights and those which are subject to UN/EU sanctions for violating human rights or using internal repressions, as defined in the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights, and the Additional Protocol 14 to the European Convention on the Rights of the Child pertaining to the involvement of children in armed conflict.

Human rights policies indicators		2017
Percentage share of employees who agree that the organisation respects and promotes diversity:		
Group		87%
Bank		84%

Social Policies and their Outcomes

In terms of social matters, two areas are of particular importance for the bank's (and the Group's) operations, namely: the customers and business partners area and the general public, including local communities.

The overarching document which defines the bank's and the Group's approach to social matters is the **BZ WBK Sustainability (CSR) Policy**. It sets out the bank's (and the Group's) responsibilities in their relations with stakeholders: employees, shareholders, local communities and suppliers. The bank and the Group also respect international best practices concerning social aid and environmental protection, particularly the Equator Principles. They relate to such issues as social health and security, the purchase of land and voluntary resettlement, the rights of indigenous peoples and cultural heritage.

The priority areas in the bank's (and the Group's) social activity are education and science development, support for social initiatives, equalisation of opportunities, and prevention of social exclusion.

The bank's (and the Group's) employees participate in social activities in accordance with the **BZ WBK Corporate Volunteering Policy**, which provides for three volunteering areas: 1. Supporting education; 2. Promoting equality of opportunity; 3. Building a civil society. In addition, the BZ WBK Corporate Volunteering Policy defines traceable volunteering indicators with their related procedures, including responsible units, i.e. the Bank Zachodni WBK Foundation and the Public Relations Department, acting in coordination with the function of HR.

The bank's and the Group's social activity is carried out through the Bank Zachodni WBK Foundation, in accordance with the bank's Statutes. In addition to the corporate volunteering programme, the Foundation is also engaged in such grant programmes as: "The Bank of Young Sports Champions" ("Bank Młodych Mistrzów Sportu"), "Here I live, here I make changes" ("Tu mieszkam, tu zmieniam"), "The Bank of Children's Smiles" ("Bank Dziecięcych Uśmiechów") and "The Bank of the Ambitious Youth" ("Bank Ambitnej Młodzieży"). The Public Relations Department is another unit engaged in social activities. For example, it maintains an educational portal for children, parents and teachers known as finansiacji.pl. Furthermore, the bank and the Group are engaged in Santander Group projects, including Santander Universidades, which covers universities from the whole of Poland.

Supplier relationship management is the responsibility of the Contracts and Procurement Management Department. All suppliers are subject to uniform selection criteria. The main documents governing the purchase process are the **BZ WBK Procurement Policy** and the **Supplier Selection Procedure**. The rules used vis-à-vis suppliers also take into account social criteria, and the observance of human rights and environmental commitments. Bidders are required to fill in a CSR questionnaire with questions relating to employment practices, human rights or environmental criteria. Following the supplier selection stage, both the **Policy on Cooperation with Suppliers** and the **Suppliers Management Policy** apply for the supplier qualification and the rules of entering into relevant agreements.

The bank and the Group have a number of documents which establish **customer relationship standards** in relation to communication, service, complaint-handling and data security. These areas are the responsibility of individual units dealing with retail and business customers. The bank runs the "Entrepreneur Academy", an initiative that includes conferences held across Poland and the portal firmoweewolucje.pl.

Social policies indicators		2017
Number of staff volunteers:		
Grupa Kapitałowa		1 080
Bank		580
Donations made by the BZ WBK Foundation towards corporate volunteering projects in PLN k		130
Propensity to recommend the bank's services (NPS)		32%

Environmental Policies and their Outcomes

Environmental issues relating to the bank's and the Group's activities are looked at from two perspectives: 1) in terms of direct impact, e.g. the use of paper, and 2) in terms of indirect impact through the financial services provided. This is reflected in the **BZ WBK Sustainability (CSR) Policy**, which stipulates that the bank and the Group attach great importance to environmental protection, particularly in the context of climate change, and undertake to:

- minimise the environmental impact of their branches and business;
- promote environmentally-friendly products and services;
- take into account and assess the impact that their financed projects have on climate change.

The Policy is supplemented by the **BZ WBK Climate Change Policy**, applicable across Bank Zachodni WBK Group. It lays down the action and initiatives that support environmental protection and seeks to mitigate the impact of climate change, including:

- control of resource consumption and emission levels by all the bank's facilities;
- financial activity;
- other environmental protection activities, including awareness-raising among employees, and in the supply chain through initiatives aimed at suppliers and by means of product and service selection rules.

Regarding resource consumption, the bank and the Group monitor the use of energy, paper and other resources. With regard to financial services, the BZ WBK Climate Change Policy operates by financing renewable energy and energy efficiency projects; selected products and services for the agricultural and livestock breeding sector; financing electric, hybrid and low-emission cars; water and waste management infrastructure; support for products and services enabling sustainable construction; activity in the market of trading in emission allowances; developing products for the agricultural and livestock breeding sector (including weather risks and other natural disaster risks) or financing socially responsible investments.

The BZ WBK Climate Change Policy is supplemented by sectoral policies on financing projects and customers from "sensitive sectors", notably the **BZ WBK Environment and Social Policy. Energy Sector**, **BZ WBK Environment and Social Policy. Soft Commodities and BZ WBK Environment and Social Policy. Defence Sector**.

The bank respects international best practices concerning social aid and environmental protection, particularly the Equator Principles. These principles relate to environmental issues, such as biodiversity protection, long-term natural resource management, pollution and toxic emissions prevention and climate changes.

Environmental policies indicators	2017
Total energy consumption of the bank (MWh)	36 555
Paper consumption of the bank (kg)	301 805



XIII. Representations of the Management Board

True and Fair Presentation of the Financial Statements

To the best of the Management Board's knowledge, the financial figures and the comparable data presented in the financial statements incorporated in the "Annual Report 2017 of Bank Zachodni WBK" and "Annual Report 2017 of Bank Zachodni WBK Group" were prepared in keeping with the applicable accounting policies and give a true and fair view of the state of affairs and earnings of Bank Zachodni WBK Group. The Management Board's Report contained in this document shows a true picture of the development, achievements and position of the parent entity and the Bank Zachodni WBK Group (including the underlying risks) in 2017.

Unbiased and Independent Audit

The auditing firm responsible for auditing the "Financial Statement of Bank Zachodni WBK Group for 2017" and "Consolidated Financial Statement of Bank Zachodni WBK Group for 2017" was selected in compliance with the applicable legislation. The auditing firm and its auditors satisfied the necessary conditions to ensure they provide an unbiased and independent registered auditor report compliant with Polish law and professional standards.

Signatures of the Management Board Members			
Date	Name	Function	Signature
12.02.2018	Michał Gajewski	President of the Board	
12.02.2018	Andrzej Burliga	Vice President of the Board	
12.02.2018	Michael McCarthy	Vice President of the Board	
12.02.2018	Juan de Porras Aguirre	Vice President of the Board	
12.02.2018	Mirosław Skiba	Vice President of the Board	
12.02.2018	Feliks Szyszkwiaik	Vice President of the Board	
12.02.2018	Artur Chodacki	Member of the Board	
12.02.2018	Carlos Polaino Izquierdo	Member of the Board	
12.02.2018	Marcin Prell	Member of the Board	
12.02.2018	Arkadiusz Przybył	Member of the Board	
12.02.2018	Maciej Reluga	Member of the Board	
12.02.2018	Dorota Strojowska	Member of the Board	