INFORMATION ON CAPITAL ADEQUACY OF BANK ZACHODNI WBK GROUP as at 30th June 2018

2018

Bank Zachodni WBK
Grupa Santander

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1. Introduction

This document is issued under the Bank Zachodni WBK Group Disclosure Strategy formulated based on 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 (”CCR”) and the European Banking Authority Guidelines EBA/GL/2016/11 of 04 August 2016 on disclosure requirements under Part Eight of Regulation (EU) No 575/2013.

Starting from January 1st, 2014 by the decision of the European Parliament and of the Council the new regulations of the CRD IV/CRR package come into force. The CRD IV/CRR package consist of two parts, the CRD IV Regulation and CRR Directive. The Directive requires transposition to the specific country law while the Regulation is binding without any transposition in all the member countries of the EU.

Bank Zachodni WBK is the significant subsidiary of Banco Santander S.A. with its seat in Spain, which is the EU parent institution. Bank Zachodni WBK S.A. discloses information about the capital adequacy on a consolidated basis – at the highest local level of prudential consolidation – i.e. based on the data of Bank Zachodni WBK Group.

The purpose of the report is to present short information about capital adequacy of BZ WBK Group pursuant to the requirements laid down in point 27, Title VII of European Banking Authority Guidelines EBA/GL/2016/11 updating EBA/GL/2014/14. In accordance with the Guidelines the disclosure includes:

- information on own funds and relevant ratios
- information on the amounts of risk weighted assets and capital requirements by type of risk and by the exposure classes
- information on the leverage ratio.

The data presented in the report were prepared as at 30 June 2018.

Bank Zachodni WBK forms a Group with 13 subsidiaries which are fully consolidated in accordance with IFRS 10 and associates which are accounted for using the equity method.

As at 30 June 2018, Bank Zachodni WBK formed a Group with the **following subsidiaries**:

- Santander Consumer Bank S.A. (SCB S.A.)
- Santander Consumer Finanse Sp. z o.o. - a subsidiary of SCB S.A.
- Santander Consumer Multirent Sp. z o.o. - a subsidiary of SCB S.A.
- SC Poland Consumer 2015-1 Sp. z o.o. – a subsidiary of SCB S.A.
- SC Poland Consumer 2016-1 Sp. z o.o. - a subsidiary of SCB S.A.
- PSA Finance Polska Sp. z o.o. - a subsidiary of SCB S.A.
- PSA Consumer Finance Polska Sp. z o.o. - a subsidiary of PSA Finance Polska Sp. z o.o
- BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.
- BZ WBK Finanse Sp. z o.o.
- BZ WBK Faktor Sp. z o.o. - a subsidiary of BZ WBK Finanse Sp. z o.o.
- BZ WBK Leasing S.A. (subsidiary of BZ WBK Finanse Sp. z o.o.
- BZ WBK F24 S.A. – a subsidiary of BZ WBK Finanse Sp. z o.o.
- BZ WBK Inwestycje Sp. z o.o.

Associated companies

In the consolidated financial statements of Bank Zachodni WBK for the six months ended 30 June 2018, the following companies are accounted for using the equity method in accordance with IAS 28:

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

Compared with 31 December 2017, the list of associates did not change.

Compared with 31 December 2017, the list of Bank Zachodni WBK subsidiaries changed as a result of the liquidation of Giełdokracja approved by the company's EGM held on 29 November 2017 and its removal from the National Court Register on 5 March 2018.

On 12 January 2018, ownership changes in BZ WBK F24 were registered in the National Court Register, as a consequence of which the company became fully controlled by BZ WBK Finanse (previously it was 99.99% owned by Bank Zachodni WBK). The changes resulted from the following transactions:

- stock swap between Bank Zachodni WBK and BZ WBK Finanse (in-kind contribution of BZ WBK F24 shares held by the bank in exchange for new shares of BZ WBK Finanse as part of share capital increase);
- purchase by BZ WBK Finanse of an outstanding share ensuring a 100% stake in the share capital of BZ WBK F24.

Details about subsidiaries and associates are presented in the Condensent Interim Consolidated Financial Statements of BZ WBK Group for the 6-month period ended 30 June 2018.

Planned Development Projects

Planned acquisition of a demerged business of Deutsche Bank Polska

Transaction agreement on the purchase of a demerged business of Deutsche Bank Polska by Bank Zachodni WBK

Pursuant to the transaction agreement of 14 December 2017 signed by Bank Zachodni WBK and Banco Santander with Deutsche Bank AG (DB AG), Bank Zachodni WBK (the acquiring bank) intends to purchase a carve-out of Deutsche Bank Polska (DB Polska/ the demerged bank), consisting of retail banking, private banking, business banking (SME) and 100% shares in DB Securities. The transaction involves, among other things, the takeover of branch network and external sales channels of DB Polska (agents and intermediaries) and the transfer of asset management agreements with customers. Corporate and investment banking business and foreign currency mortgage portfolio are excluded from the transaction and will remain in DB Polska (retained business).

Demerger agreement between Bank Zachodni WBK and Deutsche Bank Polska

On 23 February 2018, Bank Zachodni WBK and DB Polska signed a demerger agreement setting out the terms and conditions of the demerger in accordance with Article 529(1)(4), Article 530(2) and Article 531(1) of the Code of Commercial Companies.

The demerged business will be transferred to Bank Zachodni WBK on the date of registration of an increase of PLN 27,548,240 in the bank's share capital (adjusted for a dilution adjustment ratio where necessary) by way of the issuance of 2,754,824 demerger shares to be alloted to DB AG (demerger effective date). The exchange ratio under which DB AG will be alloted demerger shares will be 1,836.549(3) demerger shares of the acquiring bank for 1,000,000 reference shares (i.e. shares of the acquiring bank held by DB AG), adjusted for a dilution adjustment ratio where necessary.

The acquiring bank will take measures to ensure the demerger shares are admitted and introduced to trading on the regulated market operated by the WSE.

As a result of the demerger, the share capital of DB Polska will be reduced by way of cancellation of all shares of that bank held by Bank Zachodni WBK. After the decrease in the share capital, the acquiring bank will cease to be a shareholder of DB Polska, whereas DB AG will remain the sole shareholder of DB Polska holding 100% shares and 100% votes at the General Meeting of DB Polska.

Regulatory and corporate consents required to close the transaction

The following regulatory consents had been obtained by the date these financial statements were submitted to the Management Board for approval (23 July 2018):

• a clearance granted on 2 March 2018 by the Office of Competition and Consumer Protection (UOKiK) to integrate the demerged business of DB Polska into the structures of Bank Zachodni WBK,

• a decision issued by the KNF on 29 May 2018, confirming the absence of grounds for objecting to the planned direct acquisition of shares in DB Polska by Bank Zachodni WBK representing more than 10% of share capital and voting power at the General Meeting of Shareholders,

• KNF's consent of 17 July 2018 to the demerger of Deutsche Bank Polska and transfer of the demerged assets to Bank Zachodni WBK against shares of Bank Zachodni WBK issued in favour of Deutsche Bank AG. This means that an organised part of the enterprise of DB Polska, including: retail banking, private banking and SME banking, will be integrated with BZ WBK.

Economic justification of the demerger

The intended acquisition of the demerged business is a strategic response of Bank Zachodni WBK to the consolidation trends in the Polish banking sector.

From the perspective of the acquiring bank, the main business and operational objectives of the acquisition of the demerged business are as follows:

- extension of the range of products and services, improvement of customer service quality and enhancement of customer experience;
- growth of the customer base and business volumes;
- development of sales network improvement of operational efficiency, capitalising on the potential of both banks, best practices of the acquiring bank and economies of scale;
- significant increase in value with limited impact on capital ratios.

The transaction will strengthen the bank's market position in terms of the value of assets and share in the credit and customer deposit markets. Furthermore, the bank is expected to achieve synergies and savings and leverage new competences and skills in terms of relationships with high net worth, private banking and business banking customers.

Existing retail and business customers of DB Polska will gain access to one of Poland's largest network of branches and innovative sales channels, including mobile banking. At the same time, the customers of Bank Zachodni WBK will get access to a broad range of private banking products and an unparalleled network of financial agents, intermediaries and partners cooperating with the demerged bank.

The acquisition of the demerged business of DB Polska will bring benefits to the shareholders of the acquiring bank such as increased stock liquidity (increase in free float as a result of the new issue), estimated return on investment by 2021 above the cost of equity of the bank and projected growth in earnings per share after 2021.

Taking into account the current level of the Group's own funds and risk weighted assets, and the projections for the demerged part of Deutsche Bank Polska and DB Securities S.A., the Group's risk weighted assets and own funds would increase by approx. 12% and 5%, respectively. Integration of the demerged part of Deutsche Bank Polska and DB Securities S.A. on the above assumptions will result in reduction of the total capital ratio by 111 bps and the Tier 1 ratio by 88 bps. The above changes will not cause a risk of non-achievement of the minimum required capital ratios.

Intention to establish a mortgage bank by Bank Zachodni WBK

On 7 March 2018, the Management Board of Bank Zachodni WBK adopted a resolution on the intention to set up a mortgage bank operating as BZ WBK Bank Hipoteczny S.A. with its registered office in Warsaw (mortgage bank). On 8 March 2018, the bank's Supervisory Board gave consent to the establishment of the foregoing entity.

The share capital of the mortgage bank will be PLN 22m and Bank Zachodni WBK will be the sole shareholder.
As part of its business profile, the mortgage bank will:

- handle mortgage loans for retail customers;
- purchase receivables arising from mortgage loans of retail customers to its own portfolio on the basis of a strategic cooperation with the bank;
- issue covered bonds.

The mortgage bank will ensure a stable and long-term source of funding for BZ WBK's mortgage lending activity in the form of covered bonds. It will enhance the stability and security of BZ WBK Group, and indirectly, the entire banking sector.

Events after the balance sheet date

Consent of the Polish Financial Supervision Authority to qualify cash as Tier 2 instrument of Santander Consumer Bank S.A.
On 18.07.2018 Santander Consumer Bank SA received the consent of Polish Financial Supervision Authority for qualifying the cash with a total nominal value of PLN 100 000 000 as Tier 2 instrument of the Bank.

2. Own funds

The level of own funds of the Bank Zachodni WBK Group is adjusted to the Group's business.

Own funds are calculated on the basis of the provisions of Regulation (EU) No 575/2013 of the European Parliament and of the Council dated 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ("CRR").

Reconciliation between balance sheet items used to calculate own funds and regulatory own funds, according to methodology described in Annex I to Commission Implementing Regulation (EU) No 1423/2013 and according to article 437 (1)(a) of CRR, is presented in the table below.

Differences in own funds items of Bank Zachodni WBK Group
due to different scope of accounting and prudential consolidation as at 30.06.2018
(Disclosure according to Article 2 of Commission Implementing Regulation (EU) No 1423/2013)– in PLN k

ITEMS OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION USED FOR CALCULATION OF OWN FUNDS	as at 30.06.2018	Adjustments for companies that are not covered by prudential consolidation	Adjustments regarding transitional arrangements for the introduction of IFRS 9	Part of profit for the current period, not eligible	BALANCE SHEET ITEMS IMPACTING REGULATORY OWN FUNDS	item no. in the table 2
Aktywa						
Investments in associates	855 457	-	-	-		
-including significant investments into financial sector entities – amount not exceeding the threshold set in Article 48(1)(b)	*855 457*	-	-	-	*855 457*	73
Intangible assets	495 572	-	-	-	495 572	8
Goodwill	1 712 056	-	-	-	1 712 056	8
Deferred tax assets (net)	1 534 620	*125 079*	*-34 993*	-	1 624 706	
-including assets that do not exceed the threshold set in Article 48(1)(a)	*1 534 620*	*125 079*	*-34 993*	-	*1 624 706*	75
Liabilities						
Subordinated liabilities	2 665 741	-	-	-		
- including loans eligible as instruments under Tier II	*2 557 527*	-	-	-	*2 557 527*	46
Equity attributable to shareholders of BZ WBK S.A. including:						
Share capital	993 335	-	-	-	993 335	1
Other reserve capital	17 959 061	*-347 921*	-	-	17 611 140	1; 3; 3a
Revaluation reserve:	840 282	-	-	-	840 282	3
- including unrealised gains on debt instruments	*412 461*	-	-	-	*412 461*	26a
- including unrealised gains on equity instruments	*778 355*	-	-	-	*778 355*	26a
Profit for the current period	1 073 686	-	-	*-1 073 686*	0	5a

Table 1

As at 30 June 2018, the total own funds of the Bank Zachodni WBK Group amounted to **PLN 22 357 159k.** The amounts and nature of their specific items are presented in Table 2. The disclosure uses the template presented in Annex 6 to article 5 of Commission Implementing Regulation (EU) No 1423/2013, which states the disclosure requirement of own funds items. The table is limited to lines relevant for Bank Zachodni WBK Group.

References in the last column of Table 1 allow the mapping between individual elements of own funds with balance sheet items used for their calculation.

The nature and amounts of specific items on own funds of Bank Zachodni WBK Group - as at 30.06.2018(Disclosure according to Article 5 of Commission Implementing Regulation (EU) No 1423/2013) – in PLN k

		AMOUNT AT DISCLOSURE DATE [PLN k]	Regulation (EU) No 575/2013 Article Reference
Common Equity Tier 1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	8 028 759	26 (1), 27, 28, 29
	of which: shares	8 028 759	EBA list 26 (3)
2	Retained earnings	1 466 625	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves)	10 766 188	26 (1)
3a	Funds for general banking risk	649 810	26 (1) (f)
5	Minority interests (amount allowed in consolidated CET1)	885 326	84
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**21 796 707**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-58 819	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-2 207 629	36 (1) (b), 37
15	Defined-benefit pension fund assets (negative amount)	- 11 357	36 (1) (e), 41
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	141 573	473 (a)
	of which: filter for IFRS 9 phase in	141 573	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-2 136 231**	
29	**Common Equity Tier 1 (CET1) capital**	**19 660 476**	
Additional Tier 1 (AT1) capital: instruments			
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	-	
Additional Tier 1 (AT1) capital: regulatory adjustments			
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	-	
44	**Additional Tier 1 (AT1) capital**	-	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**19 660 476**	
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	2 557 527	62, 63
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	138 965	87, 88
51	**Tier 2 (T2) capital before regulatory adjustment**	**2 696 493**	
Tier 2 (T2) capital: regulatory adjustments			
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**191**	
58	**Tier 2 (T2) capital**	**2 696 683**	
59	**Total capital (TC = T1 + T2)**	**22 357 159**	
60	**Total risk-weighted assets**	**125 769 908**	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	15,63%	92 (2) (a)
62	Tier 1 (as a percentage of total risk exposure amount)	15,63%	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount)	17,78%	92 (2) (c)
Amounts below the thresholds for deduction (before risk-weighting)			
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions	893 226	36 (1) (i), 45, 48
75	threshold , net of related tax liability where the conditions in Article 38 (3) are met)	1 624 706	36 (1) (c), 38, 48

Table 2

Common Equity Tier I

Share capital in accordance with the Bank's Statutes and the entry to the Court Register as at 30 June 2018 amounted to PLN **993 335k.**

Supplementary capital is created from profit allocations and from share premium. By the Bank's Statutes, the supplementary capital is created from net profit allocations. Its purpose is to cover any balance sheet losses. The value of the allocations is determined by the General Meeting of Shareholders. As at 30 June 2018, the supplementary capital in own funds was PLN **8 030 261k** incl. share premium of PLN **7 035 424k.**

Other reserves are created from net profit allocations in an amount approved by the General Meeting of Shareholders. Other reserve are used to cover balance sheet losses if they are greater than the supplementary capital. The decision to resort to the reserve capital is taken by the General Meeting of Shareholders. As at 30 June 2018, after including prudential consolidation adjustments, the other reserves in own funds was PLN **8 931 069k.**

Funds for general banking risk for unidentified banking business risk are created from net profit allocations in an amount approved by the General Meeting of Shareholders. The funds for general banking risk are used to cover costs and losses connected with unidentified banking risks that were not separately provided for. As at 30 June 2018, the general risk fund earmarked for unidentified risks of the banking business was PLN **649 810k.**

Consolidated net profit of Bank Zachodni WBK Group for the period from 1 January 2018 to 30 June 2018 totaled PLN **1 254 942k,** including PLN **181 256k** of profit attributable to shareholders who do not exercise control. As at 30 June 2018, no part of the profit achieved in H1 2018 was reflected in own funds.

On 16 May 2018, the General Meeting of Bank Zachodni WBK Shareholders agreed on the distribution of net profit of PLN **1 916 156k** for the accounting year ended 31 December 2017 as follows:

- PLN **958 078k** was allocated to capital reserves;
- PLN **958 078k** was left undistributed.

In addition, the General Meeting of Bank Zachodni WBK Shareholders agreed on the distribution of undivided net profit generated by the Bank in the accounting year commenced on 1 January 2016 and ended on 31 December 2016 and in the amount of PLN **1 040 860k** in the following way:

- PLN **307 627k** shall be allocated to the dividend for shareholders;
- PLN **218 466k** shall be allocated to the cover negative impact of IFRS9 implementation,
- PLN **514 767k** was left undistributed.

Dividend per share is PLN 3.10.

As at 30 June 2018, **the minority interests** recognised in the consolidated Tier 1 capital totalled PLN **885 326k** and were attributed to the sub-consolidation of SCB Group.
Minority interest are no longer included in own funds based on the balance sheet value, but are calculated according to article 84 of CRR.

Bank Zachodni WBK Group has calculated **the additional value adjustments due to the requirements for prudent** valuation according to articles 34 and 105 of CRR. It amounted to PLN **(58 819)k.**

As at 30 June 2018, the adjustment of the Common Equity Tier 1 capital due to **goodwill** amounted to PLN **(1 712 056)k**, including:

- PLN **1 688 516k** – goodwill arising from the merger of Bank Zachodni WBK and Kredyt Bank on 4 January 2013. The goodwill recognised as at the date of the merger between Bank Zachodni WBK and Kredyt Bank represents a control premium and arises from the possibility to generate additional benefits from the expected synergies, increase in revenues and market share, combination of staff competencies and an increase in the effectiveness of processes, in relation to the fair value of the acquired net assets.
- PLN **23 540k** – goodwill arising from the fact that Bank Zachodni WBK holds 60% shares of Santander Consumer Bank, which, in turn, has a 50% stake in PSA Finance Polska. Bank Zachodni WBK disclosed non-controlling interests representing 70% of share capital and voting power at the General Meetings of PSA Finance Polska and, indirectly, PSA Consumer Finance Polska

As at 30 June 2018 deduction from Common Equity Tier I regarding **other intangible assets** amounted to PLN **(495 572)k.**

From 1 January 2018 **unrealised gains** related to assets or liabilities measured at fair value and recognised in balance sheet are included in 100% in own funds. **Unrealised losses** related to assets or liabilities measured at fair value and recognised in balance in sheet were fully included in Tier I capital.

Tier II capital
Tier II capital includes eligible subordinated loans of the bank, instruments issued by subsidiaries that are given recognition in Tier II capital and adjustments related to the application transitional agreements for the introduction of IFRS 9.

Own funds of Bank Zachodni WBK Group:

- include funds raised through the issuance of variable-rate registered bonds which were taken up and paid up by the European Bank for Reconstruction and Development. In 2016, the bank amended the agreement under which subordinated registered bonds had been issued on 5 August 2010. The amendments included a maturity extension to 5 August 2025, among other things. Pursuant to the KNF decision of 18 May 2016 (letter No. DBK/DBK 2/7100/2/7/2016), the foregoing subordinated bonds of EUR 100m were allocated to Tier 2 capital.

- pursuant to the KNF decision of 24 February 2017 (letter No. DBK/DBK 2/7100/6/7/2016/2017), the subordinated bonds of EUR 120m issued by Bank Zachodni WBK on 2 December 2016, maturing on 3 December 2026 and taken up by investors, were allocated to Tier 2 capital.
- pursuant to the KNF decision of 19 October 2017 (letter No. DBK/DBK 2/7100/1/14/2017), the subordinated bonds of EUR 137.1m issued by Bank Zachodni WBK on 22 May 2017, maturing on 22 May 2027 and taken up by an investor, were allocated to Tier 2 capital.
- pursuant to the KNF decision of 6 June 2018 (letter No. DBK-DBK2.7100.3.2018), the subordinated bonds of PLN 1b issued by Bank Zachodni WBK on 5 April 2018, maturing on 5 April 2028 and taken up by investors, were allocated to Tier 2 capital.

Hence, as at 30 June 2018 own funds include subordinated liabilities of PLN **2 557 527k.**

Subordinated liabilities of the Bank Zachodni WBK Group eligible as Tier II capital as at 30.06.2018 (PLN k)

Entity	Nominal value [k]	Currency	Amount included in own funds [k]	Redemption date	Start date of amortization	Subordinated liabilities included in own funds [PLN k]
European Bank for Reconstruction and Development	100 000	EUR	100 000 EUR	05.08.2025	05.08.2020	436 160
Other financial institution (serie E)	120 000	EUR	120 000 EUR	03.12.2026	03.12.2021	523 392
International Finance Corporation (IFC green bonds)	137 100	EUR	137 100 EUR	22.05.2027	22.05.2022	597 975
Other financial institution (serie F)	1 000 000	PLN	1 000 000 PLN	05.04.2028	05.04.2023	1 000 000
						2 557 527

Detailed description of capital instruments' main features is presented in Table 3.

Description of main features of Common Equity Tier I and Tier II instruments of Bank Zachodni WBK S.A. (Disclosure according to Article 3 Commission Implementing Regulation (EU) No 1423/2013)

	Capital instruments' main features					
1	Issuer	Bank Zachodni WBK S.A.	Bank Zachodni WBK S.A.	Bank Zachodni WBK S.A.	Bank Zachodni WBK S.A.	Bank Zachodni WBK S.A.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement	PLBZ00000044	XS0531310182	PLBZ00000226	not applicable	PLBZ00000275
3	Governing law(s) of the instrument	polish	english/polish	polish	english	polish
	Regulatory treatment					
4	Transitional CRR rules	Common Equity Tier I	Tier II	Tier II	Tier II	Tier II
5	Post-transitional CRR rules	Common Equity Tier I	Tier II	Tier II	Tier II	Tier II
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	solo and consolidated	solo and consolidated	solo and consolidated	solo and consolidated	solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	shares - Common Eqiuty Tier I as published in Regulation (EU) No 575/2013 article 28	Tier II as published in Regulation (EU) No 575/2013 article 63	Tier II as published in Regulation (EU) No 575/2013 article 63	Tier II as published in Regulation (EU) No 575/2013 article 63	Tier II as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	PLN 993,335 m	PLN 436,160 m	PLN 523,392 m	PLN 597,975 m	PLN 1 b
9	Nominal amount of instrument	10 PLN	100 000 000 EUR	120 000 000 EUR	137 100 000 EUR	1 000 000 000 PLN
9a	Issue price	Series A: 10 PLN Series B: 10 PLN Series C: 10 PLN Series D: 102 PLN Series E: 102 PLN Series F: 40 PLN Series G: 10 PLN Series H: 10 PLN Series I: 212.60 PLN Series J: "Share Exchange Ratio" re. the merger of BZ WBK with Kredyt Bank, pursuant to Resolution no. 2 of the Extraordinary Meeting of BZ WBK Shareholders, dd. 30.07.2012 r. Series K: 10 PLN Series L: 400.53 PLN Series M: 10 PLN	100% of nominal value	100% of nominal value	100% of nominal value	100% of nominal value
9b	Redemption price	N/A	100% of nominal value	100% of nominal value	100% of nominal value	100% of nominal value
10	Accounting classification	Shareholders' equity	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	Series A: 08.11.1991 Series B: 21.12.1996 Series C: 31.12.1996 Series D: 25.10.1999 Series E: 17.05.2000 Series F: 30.11.2000 Series G: 13.06.2001 Series H: 10.07.2009 Series I: 09.08.2012 Series J: 04.01.2013 Series K: 11.07.2014 Series L: 18.07.2014 Series M: 03.08.2017	05-08-2010	02-12-2016	22-05-2017	05-04-2018
12	Perpetual or dated	N/A	Dated	Dated	dated	dated
13	Original maturity date	No maturity	05-08-2025	03-12-2026	22-05-2027	05-04-2028
14	Issuer call subjet to prior supervisory approval	N/A	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates, and redemption amount	N/A	05-08-2020	03-12-2021	22-05-2022	05-04-2023
16	Subsequent call dates, if applicable	N/A	each interest period, every 3 months	each interest period, every 6 months	each interest period, every 6 months (after five years)	each interest period, every 6 months (after five years)
	Coupons / dividends					
17	Fixed or floating dividend/coupon	Floating	Floating	Floating	Floating	Floating
18	Coupon rate and any related index	N/A	above three-month EURIBOR for each interest period	above six-month EURIBOR for each interest period	above six-month EURIBOR for each interest period	above six-month WIBOR for each interest period
19	Existence of a dividend stopper	No	Yes	No	Yes	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing	Fully discretionary	Mandatory	N/A	Partally discretionairy	Partally discretionairy
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory	N/A	Partially discretionary	Partially discretionary
21	Existence of step up or other incentive to redeem	N/A	No	No	No	No
22	Noncumulative or cumulative	Noncumulative	Cumulative	N/A	N/A	n/a
23	Convertible or non-convertible	Nonconvertible	Nonconvertible	Nonconvertible	Convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A	N/A	N/A	If: (1)The Bonds shall be converted into a senior loan if: (i) there is a change in the regulatory classification of the Bonds that would be likely to result in their exclusion from the Issuer's own funds (as defined in the CRR) or reclassification as a lower quality form of own funds; or (2) Under BGF Act as defined in Terms and Conditions: 'Under the BGF Act, the Issuer's obligations under the Bonds may be subject to write-down or conversion on the terms set out in the BGF Act. By purchasing the Bonds, each Bondholder acknowledges the results of a decision the Bank Guarantee Fund may make on exercising its write-down or conversion powers with respect to the Bonds.'	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	fully	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	The Bonds shall be converted into a senior loan at the price level agreed by both Parties.	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	mandatory	N/A
28	If convertible, specifiy instrument type convertible into	N/A	N/A	N/A	senior loan or any other financial instrument defined under BGF Act, as mentioned above.	N/A
29	If convertible, specifiy issuer of instrument it converts into	N/A	N/A	N/A	Bank Zachodni WBK S.A.	N/A
30	Write-down features	No	No	No	Under the BGF Act, the Issuer's obligations under the Bonds may be subject to write-down or conversion on the terms set out in the BGF Act. By purchasing the Bonds, each Bondholder acknowledges the results of a decision the Bank Guarantee Fund may make on exercising its write-down or conversion powers with respect to the Bonds.	No
31	If write-down, write-down trigger (s)	N/A	N/A	N/A	as above	N/A
32	If write-down, full or partial	N/A	N/A	N/A	as above	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	as above	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	as above	N/A
35	Position in subordination hierachy in liquidation (specify instrument type immediately senior to instrument)	N/A	the lowest priority of satisfaction and will rank only to the extent permitted by applicable laws raelating to creditors' right	the lowest priority of satisfaction and will rank only to the extent permitted by applicable laws raelating to creditors' right	the lowest priority of satisfaction and will rank only to the extent permitted by applicable laws raelating to creditors' right	the lowest priority of satisfaction and will rank only to the extent permitted by applicable laws raelating to creditors' right
36	Non-compliant transitioned features	No	No	No	No	No
37	If yes, specifiy non-compliant features	N/A	N/A	N/A	N/A	N/A

(1) 'N/A' inserted if the question is not applicable

Table 3

3. Capital Adequacy

The capital requirements of Bank Zachodni WBK Group are set in accordance with part III 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 was the official legal basis as at 30 June 2018.

The **total capital ratio** as at 30 June 2018 vs. 31 December 2017 was impacted by the following:

- allocation of the profit for 2017 to Tier 1 capital;
- payment of the portion of the retained profit for 2016 in the form of dividend;
- subordinated loan PLN 1b with maturity of 5 April 2028 were allocated to Tier II capital (Pursuant to the Decision of KNF of 6 June 2018; document DBK-DBK2.7100.3.2018)
- the introduction of IFRS 9
- increase in the value of risk weighted assets for credit risk arising from the business activity.

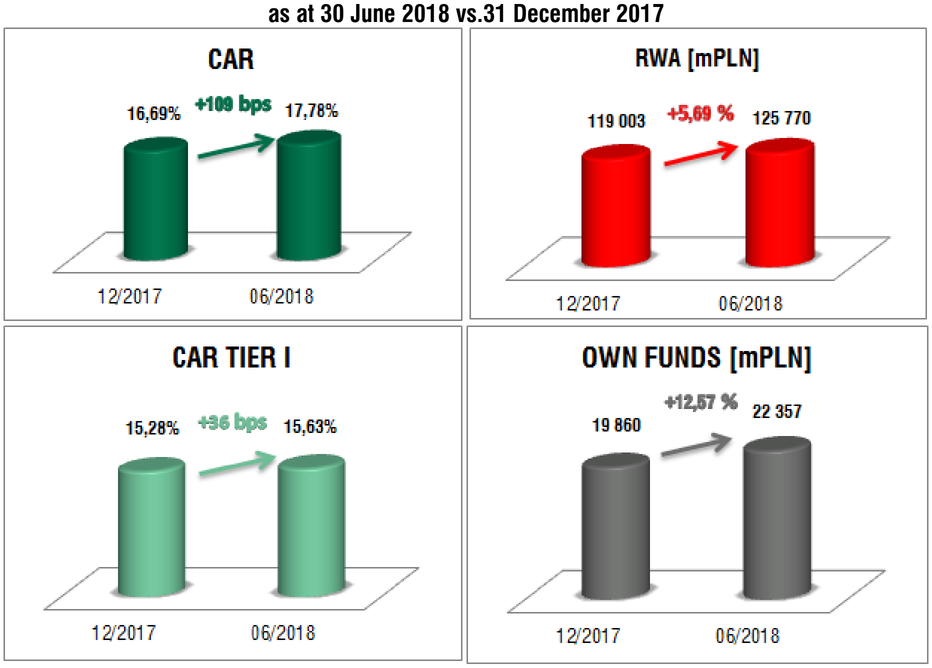
The minimum capital ratios set by the Polish Financial Supervision Authority (KNF) for BZ WBK Group are as follows:

- a Tier 1 capital ratio of 11.71%;
- a total capital ratio of 13.82%.

The above-mentioned capital ratios include a conservation buffer, buffer for an additional capital requirement due to risk attaching to foreign currency home mortgages and buffer for other systemically important institution (OSII). The capital ratios of BZ WBK Group calculated in accordance with the CRR requirements and an individual capital decision of the supervisory body are above the minimum requirements.

The charts below presents a details of own funds, risk weighted assets and capital adequacy ratios as at 30 June 2018 vs. 31 December 2017.

Own funds, risk weighted assets and capital ratios as at 30 June 2018 vs.31 December 2017



As at 30 June 2018, the capital ratios of Santander Consumer Bank were satisfactory:

- Total Capital ratio - 18.26%
- Tier I ratio – 18.26%

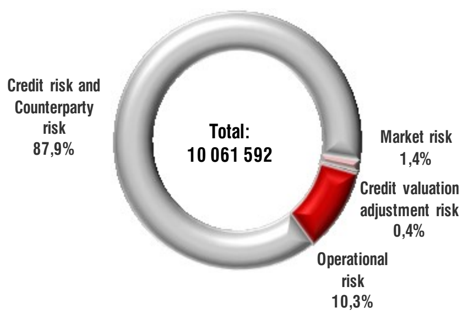
In H1 2018, Bank Zachodni WBK applied the standardised approach to the calculation of capital requirement for credit, market and operational risk. Under this approach the total capital requirement for credit risk is calculated as a sum of risk-weighted assets multiplied by 8%. To calculate risk-weighted exposures, risk weights are allocated to all exposures in accordance with the CRR.

As at 30 June 2018, the total capital requirements of Bank Zachodni WBK Group calculated in line with the CRR was **PLN 10,061,592k**, including:

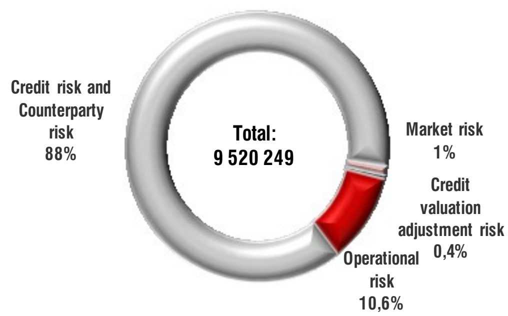
- for credit risk and counterparty credit risk **PLN 8,845,478k**
- for market risk **PLN 138,928k**
- for credit valuation adjustment risk **PLN 36,909k**
- for operational risk **PLN 1,040,277k.**

Percentage structure of the capital requirements for 06.2018 and 12.2017

Capital requirements for individual risk types as at 30 June 2018



Capital requirements for individual risk types as at 31 December 2017



The table below presents a specification of capital requirements and risk weighted assets for different risks.

RWAs and minimum capital requirements by risk group of the Bank Zachodni WBK Group as at 30 June 2018 (PLN k)

			RWAs		Minimum capital requirements
			30.06.2018	31.12.2017	30.06.2018
	1.	**Credit risk (excluding CCR)**	**102 593 344**	**97 123 437**	**8 207 467**
Article 438(c)(d)	2.	Of which the standardised approach	102 593 344	97 123 437	8 207 467
Article 107 Article 438(c)(d)	6.	**CCR**	**2 141 659**	**1 795 032**	**171 334**
Article 438(c)(d)	7.	Of which mark to market	1 679 482	1 264 661	134 359
Article 438(c)(d)	11.	Of which risk exposure amount for contributions to the default fund of a CCP	820	372	66
Article 438(c)(d)	12.	Of which CVA	461 357	529 999	36 909
Article 438 (e)	19.	**Market risk**	**1 736 606**	**1 346 907**	**138 928**
	20.	Of which the standardised approach	1 736 606	1 346 907	138 928
Article 438(f)	23.	**Operational risk**	**13 003 468**	**12 607 698**	**1 040 277**
	25.	Of which standardised approach	13 003 468	12 607 698	1 040 277
Article 437(2), Article 48 and	27.	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**6 294 831**	**6 130 040**	**503 586**
	29.	Total	125 769 908	119 003 114	10 061 592

The biggest item is the total capital requirement of Bank Zachodni WBK Group is the capital requirement for credit risk (items 1 and 27 of the above table), which on 30 June 2018 accounted for **86.58%** of the total capital requirement.

Credit and Counterparty credit risk exposure by risk weights of the Bank Zachodni WBK Group as at 30 June 2018 (PLN k)

	Exposure classes	Risk weight																Total	Of which unrated
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Deducted		
1.	Central governments orcentral banks	35 295 604	0	1 574 739	0	630 085	0	0	0	0	0	0	0	0	0	0	0	37 500 428	2 879 769
2.	Regional government orlocal authorities	0	0	0	0	92 302	0	0	0	0	13 649	0	0	0	0	0	0	105 951	105 952
3.	Public sector entities	0	0	0	0	0	0	4 602	0	0	0	0	0	0	0	0	0	4 602	4 602
4.	Multilateral developmentbanks	654 020	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	654 020	552 590
5.	International organisations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6.	Institutions	10 460	192 403	0	0	2 228 025	0	1 989 874	0	0	1 527	0	0	0	0	0	0	4 422 289	452 780
7.	Corporates	0	0	0	0	0	0	12 157	0	0	21 908 116	0	0	0	0	0	0	21 920 273	20 101 404
8.	Retail	0	0	0	0	0	0	0	0	42 107 671	0	0	0	0	0	0	0	42 107 671	42 107 671
9.	Secured by mortgages onimmovable property	0	0	0	0	0	14 090 305	0	0	0	23 729 825	11 997 085	0	0	0	0	0	49 817 215	49 094 088
10.	Exposures in default	0	0	0	0	0	0	0	0	0	2 172 818	642 184	0	0	0	0	0	2 815 002	2 815 002
11.	Exposures associated withparticularly high risk	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
12.	Covered bonds	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
13.	Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
14.	Collective investmentundertakings	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
15.	Equity	0	0	0	0	0	0	0	0	0	924 551	0	893 226	0	0	0	0	1 817 777	1 817 777
16.	Other items	1 973 517	0	0	0	104 305	0	0	0	0	2 103 668	0	1 624 706	0	0	0	0	5 806 196	5 806 196
17.	Total	37 933 601	192 403	1 574 739	0	3 054 717	14 090 305	2 006 633	0	42 107 671	50 854 154	12 639 269	2 517 932	0	0	0	0	166 971 424	125 737 831

4. Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds

On 12 December 2017, the European Parliament and the Council adopted Regulation No 2017/2395 amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State. This Regulation entered into force on the next day following its publication in the Official Journal of the European Union and has been applicable since 1 January 2018. The European Parliament and the Council concluded that the application of IFRS 9 may lead to a sudden significant increase in expected credit loss provisions and consequently to a sudden decrease in institutions' Common Equity Tier 1 capital.

The regulation regarding the mitigation of impact of IFRS 9 on Tier 1 capital provides for the following:

- Where an institution's opening balance sheet on the day that it first applies IFRS 9 reflects a decrease in Common Equity Tier 1 capital as a result of increased expected credit loss provisions, including the loss allowance for lifetime expected credit losses for financial assets that are credit-impaired, compared to the closing balance sheet on the previous day, BZ WBK Group should be allowed to include in its Common Equity Tier 1 capital a portion of the increased expected credit loss provisions for a transitional period. That transitional period should have a maximum duration of 5 years and should start in 2018. The portion of expected credit loss provisions that can be included in Common Equity Tier 1 capital should decrease over time down to zero to ensure the full implementation of IFRS 9 on the day immediately after the end of the transitional period.
- The multipliers that can be applied in consecutive years of the transitional period are as follows: 95%, 85%, 70%, 50%, 25%.
- If BZ WBK Group decides to apply the IFRS 9 transitional arrangements, it should publicly disclose its own funds, capital ratios and leverage ratio both with and without the application of those arrangements in order to enable the recipients of financial statements to determine the impact of those arrangements.
- BZ WBK Group should decide whether to apply those transitional arrangements and inform the KNF accordingly.
- During the transitional period, BZ WBK Group may reverse once its initial decision, subject to the prior permission of the KNF, which should ensure that such decision is not motivated by considerations of regulatory arbitrage.
- Institutions that decide to apply transitional arrangements should be required to adjust the calculation of regulatory items which are directly affected by expected credit loss provisions to ensure that they do not receive inappropriate capital relief. For example, the specific credit risk adjustments by which the exposure value is reduced under the standardised approach for credit risk should be reduced by a factor which has the effect of increasing the exposure value. This would ensure that an institution would not benefit from both an increase in its Common Equity Tier 1 capital due to transitional arrangements as well as a reduced exposure value.

Having analysed Regulation No. 2017/2395, BZ WBK Group has decided to apply the transitional arrangements provided for therein, which means that the full impact of the introduction of IFRS 9 will not be taken into account for the purpose of capital adequacy assessment of BZ WBK Group.

BZ WBK Group fulfilled its obligations imposed by the CRR by informing the Supervisory Authority about its intention to apply transitional provisions (letter ref. GZP/06/01/2018 of 31 January 2018).

Below, BZ WBK Group has disclosed own funds, capital ratios, as well as the leverage ratio, both including and excluding application of transitional solutions stemming from Article 473a of Regulation (EU) No 575/2013:

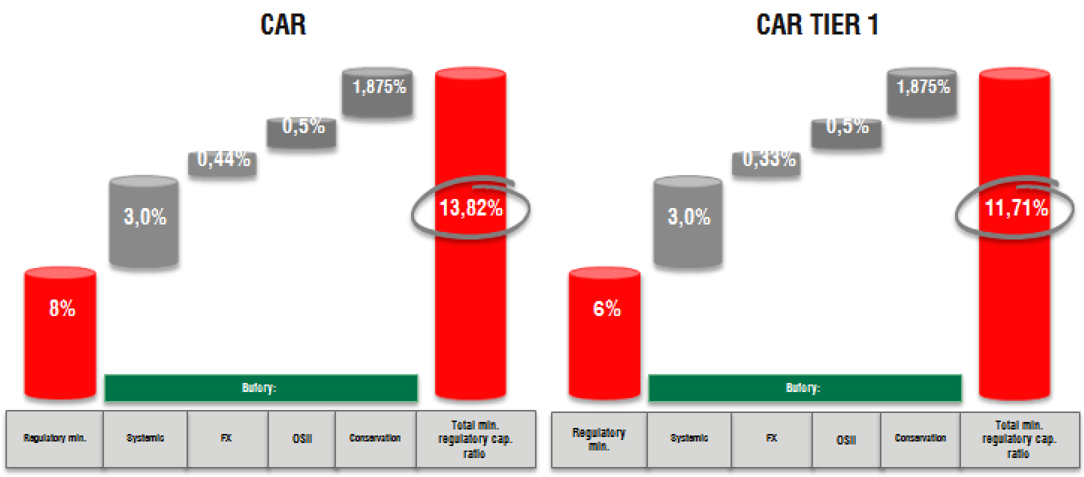
Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 (PLN k)

	Available capital (amounts)	30.06.2018
1	Common Equity Tier 1 (CET1) capital	19 660 476
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	19 518 903
3	Tier 1 capital	19 660 476
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	19 518 903
5	Total capital	22 357 159
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	22 215 395
	Risk-weighted assets (amounts)	
7	Total risk-weighted assets	125 769 908
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	125 718 206
	Capital ratios	
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	15,63%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15,53%
11	Tier 1 (as a percentage of risk exposure amount)	15,63%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15,53%
13	Total capital (as a percentage of risk exposure amount)	17,78%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17,67%
	Leverage ratio	
15	Leverage ratio total exposure measure	177 260 235
16	Leverage ratio	11,09%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	11,02%

5. Capital buffers

The Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management in the financial system transposed CRD IV into the Polish law with regard to, among other things, additional capital buffers to be maintained by banks.

Capital buffers and ratios of the Bank Zachodni WBK Group as at 30 June 2018



Based on the assessment of the systemic importance of the bank, the KNF in its decision of 19 December 2017, as presented in letter No DAZ/7105/5/7/2017, identified the bank as an other systemically important institution (O-SII). O-SII buffer imposed on the bank was 0.50%.

Pursuant to the KNF letter No DBK/DBK 2/7105/20/5/2017 dated 20 November 2017, the bank was required to maintain own funds at the level sufficient to cover an additional capital requirement (add-on) for risk attached to foreign currency home mortgages at 0.54 p.p. above the total capital ratio, referred to in Article 92(1)(c) of Regulation No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms ("Regulation"). It should include at least 75% of Tier 1 capital (which corresponds to a capital requirement of 0.41 p.p. above Tier 1 capital ratio referred to in Article 92(1)(b) of the Regulation) and at least 56% of Common Equity Tier 1 capital (which corresponds to a capital requirement of 0.30 p.p. above Common Equity Tier 1 capital referred to in Article 92(1)(a) of the Regulation). The decision in this respect was expanded upon in the KNF's recommendation of 15 December 2017, as presented in letter No DBK/DBK 2/7111/109/1/2017, whereby the buffer pertaining to foreign currency mortgages to households for Bank Zachodni WBK Group was reduced to 0.44 p.p. in excess of the total capital ratio, which includes at least 75% of Tier 1 capital (which corresponds to a capital requirement of 0.33 p.p. above Tier 1 capital ratio) and at least 56% of the Common Equity Tier 1 capital (which corresponds to a capital requirement of 0.25 p.p. above the Common Equity Tier 1 capital).

In relation to the entry into force on 1 January 2018 of the Regulation of the Minister of Economic Development and Finance of 1 September 2017 on the systemic risk buffer (3%), the KNF set the minimum capital ratios for banks in 2018. As of 2018, banks should maintain Tier 1 capital ratios at the minimum levels under Pillar 1 as set out in Article 92 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 (Official Journal of the European Union of 2013, p. 1, as amended; "CRR") and under Pillar 2 ("add-on") arising from Article 138(1)(2a) of Banking Law (consolidated text: Journal of Laws of 2017, item 1876) and combined buffer requirement set out in Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management (consolidated text: Journal of Laws of 2017, item 1934). As of 1 January 2018, the conservation buffer is equal 1.875%.

The table below presents unconsolidated and consolidated minimum ratios.

Capital buffers of Bank Zachodni and Banku Zachodni WBK Group for 2018

	2018			
	BANK		GROUP	
	CAR	**TIER 1**	**CAR**	**TIER 1**
Minimum capital ratio (CRR)***	8%	6%	8%	6%
Systemic risk buffer	3%	3%	3%	3%
Fx buffer	0,54%	0,41%	0,44%	0,33%
Capital conservation buffer	1,875%	1,875%	1,875%	1,875%
O-SII buffer	0,5%	0,5%	0,5%	0,5%
Total minimum ratio	**13,92%**	**11,79%**	**13,82%**	**11,71%**

***minimum capital ratios under Pillar 1 arising from Article 92 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

Since 1 January 2016, the countercyclical capital buffer ratio of 0% has been applied to credit exposures in Poland. The ratio shall be effective until it is changed by way of an ordinance of the Finance Minister. From 01 January 2019, the Capital coservation buffer will be 2.5%.

Bank Zachodni WBK Group calculates the bank-specific countercyclical capital buffer in accordance with the Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management.

The amount of the institution specific countercyclical capital buffer

	As at 30.06.2018
Total risk exposure amount [PLN k]	125 769 908
Institution specific countercyclical buffer rate [%]	0,00142
Institution specific countercyclical buffer requirement [PLN k]	1 788

6. Leverage ratio

In December 2010, the BCBS published guidelines (Basel III: A global regulatory framework for more resilient banks and banking system) defining the methodology for calculating the leverage ratio. The BCBS guidelines also provide for disclosure of the leverage ratio and its components starting from 1 January 2015.

The leverage ratio of Bank Zachodni WBK Group is set in accordance with 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") and Commission delegated Regulation (EU) 2016/62 of 10 October 2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio.

The leverage ratio (LR) shall be calculated as an institution's capital measure divided by that institution's total exposure measure and shall be expressed as a percentage.

Bank Zachodni WBK Group, as a material subsidiary of a EU-based parent entity and an institution of crucial importance for its local market, discloses the information referred to in Article 13(1) CRR on a consolidated basis.

Summary reconciliation of accounting assets and leverage ratio exposures as at 30.06.2018 (PLN k)

		Applicable Amounts
1	Total assets as per published financial statements	168 517 212
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	-
4	Adjustments for derivative financial instruments	1 123 037
5	Adjustments for securities financing transactions "SFTs"	4 325 027
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	6 026 334
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-
7	Other adjustments	(2 731 375)
8	**Total leverage ratio exposure**	**177 260 235**

Leverage ratio common disclosure
as at 30.06.2018 (PLN k)

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		CRR leverage ratio exposures
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	166 331 141
2	(Asset amounts deducted in determining Tier 1 capital)	(2 136 231)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	164 194 910
	Derivative exposures	
4	Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	1 219 656
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	1 494 308
EU-5a	Exposure determined under Original Exposure Method	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	2 713 964
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	4 070 853
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	254 174
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	-
15	Agent transaction exposures	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	4 325 027
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	29 765 186
18	(Adjustments for conversion to credit equivalent amounts)	(23 738 852)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	6 026 334
	Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)	
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
	Capital and total exposures	
20	**Tier 1 capital**	19 660 476
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	177 260 235
	Leverage ratio	
22	**Leverage ratio**	11,09%
	Choice on transitional arrangements and amount of derecognised fiduciary items	
EU-23	Choice on transitional arrangements for the definition of the capital measure, in accordance with art. 499 (2)	"phase in"
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	-

Procedures used for the purpose of management of excessive leverage risk and factors affecting the leverage ratio between the current period and the last period for which the ratio was presented

Description of the processes used to manage the risk of excessive leverage	The BZ WBK Group has the Leverage & Excessive Leverage Risk Policy in place which defines the objectives and addresses the key aspects of measurement, monitoring and reporting the leverage ratio and its compliance with the regulatory requirements as well as identification, management and monitoring of excessive leverage risk. The document sets out the roles and responsibilities of the parties involved in the relevant processes.
Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers	As at 30 June 2018, the leverage ratio of Bank Zachodni WBK Group totalled 11.09% and was three-fold higher than the minimum requirement of 3%. The factor determining the financial leverage was increas of total assets.

7. Remuneration Informations

Information on the variable components of remuneration is the fulfillment of the obligations in accordance with Part eighth CRR and complements the information in the annual report Information on Capital Adequacy of Bank Zachodni WBK SA as at December 31, 2017.

Summary information on the variable remuneration of the Bank Zachodni WBK employees covered by the variable remuneration policy, presented by areas of activity and executives concerned (PLN k)

Area	Management Board*	Retail Banking	Business and Corporate Banking	Global Corporate Banking	Business Support	Subsidiares	Total
Variable remuneration***	14 344	3 121	2 134	2 530	7 110	7 222	**36 461**

*The “Management Board” line shows the aggregated data for periods during which the persons acted as the Management Board members. The remaining part of the remuneration payable to the persons who did not sit on the Management Board for 12 months was included in a relevant group.
** Variable remuneration granted for 2017.
Data also refer to the former employees covered by the rules regarding identified employees in the Remuneration Policy of the Bank Zachodni WBK Group.

Variable remuneration (PLN k)

	VARIABLE REMUNERATION FOR 2017*				
	Headcount	Deferred bonus for 2017	Non-redeemed phantom shares (number of phantom shares)	Long-term performance share programme started in 2017 (number of BZ WBK shares)	Long-term performance share programme completed in 2017 (number of BZ WBK shares)
Management Board**	12	14 344	17 982	34 670	10 036
Other persons holding managerial positions	136	22 117	25 501	41 194	18 826
including number of individuals being remunerated between 1,5- 2 million EUR	0	-	-	-	-
TOTAL	**148**	**36 461**	**43 483**	**75 864**	**28 862**

* Variable remuneration granted for 2017.

** The “Management Board” line shows the aggregated data for periods during which the persons acted as the Management Board members. The remaining part of the remuneration payable to the persons who did not sit on the Management Board for 12 months was included in a relevant group.

Data also refer to the former employees covered by the rules regarding identified employees in the Remuneration Policy of the Bank Zachodni WBK Group.

The above data presents information on additional components of variable remuneration that have not been presented in the information on variable remuneration components presented in the annual report *Information on capital adequacy of Bank Zachodni WBK SA Group as at 31 December 2017.*

8. Regulatory changes

In H1 2018, own funds and capital requirements were affected by the following changes in regulations:

Pursuant to the draft Regulation of the Minister of Economic Development and Finance of 30 May 2017, a systemic risk buffer was introduced on 1 January 2018. The buffer is set at 3% of the total risk exposure amount calculated in accordance with Article 92(3) of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013. The systemic risk buffer is to ensure the continued resilience of banks to shocks and to prevent long-term non-cyclical systemic risk.

On 24 July 2014, the International Accounting Standards Board published a new International Financial Reporting Standard (IFRS) 9, which was approved by virtue of Commission Regulation (EU) 2016/2067 of 22 November 2016 for application in the EU member states. The standard applies to financial statements for annual reporting periods beginning on or after 1 January 2018, except for insurers which may apply the standard starting from 1 January 2021. IFRS 9 supersedes IAS 39 Financial Instruments: Recognition and Measurement. However, it allows reporting entities an option to continue to use the hedge accounting provisions stipulated in IAS 39.

On 12 December 2017, the European Parliament and the Council adopted Regulation No 2017/2395 amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any member state. This Regulation entered into force on the next day following its publication in the Official Journal of the European Union and has been applicable since 1 January 2018.