INFORMATION ON CAPITAL ADEQUACY OF BANK ZACHODNI WBK GROUP

as at 31th December 2016

2016

Bank Zachodni WBK

Grupa Santander

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Grupa Santander

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 which formed the legal basis of the reporting date i.e. 31 December 2016.

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 regulation is directly applicable in all EU member states. The Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management in the financial system transposes CRD IV into the Polish law.

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 information about the capital adequacy of the Bank Zachodni WBK Group pursuant to the requirements laid down in Article 13 of CRR (i.e. disclosure of information laid down in Articles 437, 438, 440, 442, 450, 451 and 453 of CRR).

The data presented in the report were prepared as at 31 December 2016 and include:

- Risk management principles
- Own funds
- Value of Risk Weighted Assets
- Capital buffers
- Information on capital adequacy
- Remuneration policy for those categories of staff whose professional activities have a material impact on its risk profile
- Leverage ratio
- Encumbered assets and unencumbered assets.

Bank Zachodni WBK forms a Group with 16 subsidiaries which are consolidated in accordance with IFRS 10 and associates which are accounted for using the equity method.

The scope of consolidation used by Bank Zachodni WBK Group for the purpose of capital adequacy assessment in accordance with CRR is different than the scope of consolidation adopted for the published consolidated financial statements of the Group made in compliance with IFRS 10. The subsidiaries BZ WBK Nieruchomości S.A. and Giełdokracja Sp. z o.o. are excluded from prudential consolidation.

As at 31 December 2016, 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.
- AKB Marketing Services Sp. z o.o. in liquidation - 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. – a subsidiary of BZ WBK Finanse Sp. z o.o.
- BZ WBK Lease S.A. – a subsidiary of BZ WBK Finanse Sp. z o.o.
- BZ WBK Inwestycje Sp. z o.o.
- BZ WBK Nieruchomości S.A.*
- Giełdokracja Sp. z o.o.*

* Company excluded from prudential consolidation in accordance with CRR

Compared with 31 December 2015, the list of related entities of Bank Zachodni WBK was expanded to include one more company as a result of the following ownership changes:

- Merger of BZ WBK Asset Management (BZ WBK AM) and BZ WBK Towarzystwo Funduszy Inwestycyjnych (BZ WBK TFI)

The transaction finalised on 31 March 2016 had the form of a reverse merger, i.e. the parent company (BZ WBK AM) was acquired by the subsidiary (BZ WBK TFI). The process was completed by transfer of all assets of the acquiree (BZ WBK AM) to the acquirer (BZ WBK TFI). Concurrently, the share capital of the acquirer was increased through the issue of 135k series H merger shares taken up by the shareholders of the acquired company (50% by Bank Zachodni WBK and 50% by Banco Santander) in exchange for its existing shares. Accordingly, BZ WBK TFI assumed all rights and obligations of BZ WBK AM.
The acquired company was dissolved without a formal liquidation as of the date it was removed from the National Court Register (31 March 2016). Changes in the share capital and merger of the companies were registered on the same day.

- Dissolution of SC Poland Auto 2014-1 Limited

20 April 2016 saw repayment of the last tranche of bonds issued as part of the first securitisation transaction of SCB completed via SC Poland Auto 2014-1 Limited, an SPV established in Ireland, which in 2014 took over a part of the receivables associated with car and instalment loans and on their basis issued series 14-1, class A and B securitisation bonds. The SPV was dissolved after the completion of the project for which it had been formed.

- Formation of SC Poland Consumer 2016-1

SC Poland Consumer 2016-1 is a subsidiary of SCB established for the purpose of securitisation of cash loans of SCB. The company was entered in the National Court Register on 10 November 2015. Its shares are held by a Polish entity which is not connected with the Group. However, since 1 August 2016 the company has been controlled by SCB due to fulfilment of the control conditions laid down in IFRS 10.7.

- Acquisition of a 50% stake in PSA Finance Polska and PSA Consumer Finance Polska

On 30 September 2016, Santander Consumer Bank (a subsidiary of Bank Zachodni WBK) and Banque PSA Finance entered into an agreement establishing strategic cooperation. Pursuant to the agreement, on 1 October 2016, SCB purchased 50% shares of PSA Finance Polska (a wholly owned subsidiary of Banque PSA Finance) and, indirectly, 50% stake in PSA Consumer Finance (100% owned by PSA Finance Polska). The new companies support the sale of vehicles manufactured by Peugeot and Citroën, providing financial services including lease facilities and consumer loans.

In the consolidated financial statements of Bank Zachodni WBK for the 12 months ended 31 December 2016, 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)
- BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. (BZ WBK-Aviva TUnŻ)
- POLFUND - Fundusz Poręczeń Kredytowych S.A.

Compared with the end of December 2015, the list of associates excludes companies from Metrohouse Franchise Group, following the sale of the entire stake in Metrohouse Franchise held by BZ WBK Inwestycje on 22 January 2016 (representing 20.13% of the share capital of the company).

Detailed information on the structure of Bank Zachodni WBK SA are presented in the Consolidated Financial Statements of Bank Zachodni WBK Group for the 2016 year.

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2. Risk Management

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

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

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

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

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

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

Details about managing different risk types, the structure of corporate governance and roles of selected units in risk management oversight are presented in **Note 4** of the Consolidated Financial Statements of Bank Zachodni WBK Group for 2016.

2.1. Credit risk

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

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

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

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

The Group is closely looking at the macroeconomic environment and analysing its credit exposure to particular customer segments and economic sectors to respond with an adequate and prompt action and adjust its credit policy parameters accordingly.

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

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

Risk Management Forum

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

Risk Management Division

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

Credit Policies

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

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

Credit Decision Making Process

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

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

Credit Grading

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

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

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

Credit Reviews

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

Collateral

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

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

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

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

Retail customers

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

Business customers

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

Collateral management process

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

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

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

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

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

Credit risk stress testing

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

Calculation of Impairment

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

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

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

Details about impairment charges are presented in **Note 4** of the Consolidated Financial Statements of Bank Zachodni WBK Group for 2016.

Industry concentration

The credit policy of Bank Zachodni WBK Group assumes diversification of credit exposures. Risk of particular industry affects value of the exposure limit. In order to ensure adequate portfolio diversification and control the risk of overexposure to a single industry, the Group provides funding to sectors and groups or capital units representing a variety of industries.

Forbearance Policy

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

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

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

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

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

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

Leasing and factoring

Bank Zachodni WBK Group has **leasing operations** that specialise in leasing machines, computer hardware and office equipment for business customers. The Group’s leasing companies also finance vehicles for both business and retail customers. The Group’s **factoring operations** are conducted by BZ WBK Faktor Sp. z o.o. Factoring is a short-term finance for the companies that provide trade credit (i.e. supply goods or services on extended payment terms) to their counterparties.

2.2. Market risk

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

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

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

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

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

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

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

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

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

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

Assessment methods

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

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

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

Interest rate position risk

Interest rate risk in the banking book

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

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

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

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

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

Interest rate risk in the trading book

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

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

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

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

Stress tests are used in addition to these measures by providing an estimate of the potential losses in the event of materialisation of the stressed conditions in the market. The assumptions of stress scenarios are based on sensitivity reports and on extreme market rate movement scenarios set using the highest daily and monthly changes in interest rates.
In 2016, the VaR limit for the interest rate risk has not been exceeded.

FX risk

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

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

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

In 2016, the VAR limit has not been exceeded.

FX Balance Sheet

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

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

Equity investment risk

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

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

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

2.3. Liquidity risk

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

Liquidity Risk Management

The BZ WBK Group Liquidity Management Policy is designed to:

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

The general principle adopted by the Group in its liquidity management process is that all expected outflows occurring within 1 month in respect of deposits, current funds, loan drawdowns, guarantee payments and transaction settlements should be at least fully covered by the anticipated inflows or Qualified Liquid Assets (QLA) assuming normal or predictable conditions for the bank's operations.

The QLA category includes: cash on hand, cash deposited with NBP (National Bank of Poland), securities which may be sold or pledged under repo transactions or NBP lombard loans.

The purpose of the policy is also to ensure an adequate structure of funding the growing scale of Bank Zachodni WBK's business by maintaining liquidity ratios at pre-defined levels. The bank uses a suite of additional watch limits and indicators with respect to the following:

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

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

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

Management Process

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

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

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

Risk Measurement and Reporting

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

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

Details about liquidity risk are presented in **Note 4** of the Consolidated Financial Statements of Bank Zachodni WBK Group for 2016.

2.4. Operational risk

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

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

Bank Zachodni WBK Group has implemented an integrated risk management framework to ensure that all risks which have a significant impact on Bank Zachodni WBK business are identified, measured, monitored and controlled. Operational risk management in Bank Zachodni WBK Group involves employees at all levels of the organization and consists of a number of interrelated components.

† This definition includes legal risk but excludes strategic and reputation Risk.

Operational risk is inherent in all the Group's business processes, including the outsourced functions or services delivered in cooperation with third parties.

Bank Zachodni WBK Group has defined the **Operational Risk Management Strategy**. In addition, detailed politics, procedures and guidelines are used to define how risks are identified, estimated, monitored and mitigated.

The **Operational Risk Management Committee (ORMCo)** established by the Management Board is responsible for setting operational risk management standards for Bank Zachodni WBK Group. ORMCo is the main forum for discussions on operational risk. It sets out the strategic direction for operational risk management, determines and monitors objectives for managing operational risk, including business continuity, information security, outsourcing / insourcing and money laundering risk in all business areas of Bank Zachodni WBK. Within ORMCo, there are two Forums appointed, which are dedicated to specific aspects of Operational Risk – Fraud Prevention Forum and Insurance Forum. Taking into account the increasing influence of cyber risk the Committee of Cyber Risk was appointed. The committee is the forum of direct cooperation and communication of all business units which are involved into the cyber security processes. The committee is supervising the performance of cyber security strategy in BZWBK.

Bank Zachodni WBK Group uses the following **tools**:

- Identification and assessment of operational risk

The basic tool to identify and assess operational risk is self-assessment. In the self-assessment process, Bank Zachodni WBK Group identifies the risks it may be exposed to when delivering its functions, assesses inherent and residual risks in terms of their likelihood and impact, and evaluates the construction and the control mechanism functioning.

Moreover, in the area of technological risk a special self-assessment is conducted which aims to ensure that for every technology risk process BZ WBK is able to identify and assess the level of vulnerability on every of related risks (including cybernetic risks) by frequency and loss due to non-performance obligation and is able to identify and assess the level of protections basing on implemented controls mechanism.

Additionally, the operational risk identification and assessment process is supported by other tools, dedicated to specific aspects of risk, e.g. scenario analysis, business impact analysis (BIA), risk analysis in new initiatives.

- Operational incidents management

Each organizational unit is required to report operational incidents identified in its area of activity. A quick communication path to higher management is prepared for key operational incidents. The Group runs a database of operational incidents identified across the whole organization. The collected data is used to analyze the root causes and consequences of the incidents, define lessons to be learned and take preventive and corrective measures.

Operational incidents in Bank Zachodni WBK Group in 2016
gross losses (PLN k)

Operational event class			
Event types	**Event category**	**PLN k**	**%**
1 Internal fraud	1.1. Unauthorised activity	13	0,02%
	1.2. Theft and fraud	1 918	1,65%
2 External fraud	2.1. Theft and fraud	4 045	3,47%
	2.2. Security of systems	362	0,31%
3 Occupational safety and health, employment practices	3.1. Labour relations	429	0,37%
	3.2 Safety and health in the workplace	0	0,00%
	3.3. Diversity and discrimination	0	0,00%
4 Customers, products and operating practices	4.1. Adaptation, disclosure of information and trust	0	0,00%
	4.2. Inappropriate business or market practices	91 127	78,27%
	4.3. Defective products	0	0,00%
	4.4. Selection, Sponsorship and Risks	0	0,00%
	4.5. Advisory Activities	0	0,00%
5 Damage to tangible assets	5.1. Natural disasters and other incidents	3 346	2,87%
6. Business interruption and system errors	6.1. Systems	9 457	8,12%
7 Execution of transactions, delivery and management of operating processes	7.1. Reception, execution , execution and maintenance of transactions	5 435	4,67%
	7.2. Monitoring and presentation of reports	39	0,03%
	7.3. Acceptance of customers and documentation	4	0,01%
	7.4. Customer account management	74	0,06%
	7.5. Trade counterparties other that the Bank's clients (e.g. clearing chambers)	168	0,14%
	7.6. Distributors and suppliers	7	0,01%

For the purpose of operational risk mitigation, Bank Zachodni WBK Group has an insurance scheme. In 2016 the Bank recovered the 61% of losses from the category of "Internal fraud" and 16% for the loss of "External fraud".

In 2016 the level of losses in category „Inappropriate Business or Market Practices" (4.2) was affected mainly by one event with amount of PLN 72m. It is the legal action taken against the customer regarding the process of repaying the mortgage credit. It is worth to highlight that the loss contains the amount of the claim, the statutory interests since December 2009 and the costs of the claim. The event is included in currently conducted process of loss liquidation within the insurance protection.

Within the category „Systems" (6.1) the amount increased due to one event: fire security system failure in one of the datacenter of the Bank. The costs included bringing back the conditions from before the failure: replacement of damaged devices, consultations with experts. Also the foregone revenue due to the failure were included.

Within category „Reception, Execution and Maintenance of Transactions" (7.1) a slight increase is observed comparing to the previous year. The category contains errors and mistakes which are an integral part of the business. It is worth to highlight that the banking processes are constantly analyzed to be improved, tightened and optimized and to minimize risk materialization in the future.

Bank Zachodni WBK Group also belongs to the external database of operational incidents conducted by The Polish Bank Association (ZBP) and uses other sources of information concerning the operational incidents. The analysis of the collected data enables to carry out benchmark and define lessons to be learned regarding the incidents materialized out of the Group.

- Monitoring

The main operational risk monitoring tools are risk indicators. The risk indicators provide early warning of emerging threats and operational losses and support observation of the risk level in the Group. Monitoring is based on financial, operational and technological indicators.

Moreover, the Group defined a set of key measures and limits supporting the observation of the Group operational risk appetite.

- Business continuity management (BCM)

Each organisation unit is required to develop and update its business continuity management plans to prevent from interrupting the critical business processes in case of unplanned disruption. BCM plans are tested on a regular basis to provide assurance to Bank Zachodni WBK Group that critical business processes are able to be restored at the required service level and within the agreed timeframe. Bank Zachodni WBK Group has backup locations in places where critical processes can be restored and continued, should an incident occur. Bank Zachodni WBK Group has a backup data centre and applies regularly tested disaster recovery solutions.

- Insurance

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

- Reporting

The aim of operational risk reporting is to provide up-to-date and adequate information to the management. Operational risk reports cover, inter alia: operational risk incidents and losses, teleinformation security incidents, risk indicators and risk mitigants.
The reporting process also covers preparation of information for external supervisory and control bodies.

The Group's Information Security Management System has a certificate of compliance with ISO 27001:2013 standard.

2.5. Legal and compliance risk

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

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

- generally applicable laws regarding the employment law, health and safety at work, taxes, accounting, personal data protection etc. which are binding for all enterprises operating in Poland;
- domestic and international (mainly: EU) trade regulations in the area of reporting, prudential standards, functioning on capital and investment market, prevention of money laundering and terrorist financing etc.;
- domestic an international regulations concerning the type of offered products and service delivery methods applied by the bank and the BZ WBK Group (in particular: the legislation on consumer and competition protection, capital markets, financial markets etc.);
- good practice codes and other regulations implemented by the Group, including in connection with membership in domestic or international trade associations.

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

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

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

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

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

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

- as part of monitoring of new products;
- as part of compliance monitoring;
- as part of the monitoring of proprietary transactions effected by employees;
- based on the information on regulators' activity;

- as part of the review of upcoming legislative initiatives;
- as part of the review of anti-money laundering initiatives;
- as part of the review of ethical issues;
- as part of the review of customers' complaints.

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

- independent identification, assessment and monitoring of compliance risk that the Group is exposed to (with the focus on new products and services, prevention of money laundering and terrorist financing, protection of confidential information, conflicts of interest or private account shares dealing by employees;
- prevention of using the financial system for money laundering and terrorist financing;
- providing advice and reporting to the Risk Management Committee, bank's Management Board and Audit and Compliance Committee on the effectiveness of the processes established to ensure compliance with laws and regulations within its area of responsibility;
- publication of policies and procedures, providing the management and staff with guidance on compliance risk and adequate risk management policies and procedures;
- centralisation of contacts with market regulators (KNF, UOKiK, GIIF, GIODO);
- centralisation of the approval of new products;
- coordination and support for compliance processes regarding the model of sale of investment products and MiFID Directive;
- strengthening of the principles regarding ethical business conduct as well as health and safety at work, as well as building the corporate governance culture in the organisation.

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

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

2.6. Reputation risk Management

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

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

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

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

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

Key risk mitigation measures:

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

The Legal and Compliance Committee that monitors the business and provided services in terms of reputation, legal and compliance risks is responsible for managing and monitoring the reputation risk in SCB subsidiaries.

Reputation risk is not and will not be quantified as this is a risk type that is hard to measure otherwise than in qualitative terms.

Bank Zachodni WBK
Grupa Santander

3. Own funds

The level of own funds of the Bank Zachodni WBK Group is adjusted to the Group's business.
Own funds are calculated in accordance with the Banking Law and legislative package of CRDIV/CRR:

According to CRR, own funds of the Group are a sum of:

- Tier I capital
- Tier II capital

Tier I capital consists of:

- Common Equity Tier I capital, which is a sum of items of Common Equity Tier I capital items after adjustments, deductions and inclusions
- Additional Tier I capital

Tier II capital includes items of Tier II capital after deductions.

Common Equity Tier I consists of:

1) Share capital, fully paid and registered at its nominal value
2) Emission premium
3) Supplementary capital
4) Profit or loss eligible– pursuant to Art. 26 of CRR, the non-audited profit for the current period or the annual profit may be included in Common Equity Tier I capital, as long as the Bank is granted approval from a relevant authority (KNF in this case). Relevant authority shall issue the approval on conditions that:
   a) Profits have been verified by institution-independent persons responsible for analysing financial statements of the institution
   b) The institution has satisfactorily proved that the profit amount has been reduced by all forseeable encumbrances and dividends
5) Accumulated other comprehensive income
6) Other reserves
7) Funds for general banking risk
8) Minority interest recognised in Common Equity Tier I capital – calculated in line with the standards indicated in Art. 84 of CRR
9) Adjustment and deductions from Common Equity Tier I items:
   a) Additional value adjustments due to the requirements of prudent valuation – acc. to Article 34 and 105 of CRR
   b) Goodwill arising on acquisition
   c) Other intangible assets
   d) Surplus of deferred tax assets or liabilities exceeding 10% of Tier I - according to EBA's interpretation re. inclusion of assets and reserves under deferred tax, in line with the answer Q&A 2014_980, the Bank nets deferred tax assets and deferred tax liabilities in order to determine the treshold value necessary to calculate the deductible amount
   e) Surplus of material exposure in financial sector institutions exceeding 10% of Tier I
   f) Portion of deferred income tax assets depending on future profitability and arising from temporary differences, as well as direct and indirect holdings in Common Equity Tier I instruments, where the institution has invested a considerable amount of funds, which shall be deducted
   g) Unrealised gains and losses related to assets or liabilities measured at fair value and recognised in balance sheet – disclosure in interim period in accordance with Article 467 (1) and 468 (1) of CRR
   h) Defined benefit pension fund assets

Tier II capital includes eligible subordinated loans of the bank and instruments issued by subsidiaries that are given recognition in Tier II Capital.

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 31.12.2016
(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 31.12.2016	Adjustments for companies that are not covered by prudential consolidation	filters	Part of year-end profit, not eligible	Surplus DTA (net) above 10% Tier 1*	Deferred tax provision	BALANCE SHEET ITEMS IMPACTING REGULATORY OWN FUNDS	item no. in the table 2
Assets								
Investments in subsidiaries, associates and joint ventures, and investment financial assets :	30 179 369	-	-	-	-	-	-	-
-including significant investments into financial sector entities – amount not exceeding the threshold set in Article 48(1)(b)	889 499	-	-	-	-	-	889 499	73
Intangible fixed assets	486 762	-	-	-	-	-	486 762	8
Goodwill	1 688 516	-	-	-	-	-32 398	1 656 118	8
Deferred tax assets (net)	1 534 322	135 996	-	-	-	32 398	1 702 716	0
-including assets that do not exceed the threshold set in Article 48(1)(a)	1 534 322	135 996	-	-	-57 660	32 398	1 645 056	75
Liabilities								
Subordinated obligations	440 457	-	-	-	-	-	-	-
- including loans eligible as instruments under Tier II	442 400	-	-	-	-	-	442 400	46
Equity attributable to shareholders of BZ WBK S.A. including:								
Share capital	992 345	-	-	-	-	-	992 345	1
Other capital items:	15 791 555	-	-	-	-	-	-	-
- share premium	7 035 424	-	-	-	-	-	7 035 424	1
- general banking risk fund	649 810	-	-	-	-	-	649 810	3a
- reserve capital	7 216 149	-357 631	-	-	-	-	6 858 518	3
- supplementary capital	890 172	9 477	-	-	-	-	899 649	3
Revaluation reserve:	276 093	-	-	-	-	-	276 093	3
- including unrealised gains on debt instruments	116 663	-	-46 665	-	-	-	69 998	26a
- including unrealised gains on equity instruments	652 473	-	-260 989	-	-	-	391 484	26a
Current year profit	2 166 847	211	-	-1 478 545	-	-	688 513	5a

* Calculation of 10% of Common Equity Tier 1 capital does not take into account deductions related to holdings of the Common Equity Tier 1 instruments of financial sector entities in which the institution has a significant investment, or deductions on account of deferred tax assets that rely on future profitability.

Table 1

As at 31 December 2016, the total own funds of the Bank Zachodni WBK Group amounted to PLN **16 584 814k**.

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 during the transitional period. 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 during the interim period - as at 31.12.2016(Disclosure according to Article 5 of Commission Implementing Regulation (EU) No 1423/2013) – in PLN k

		(A) AMOUNT AT DISCLOSURE DATE [PLN k]	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
Common Equity Tier 1 capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	8 027 769	26 (1), 27, 28, 29, EBA list 26 (3)	-
	of which: shares	8 027 769	EBA list 26 (3)	-
2	Retained earnings	540 708	26 (1) (c)	-
3	Accumulated other comprehensive income (and any other reserves)	8 034 260	26 (1)	-
3a	Funds for general banking risk	649 810	26 (1) (f)	-
5	Minority interests (amount allowed in consolidated CET1)	694 878	84, 479, 480	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	688 513	26 (2)	-
6	**Common Equity Tier 1 (CET1) capital before regulatory**	**18 635 938**		-
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	-34 480	34, 105	-
8	Intangible assets (net of related tax liability) (negative amount)	-2 142 880	36 (1) (b), 37, 472 (4)	-
15	Defined-benefit pension fund assets (negative amount)	-8 023	36 (1) (e), 41, 472 (7)	-
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-12 927	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)	-
21	Deferred tax assets arising from temporary difference (amount above 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-78 342	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	-
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-307 654		-
	of which: filter for unrealised gains on debt instruments	*-46 665*	*468*	-
	of which: filter for unrealised gains on equity instruments	*-260 989*	*468*	-
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-2 584 306**		-
29	**Common Equity Tier 1 (CET1) capital**	**16 051 632**		-
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)**	**16 051 632**		-
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	442 400	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	101 358	87, 88, 480	-
51	**Tier 2 (T2) capital before regulatory adjustment**	**543 758**		-
Tier 2 (T2) capital: regulatory adjustments				
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-10 576	472, 472(3)(a), 472 (4), 472 (6), 472 (8), 472 (9), 472 (10) (a), 472 (11) (a)	-
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-10 576**		-
58	**Tier 2 (T2) capital**	**533 182**		-
59	**Total capital (TC = T1 + T2)**	**16 584 814**		-
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	6 168 958		-
60	**Total risk-weighted assets**	**110 207 814**		-
Capital ratios and buffers				-
61	Common Equity Tier 1 (as a percentage of total risk exposure amount	14,56%	92 (2) (a), 465	-
62	Tier 1 (as a percentage of total risk exposure amount	14,56%	92 (2) (b), 465	-
63	Total capital (as a percentage of total risk exposure amount	15,05%	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)	889 499	36 (1) (i), 45, 48, 470, 472 (11)	-
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)	1 645 056	36 (1) (c), 38, 48, 470, 472 (5)	-

Table 2

3.1. Tier I

Common Equity Tier I

Share capital is stated in the nominal amount as shown in the Statutes and in the entry to the Court Register. The nominal value of a share is PLN 10. All the issued shares are fully paid-up. As at 31 December 2016, the share capital was PLN **992 345k**. Details of the instruments are presented in Table 3.

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 31 December 2016, the supplementary capital in own funds was PLN **7 935 073k**. 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 31 December 2016, after including prudential consolidation adjustments, the other reserves in own funds was PLN **6 858 518k.**

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 31 December 2016, the general risk fund earmarked for unidentified risks of the banking business was PLN **649 810k.**

Net profit of Bank Zachodni WBK Group for year 2016 totaled PLN 2 384 092k, including PLN 217 245k of profit attributable to shareholders who do not exercise control. As at 31 December 2016, according to article 26 CRR and based on the consent received from Polish Financial Supervision Authority, Bank Zachodni WBK included the amount of PLN **688 513k** of current year profit on own funds elements.

In April 2016, the General Meeting of Bank Zachodni WBK Shareholders agreed on the distribution of the net profit of PLN 1 756 210k for the accounting year from 1 January 2015 to 31 December 2015 as follows:

- PLN 702 484k was allocated to the dividend for shareholders for 2015;
- PLN 878 105k was allocated to capital reserves;
- PLN 175 621k was left undistributed.

In addition, the dividend included PLN 587 565k worth of undistributed net profit for 2014. The total dividend paid was PLN **1 290 049k**, i.e. PLN **13** per share.

Minority interests

As at 31 December 2016, the minority interests recognised in the consolidated Tier 1 capital totalled PLN **694 878k** 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.

Adjustment and deductions from Common Equity Tier I

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 **(34 480)k.**

Adjustment due to goodwill amounted to PLN **(1 688 516)k**, and after including the associated deferred tax liabilities, the net adjustment was PLN **(1 656 118)k**. The goodwill arising on the merger with Kredyt Bank, represents a control premium, and arises from the possibility to generate additional benefits from the expected synergies, increase in revenues, achieved market share, combination of staff competencies and an increase in the effectiveness of processes, all of which is an excess over the fair value of the acquired assets.

As at 31 December 2016, deduction from Common Equity Tier I regarding other intangible assets amounted to PLN **(486 762)k.**

Unrealised gains related to assets or liabilities measured at fair value and recognised in balance sheet are excluded from own funds in the transitional period. In 2016, the Group deducted 40% of gains in the amount of PLN **(307 654)k**. Breakdown between debt and equity instruments is presented in Table 2.

Unrealised losses related to assets or liabilities measured at fair value and recognised in balance in sheet were fully excluded from Tier I capital in the amount of PLN **(303 951)k** according to Article 467(3).

3.2. Tier II

Subordinated liabilities

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

Hence, as at 31 December 2016, own funds include subordinated liabilities of PLN **442 400k.**

Subordinated liabilities of the Bank Zachodni WBK Group eligible as Tier II capital as at 31 December 2016 (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	442 400
						442 400

Furthermore, on 2 December 2016, the bank issued EUR 120m worth of bonds as part of the strategy aimed at increasing the Tier 2 capital. On 5 December 2016, the bank requested a consent from KNF to allocate the above bonds to the Tier 2 capital. As at 31 December 2016, the Bank doesn’t take into account the above bonds to calculation the Tier 2 capital.

Instruments issued by subsidiaries that recognised in Tier II capital

Following the acquisition of control over Santander Consumer Bank in 2014, its qualifying own funds of PLN **(101 358)k**, calculated in accordance with Art. 88 of CRR as own funds of a subsidiary, represent another item of Tier II capital of Bank Zachodni WBK Group.

More details about the subordinated liabilities are presented in **Note 33** to the Consolidated Financial Statements of the Bank Zachodni WBK Group for 2016.

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.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement	PLBZ00000044	XS0531310182
3	Governing law(s) of the instrument	polish	english/polish
	Regulatory treatment		
4	Transitional CRR rules	Common Equity Tier I	Tier II
5	Post-transitional CRR rules	Common Equity Tier I	Tier II
6	Eligible at solo/(sub-)consolidated/solo & (sub-)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
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	PLN 992,345 m	PLN 442,40 m
9	Nominal amount of instrument	10 PLN	100 000 000 EUR
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	100% of nominal value
9b	Redemption price	N/A	100% of nominal value
10	Accounting classification	Shareholders' equity	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	05.08.2010
12	Perpetual or dated	N/A	Dated
13	Original maturity date	No maturity	05-08-2025
14	Issuer call subjet to prior supervisory approval	N/A	Yes
15	Optional call date, contingent call dates, and redemption amount	N/A	05-08-2020
16	Subsequent call dates, if applicable	N/A	each interest period, every 3 months
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	N/A	margin above three-month EURIBOR for each interest period
19	Existence of a dividend stopper	No	Yes
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing	Fully discretionary	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	N/A	No
22	Noncumulative or cumulative	Noncumulative	Cumulative
23	Convertible or non-convertible	Nonconvertible	Nonconvertible
24	If convertible, conversion trigger (s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specifiy instrument type convertible into	N/A	N/A
29	If convertible, specifiy issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger (s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	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
36	Non-compliant transitioned features	No	No
37	If yes, specifiy non-compliant features	N/A	N/A

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

Table 3

Bank Zachodni WBK
Grupa Santander

4. Capital requirements

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 31 December 2016.

In 2016, 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. The Group measures its balance sheet assets and liabilities in accordance with International Accounting Standards and International Financial Reporting Standards.

The Bank calculates and monitors capital requirements for all key risks, including:

- capital requirement for credit risk
- capital requirement for market risk, including:
    - capital requirement for positions risk, including:

- specific and general risk of debt instruments
- specific and general risk of equity instruments

    - capital requirement for FX risk
- capital requirement for the settlement, supplier and counterparty risk
- capital requirement for credit valuation adjustments
- capital requirement for the excess of large exposures limit
- capital requirement for the excess of capital concentration limit
- capital requirement for operational risk.

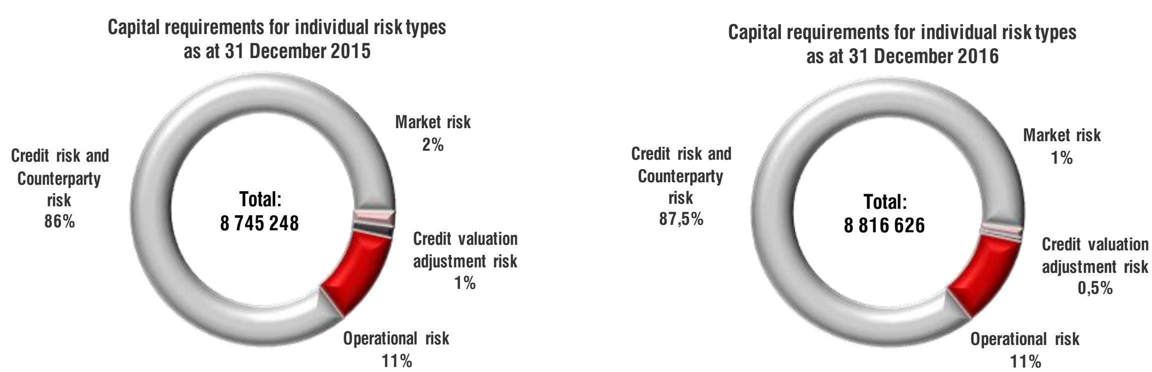
Bank Zachodni WBK Group calculates capital requirement separately for the exposures classified into the banking and trading book.

4.1. Capital requirements for individual risk types

As at 31 December 2016, the total capital requirements of Bank Zachodni WBK Group calculated in line with the CRR was PLN **8 816 626k**, including:

- for credit risk and counterparty credit risk: PLN **7 713 572k**
- for market risk: PLN **93 321k**
- for credit valuation adjustment risk: PLN **42 739k**
- for operational risk: PLN **966 994k.**

Percentage structure of the capital requirements in 2015 – 2016



Capital requirements of the Bank Zachodni WBK Group (PLN k)

No.	CAPITAL REQUIREMENTS FOR INDIVIDUAL RISK TYPES	as at 31.12.2016	as at 31.12.2015
1.	Credit risk and Counterparty risk	7 713 572	7 508 111
2.	Risk of exceeding the exposure concentration limit and the large exposure limit	-	-
3.	Market risk including:	93 321	152 863
3.1	FX risk	-	25 629
3.2	commodity prices risk	-	-
3.3	risk of positions of equity instruments, including: :	1 409	2 621
3.3.1	specific risk	1 159	1 879
3.3.2	general risk	154	140
3.3.3	Specific approach to the risk of positions in collective investment undertakings (CIUs)	96	602
3.4	risk of debt instrument positions, including:	91 912	124 613
3.4.1	specific risk	107	200
3.4.2	general risk	91 805	124 413
4.	Supply settlement risk	-	-
5.	Credit valuation adjustment risk	42 739	120 250
6.	Operational risk	966 994	964 024
	TOTAL CAPITAL REQUIREMENT (items 1+2+3+4+5+6)	**8 816 626**	**8 745 248**

The biggest item is the total capital requirement of Bank Zachodni WBK Group is the capital requirement for credit risk, including counterparty credit risk, which on 31 December 2016 accounted for **87.49%** of the total capital requirement. Bank Zachodni WBK Group manages credit risk on a priority basis, using its internal rating systems, credit concentration limits and sectoral exposure limits, seeking to maintain the possible highest quality of the credit portfolio.

The reduction of capital requirements for CVA as at 31 December 2016 vs. 31 December 2015 was caused by the recognition of contractual netting in accordance with Articles 295-298 of the CRR. The capital requirements for FX risk as at 31 December 2015 was caused by the settlement of the acquisition of Visa Europe Limited by Visa Inc.

The table below present a specification of the capital requirement for credit risk and counterparty credit risk by exposure classes, in accordance with the CRR.

Capital requirement of Bank Zachodni WBK Group for credit risk and counterparty credit risk as at 31.12.2016 (PLN k)

Exposure Class	Capital requirement for credit risk and counterparty risk
Exposures to central governments or central banks	7 183
Exposures to regional governments or local authorities	2 644
Exposures to public sector entities	28
Exposures to multilateral development banks	-
Exposures to institutions*	174 326
Exposures to corporates	1 359 364
Retail exposures	2 121 649
Exposures secured by mortgages on immovable property	3 155 741
Exposures in default	194 475
Exposures associated with particularly high risk	3 048
Exposures in the form of units or shares in collective investment undertakings	-
Equity exposures	240 527
Other items	454 587
Total exposures covered by the standardised approach	**7 713 572**
of which: counterparty risk - trading portfolio	108 269

*including capital requirement for pre-funded contribution to the default fund of a qualifying central counterparty

4.2. Exposure structure

In the process of capital adequacy assessment, each type of exposure was classified in accordance with Article 112 of the CRR.

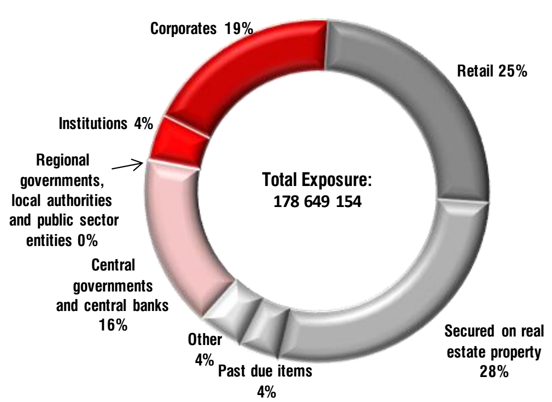
The original exposure before conversion factors represents the value of the exposure exclusive of value and provisioning adjustments, conversion factors and credit risk mitigation techniques.

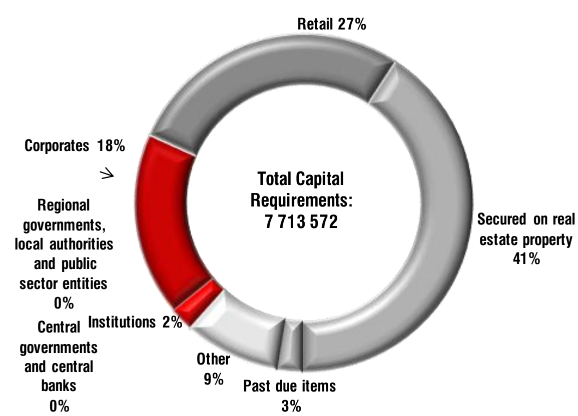
Credit risk and counterparty credit risk exposures as at 31.12.2016 (PLN k)

No.	Exposure Class	Original exposure before CCF	Average value of the exposure
1.	Exposures to central governments or central banks	29 022 944	23 773 081
2.	Exposures to regional governments or local authorities	176 652	180 088
3.	Exposures to public sector entities	2 825	138 704
4.	Exposures to multilateral development banks	3 713	3 820
5.	Exposures to institutions*	7 715 063	9 287 843
6.	Exposures to corporates	33 525 683	37 028 892
7.	Retail exposures	44 705 507	44 552 618
8.	Exposures secured by mortgages on immovable property	49 331 672	43 707 560
9.	Exposures in default	6 781 069	7 201 040
10.	Exposures associated with particularly high risk	25 404	25 404
11.	Exposures in the form of units or shares in collective investment undertakings	-	1 304
12.	Equity exposures	1 707 587	1 798 549
13.	Other items	5 651 035	5 323 933
	Total exposures covered by the standardised approach	**178 649 154**	**173 022 836**

*including exposure for pre-funded contribution to the default fund of a qualifying central counterparty

Percentage structure of exposures and the capital requirements by different asset classes in 2016





The structure of balance sheet and off-balance sheet exposures of the Bank Zachodni WBK Group by maturity is presented below. Exposures with residual maturity between 1-5 years represent the bulk of the exposures.

Credit risk and counterparty credit risk exposures by maturities as at 31.12.2016 (PLN k)

No.	Exposure Class	Residual Term to Maturity				
		<1 year	1-5 years	>5 years	without residual term to maturity	total
1.	Exposures to central governments or central banks	14,11%	53,01%	32,88%	-	29 022 944
2.	Exposures to regional governments or local authorities	45,09%	40,50%	14,41%	-	176 652
3.	Exposures to public sector entities	99,88%	0,12%	0,00%	-	2 825
4.	Exposures to multilateral development banks	0,00%	100,00%	0,00%	-	3 713
5.	Exposures to institutions*	51,20%	15,40%	33,40%	-	7 715 063
6.	Exposures to corporates	27,91%	65,03%	7,06%	-	33 525 683
7.	Retail exposures	18,58%	48,07%	33,35%	-	44 705 507
8.	Exposures secured by mortgages on immovable property	10,73%	26,03%	63,24%	-	49 331 672
9.	Exposures in default	63,35%	26,65%	10,00%	-	6 781 069
10.	Other items	-	-	-	100,00%	7 384 026
	Total exposures covered by the standardised approach	**19,81%**	**41,75%**	**34,31%**	**4,13%**	**178 649 154**

*including exposure for pre-funded contribution to the default fund of a qualifying central counterparty

Credit risk concentration

Bank Zachodni WBK Group adheres to the standards provided for in the Banking Law with regard to the concentration of risk bearing exposures to a single entity or a group of entities connected in terms of capital or organisation.
As at 31.12.2016, pursuant to art. 71 of the Banking Law Act, the maximum limits for the Group amounted to:

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

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

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

The policy pursued by the Group aims at minimising the credit concentration risk, by for example applying more rigorous than regulatory rules in this respect. The effect of this policy is maintenance of high level of diversification of exposures towards individual customers.
The analysis of the Group's exposures in terms of sector concentrations, proved that the Group does not have any exposures in excess of the limits imposed by the regulator in 2016.

Credit risk and counterparty credit risk exposures by sectors as at 31.12.2016 (PLN k)

No.	Exposure Class	Industry Analysis											
		Public Sector	Detail (including mortgages)	Property	Manuafacturing	Distribution	Construction	Agriculture	Transport	Financial	Energy	Other Secotrs	Total
1.	Exposures to central governments or central banks	29 022 944	-	-	-	-	-	-	-	-	-	-	29 022 944
2.	Exposures to regional governments or local authorities	176 652	-	-	-	-	-	-	-	-	-	-	176 652
3.	Exposures to public sector entities	2 825	-	-	-	-	-	-	-	-	-	-	2 825
4.	Exposures to multilateral development banks	-	-	-	-	-	-	-	-	3 713	-	-	3 713
5.	Exposures to institutions*	-	-	-	-	-	-	-	-	7 715 063	-	-	7 715 063
6.	Exposures to corporates	226	-	2 543 713	8 223 833	8 851 483	839 345	133 724	1 479 093	1 322 012	5 304 541	4 827 713	33 525 683
6.1.	of which: SME**	-	-	176 457	1 064 016	1 142 017	175 769	38 161	275 986	36 570	48 772	511 800	3 469 548
7.	Retail exposures	451	31 989 223	404 971	2 076 828	3 414 604	633 347	1 511 738	1 443 481	159 592	65 790	3 005 482	44 705 507
7.1.	of which: SME**	451	-	404 971	2 076 828	3 414 604	633 347	1 511 738	1 443 481	159 592	65 790	3 005 482	12 716 284
8.	Exposures secured by mortgages on immovable property	-	25 929 252	9 511 312	5 646 272	5 404 733	489 318	504 366	625 781	85 539	267 272	867 827	49 331 672
8.1.	of which: SME**	-	-	288 991	1 322 539	2 184 419	187 082	440 810	173 142	14 428	48 853	470 746	5 131 010
9.	Exposures in default	658	2 822 638	1 116 709	593 141	845 649	122 997	114 568	146 407	15 023	696 765	306 514	6 781 069
10.	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	25 404	25 404
11.	Exposures in the form of units or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-
12.	Equity exposures	-	-	-	-	-	10 836	-	-	1 667 780	-	28 971	1 707 587
13.	Other items	-	-	-	-	-	-	-	-	-	-	5 651 035	5 651 035
	Total exposures covered by the standardised approach	**29 203 756**	**60 741 113**	**13 576 705**	**16 540 074**	**18 516 469**	**2 095 843**	**2 264 396**	**3 694 762**	**10 968 722**	**6 334 368**	**14 712 946**	**178 649 154**

*including exposure for pre-funded contribution to the default fund of a qualifying central counterparty

**of which: SME – subject to SME-supporting factor

Credit risk and counterparty credit risk exposures by countries as at 31.12.2016 (PLN k)

No.	Exposure Class	Geographic distribution*												
		Poland	Spain	Belgium	United Kingdom	Luxembourg	France	Netherlands	Finland	Denmark	Germany	Portugal	Other countries	Total
1.	Exposures to central governments or central banks	29 022 944	-	-	-	-	-	-	-	-	-	-	-	29 022 944
2.	Exposures to regional governments or local authorities	176 652	-	-	-	-	-	-	-	-	-	-	-	176 652
3.	Exposures to public sector entities	2 825	-	-	-	-	-	-	-	-	-	-	-	2 825
4.	Exposures to multilateral development banks	-	-	-	1 816	1 897	-	-	-	-	-	-	-	3 713
5.	Exposures to institutions	3 533 448	1 247 564	838 943	602 432	-	596 941	144 635	250 231	213 670	104 463	-	182 736	7 715 063
6.	Exposures to corporates	31 123 965	991 902	7 501	198 898	502 452	179 657	162 538	-	-	51 594	115 068	192 108	33 525 683
7.	Retail exposures	44 691 655	2 078	1	2 016	-	106	744	-	1	894	48	7 964	44 705 507
8.	Exposures secured by mortgages on immovable property	48 863 781	4 849	905	23 865	276 089	5 342	40 654	-	-	45 978	-	70 209	49 331 672
9.	Exposures in default	6 749 320	75	3	844	4	92	11	-	1	71	3	30 645	6 781 069
10.	Exposures associated with particularly high risk	-	-	-	-	-	-	25 404	-	-	-	-	-	25 404
11.	Exposures in the form of units or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-
12.	Equity exposures	1 630 493	-	562	-	-	-	-	-	-	-	-	76 532	1 707 587
13.	Other items	5 647 368	-	-	-	-	-	-	-	-	-	-	3 667	5 651 035
	Total exposures covered by the standardised approach	**171 442 451**	**2 246 468**	**847 915**	**829 871**	**780 442**	**782 138**	**373 986**	**250 231**	**213 672**	**203 000**	**115 119**	**563 861**	**178 649 154**

* Distribution by the country of the borrower

Delinquent and impaired positions

An exposure is considered as delinquent if the obligor is in arrears with capital and/or interest payments. In such circumstances, the entire exposure is considered as delinquent, regardless of whether or not the payment delay relates to the whole exposure or a part thereof.

An exposure is considered as impaired, if the Group has objective evidence that it will not be able to recover the exposure in accordance with the underlying credit agreement. Objective indications of impairment were defined in accordance with recommendations of the Basel Committee and the International Accounting Standards(IAS 39) and Recommendation R.

Impairment is calculated on the basis of the estimated recoverable amount. Impairment analysis is performed using both the 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, to facilitate proper calculation of impairment, the Group compares the assumptions and parameters used for impairment calculations with the actual situation, taking into account changes of economic conditions, modifications in the Group's credit policies and recovery strategies to ensure adequacy of provisions. The responsibility for ensuring adequacy of the impairment charges rests with the Provisions Committee.

Impaired and delinquent exposures by industries as at 31.12.2016 (PLN k)

Industry structure	Impaired Original Exposures	Overdue original exposures	Adjustment for specific and general credit risk*	including: for impaired exposures*
Public sector	658	5 675	329	252
Retail (including mortgages)	2 822 638	5 984 623	2 752 794	2 289 596
Facilities management	1 116 709	1 341 184	446 276	406 796
Production sector	593 141	702 079	374 673	339 168
Distribution	845 649	1 016 661	495 629	443 693
Budownictwo	122 997	368 708	102 650	88 565
Agriculture	114 568	302 024	89 268	74 836
Transport	146 407	364 730	82 541	72 265
Financial sector	15 023	41 138	14 460	11 396
Energy sector	696 765	310 840	373 803	370 160
Other sectors	306 514	653 985	704 782	505 591
Total	**6 781 069**	**11 091 647**	**5 437 205**	**4 602 318**

*Pursuant to Commission Delegated Regulation (EU) No 183/2014 (supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, with regard to regulatory technical standards for specifying the calculation of specific and general credit risk adjustments), in calculation of its capital adequacy the bank takes into account specific and general credit risk adjustments by which the bank's Common Equity Tier 1 capital has been reduced in order to reflect losses exclusively related to credit risk according to the applicable accounting framework and recognised as such in the profit or loss account, irrespective of whether they result from impairments, value adjustments or provisions for off-balance sheet items. After an independent overview of the financial statements as at 30 June 2016 and obtaining the necessary approval of the Bank included part of the profit of the current period in the amount of PLN 688 513k own funds. Accordingly, included in this report adjustments for specific and general credit risk are consistent with the date indicated above.

** In accordance to above impaired exposures is higher than the impaired original exposures

Impaired and delinquent exposures by countries as at 31.12.2016 (PLN k)

Country	Impaired Original Exposures	Overdue original exposures	Adjustment for specific and general credit risk*	including: for impaired exposures*
Poland	6 749 320	11 035 957	5 419 200	4 586 001
Ireland	8 214	22 184	4 751	4 477
Liechtenstein	19 109	19 110	9 034	9 034
United Kingdom	844	4 904	506	265
Czech Republic	19	1 975	139	11
Sweden	1 629	1 631	1 622	1 622
USA	4	1 130	13	-
Italy	110	924	116	81
Germany	71	923	73	46
Spain	75	812	26	9
Other countries	1 674	2 097	1 725	772
Total	**6 781 069**	**11 091 647**	**5 437 205**	**4 602 318**

*Pursuant to Commission Delegated Regulation (EU) No 183/2014 (supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, with regard to regulatory technical standards for specifying the calculation of specific and general credit risk adjustments), in calculation of its capital adequacy the bank takes into account specific and general credit risk adjustments by which the bank's Common Equity Tier 1 capital has been reduced in order to reflect losses exclusively related to credit risk according to the applicable accounting framework and recognised as such in the profit or loss account, irrespective of whether they result from impairments, value adjustments or provisions for off-balance sheet items. After an independent overview of the financial statements as at 30 June 2016 and obtaining the necessary approval of the Bank included part of the profit of the current period in the amount of PLN 688 513k own funds. Accordingly, included in this report adjustments for specific and general credit risk are consistent with the date indicated above.

Reconciliation of changes to adjustments for impaired exposures as at 31.12.2016 (PLN k)

As at 31.12.2015	Provision charge	Claw-backs and adjustments	As at 31.12.2016
4 704 059	2 206 139	-2 307 880	4 602 318

*calculation of the exposure takes into account only those adjustments connected with general and specific risk which were applied to Tier 1 capital to reflect losses related to credit risk, in accordance with the applicable accounting standards, and disclosed accordingly in the income statement, regardless of whether they arise from impairment, value adjustment or provisions for off-balance sheet items.

Return on assets

As at 31 December 2016 the ROA was 1.5%, calculated as profit attributable to shareholders of the parent for four consecutive quarters to the average value of assets (at the beginning and at the end of the current reporting period).

4.3. Allocating risk weights to the credit portfolio

The risk weights used in the calculation of capital requirement for credit risk in the standardised approach are based on the provision of Chapter 2, Title II, Part III of the CRR. Risk weights are allocated in line with the category of the exposure and the credit quality of the exposure/entity.

The Group uses credit risk mitigation techniques both for funded credit protection and for unfunded credit protection. In the latter case, borrowers protected by guarantees are allocated a risk grade that corresponds to the risk grade of the guarantor. Most providers of unfunded credit protection are banks, including Bank Gospodarstwa Krajowego (with its “de minimis” guarantee programme) and the Ministry of Finance as a State unit.

In the case of funded credit protection, Bank Zachodni WBK Group recognizes exposures secured by financial collateral.

Defaulted exposures have their risk weight allocated in accordance with the rules laid down in Article 127 of the CRR.

The Group has identified retail exposures that are fully secured on residential properties, applying a preferential risk weight of 35% to them (in accordance with Article 125(1) of the CRR). Bank Zachodni WBK has not identified exposures effectively secured by mortgage on a commercial property, to which preferential risk weights are applied in accordance with Article 126.

Pursuant to the KNF recommendation, Bank Zachodni WBK Group assigns a risk weight of 100% to exposures which are fully secured with a mortgage on a residential property which is or will be self-occupied or let out where a principal or interest instalment depends on changes in the exchange rate of currency or currencies other than the currency of the debtor's revenue. From the perspective of currency risk, the key category of foreign currency retail loans which are fully secured with a mortgage on a residential property are CHF-denominated loans. Bank Zachodni WBK Group actively manages the CHF position using derivative instruments (swaps) and direct funding in the form of loans and repo transactions.

According to the decision of the Financial Supervision Authority dated 15 December 2016 Bank Zachodni WBK S.A. Group keeps own funds in order to cover capital add-on requirements for the risk arising from foreign currency mortgages to households at 0.63 p.p. in excess of the total capital ratio, having the following composition: Tier 1 capital - no less than 75% (which corresponds to the capital requirement at 0.47 p.p. in excess of the Tier 1 capital ratio) and Common Equity Tier 1 capital - no less than 56% (which corresponds to the capital requirement at 0.35 p.p. in excess of Common Equity Tier 1).

Another significant issue from the perspective of the bank's and the Group's capital adequacy is a systemic solution to the problem of foreign currency home loans proposed by legislative, executive and regulatory authorities. The bank's capital adequacy assessment takes into account possible introduction of a higher risk weight of 150%. The impact of the potential change on the bank's capital ratio is estimated at 0.93 pp.

As at 31 December 2016, the Group's debt instruments portfolio included PLN **2 106 805k** worth of bonds of Bank Gospodarstwa Krajowego, which were fully guaranteed by the State Treasury. They were allocated a preferential risk weight of 0%.

Credit risk and counterparty credit risk exposures by type of collateral as at 31.12.2016 (PLN k)

No.	Exposure Class	Exposures secured by financial collateral	Exposures secured by guarantees
1.	Exposures to central governments or central banks	-	-
2.	Exposures to regional governments or local authorities	-	-
3.	Exposures to public sector entities	-	-
4.	Exposures to multilateral development banks	-	-
5.	Exposures to institutions	141 324	2 106 805
6.	Exposures to corporates	258 877	1 560 485
7.	Retail exposures	25 084	739 662
8.	Exposures secured by mortgages on immovable property	35 602	88 779
9.	Exposures in default	1 351	68 395
10.	Exposures associated with particularly high risk	-	-
11.	Exposures in the form of units or shares in collective investment undertakings	-	-
12.	Equity exposures	-	-
13.	Other items	-	-
	Total exposures covered by the standardised approach	**462 238**	**4 564 126**

In each asset class, appropriate risk weight is allocated depending on the available credit rating of external rating institutions or export credit agencies. The Bank accepts ratings of the following agencies:

- Fitch Ratings;
- Moody's Investors Service;
- Standard and Poor's Ratings Services.

If two credit ratings are available for an exposure and the ratings are linked to different risk weight of the particular exposure, the Bank uses the higher risk weight. If for an exposure 3 or more credit ratings are available, the Bank uses two ratings with the lowest risk weights and if the two are different, the higher risk weight is applied.

Credit risk and counterparty credit risk exposures by risk weights as at 31.12.2016 (PLN k)

No.	Exposure Class	Risk Weightings								
		0%	20%	35%	50%	75%	100%	150%	250%	Total
1.	Exposures to central governments or central banks	28 574 017	448 927	-	-	-	-	-	-	29 022 944
2.	Exposures to regional governments or local authorities	-	176 652	-	-	-	-	-	-	176 652
3.	Exposures to public sector entities	-	-	-	2 825	-	-	-	-	2 825
4.	Exposures to multilateral development banks	3 713	-	-	-	-	-	-	-	3 713
5.	Exposures to institutions*	2 372 814	3 773 283	-	1 535 817	-	33 149	-	-	7 715 063
6.	Exposures to corporates	344 019	19 028	-	1 456 315	-	31 326 320	380 001	-	33 525 683
7.	Retail exposures	764 746	-	-	-	43 940 761	-	-	-	44 705 507
8.	Exposures secured by mortgages on immovable property	124 381	-	9 278 154	-	-	39 929 137	-	-	49 331 672
9.	Exposures in default	69 747	-	-	-	-	5 854 098	857 224	-	6 781 069
10.	Exposures associated with particularly high risk	-	-	-	-	-	-	25 404	-	25 404
11.	Exposures in the form of units or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-
12.	Equity exposures	-	-	-	-	-	841 592	-	865 995	1 707 587
13.	Other items	2 156 135	106 835	-	-	-	1 786 477	-	1 601 588	5 651 035
	Total exposures covered by the standardised approach	34 409 572	4 524 725	9 278 154	2 994 957	43 940 761	79 770 773	1 262 629	2 467 583	178 649 154

*including exposure for pre-funded contribution to the default fund of a qualifying central counterparty

There are not many companies on the Polish market which have a credit rating from the agencies listed above. As a result, 78.17% of the exposures presented below do not have a credit quality rating.

Credit risk and counterparty credit risk exposures by credit rating as at 31.12.2016 (PLN k)

No.	Exposure Class	Credit quality step							
		1	2	3	4	5	6	N/A	Total
1.	Exposures to central governments or central banks	4 153	20 343 966	-	-	-	-	8 674 825	29 022 944
2.	Exposures to regional governments or local authorities	-	-	-	-	-	-	176 652	176 652
3.	Exposures to public sector entities	-	-	-	-	-	-	2 825	2 825
4.	Exposures to multilateral development banks	-	-	-	-	-	-	3 713	3 713
5.	Exposures to institutions*	332 771	6 309 782	517 511	39 285	2 486	-	513 228	7 715 063
6.	Exposures to corporates	-	-	3 548 639	1 353 343	380 000	-	28 243 701	33 525 683
7.	Retail exposures	-	-	-	-	-	-	44 705 507	44 705 507
8.	Exposures secured by mortgages on immovable property	-	107 187	-	465 707	-	-	48 758 778	49 331 672
9.	Exposures in default	-	-	-	-	-	-	6 781 069	6 781 069
10.	Exposures associated with particularly high risk	-	-	-	-	-	-	25 404	25 404
11.	Exposures in the form of units or shares in collective investment undertakings	-	-	-	-	-	-	-	-
12.	Equity exposures	-	-	-	-	-	-	1 707 587	1 707 587
13.	Other items	-	-	-	-	-	-	5 651 035	5 651 035
	Total exposures covered by the standardised approach	336 924	26 760 935	4 066 150	1 858 335	382 486	0	145 244 324	178 649 154

*including exposure for pre-funded contribution to the default fund of a qualifying central counterparty

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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.

On 1 January 2016, the minimum capital ratios for the banking sector in Poland were increased by 1.25 p.p. due to introduction of a conservation buffer.

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

According to the decision of the Financial Supervision Authority dated 15 December 2016 Bank Zachodni WBK S.A. Group keeps own funds in order to cover capital add-on requirements for the risk arising from foreign currency mortgages to households at 0.63 p.p. in excess of the total capital ratio, having the following composition: Tier 1 capital - no less than 75% (which corresponds to the capital requirement at 0.47 p.p. in excess of the Tier 1 capital ratio) and Common Equity Tier 1 capital - no less than 56% (which corresponds to the capital requirement at 0.35 p.p. in excess of Common Equity Tier 1).

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.

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 31.12.2016
Total risk exposure amount [PLN k]	110 207 814
Institution specific countercyclical buffer rate [%]	0,00001
Institution specific countercyclical buffer requirement [PLN k]	15

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer [PLN k]

		General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements				Own funds requirements weights [%]	Countercyclical capital buffer rate [%]
No.	Country	Exposure value for SA	Exposure value for IRB	Sum of long and short position of trading book exposure for SA	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
1.	Poland	111 842 641	-	1 312 590	-	-	-	7 418 831	107	-	7 418 938	98,53164	0,00000
2.	Luksemburg	730 487	-	-	-	-	-	58 439	-	-	58 439	0,77613	0,00000
3.	United Kingdom	204 815	-	-	-	-	-	15 945	-	-	15 945	0,21176	0,00000
4.	Czech Republic	80 469	-	-	-	-	-	6 433	-	-	6 433	0,08544	0,00000
5.	Ireland	66 343	-	-	-	-	-	5 247	-	-	5 247	0,06968	0,00000
6.	Germany	53 603	-	-	-	-	-	4 186	-	-	4 186	0,05560	0,00000
7.	Netherlands	67 383	-	-	-	-	-	6 344	-	-	6 344	0,08425	0,00000
8.	Portugal	34 830	-	-	-	-	-	3	-	-	3	0,00004	0,00000
9.	Spain	19 921	-	-	-	-	-	1 556	-	-	1 556	0,02066	0,00000
10.	Slovakia	17 776	-	-	-	-	-	1 413	-	-	1 413	0,01877	0,00000
11.	Switzerland	13 539	-	-	-	-	-	1 081	-	-	1 081	0,01436	0,00000
12.	Liechtenstein	10 076	-	-	-	-	-	806	-	-	806	0,01071	0,00000
13.	Romania	8 102	-	-	-	-	-	648	-	-	648	0,00861	0,00000
14.	Italy	6 756	-	-	-	-	-	81	-	-	81	0,00108	0,00000
15.	France	5 516	-	-	-	-	-	348	-	-	348	0,00463	0,00000
16.	Mexico	4 596	-	-	-	-	-	368	-	-	368	0,00488	0,00000
17.	USA	81 744	-	-	-	-	-	6 532	-	-	6 532	0,08675	0,00000
18.	China	4 025	-	-	-	-	-	318	-	-	318	0,00423	0,00000
19.	Belgium	2 971	-	-	-	-	-	238	-	-	238	0,00316	0,00000
20.	Austria	1 872	-	-	-	-	-	149	-	-	149	0,00197	0,00000
21.	Ukraine	1 209	-	-	-	-	-	83	-	-	83	0,00110	0,00000
22.	Belarus	1 048	-	-	-	-	-	80	-	-	80	0,00107	0,00000
23.	Sweden	1 013	-	-	-	-	-	66	-	-	66	0,00088	1,50000
24.	New Zealand	523	-	-	-	-	-	42	-	-	42	0,00056	0,00000
25.	Turkey	310	-	-	-	-	-	19	-	-	19	0,00025	0,00000
26.	Hong Kong	8	-	-	-	-	-	-	-	-	-	0,00001	0,62500
27.	Norway	3	-	-	-	-	-	-	-	-	-	0,00000	1,50000
28.	Other countries	1 791	-	-	-	-	-	131	-	-	131	0,00171	0,00000
	Total	**113 263 370**	**0**	**1 312 590**	**0**	**0**	**0**	**7 529 387**	**107**	**0**	**7 529 494**	**100**	

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6. Capital adequacy

6.1. Capital adequacy management

It is the policy of the Bank Zachodni WBK Group to maintain the level of capital adequate to the type and scale of operations and the level of risk. The level of own funds required to ensure safe operations of Bank Zachodni WBK Group and capital requirements estimated for the unexpected loss is determined in accordance with the CRD IV / CRR package plus KNF recommendations regarding national options.

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

The Management Board delegated on-going capital management to Capital Committee. Capital Committee conducts regular assessment of capital adequacy of the Bank and the Group, also in extreme conditions, monitors the actual and required capital levels and initiates transactions affecting these levels (e.g. by recommending the value of dividends to be paid).

The Credit Committee is the first body in the bank to define capital policy and rules for assessment of capital adequacy both for the Bank and the Group. It also approves capital plans and sets out rules underpinning allocation of capital into individual segments when estimating profitability of the same. However, any ultimate decisions regarding increase or decrease of capital are taken by relevant authorities of the bank and subsidiaries in accordance with the applicable law and the Bank's Statutes.

Capital Policy

The capital management policy of BZ WBK Group stipulates the minimum capital ratios, taking into account regulatory requirements, applicable capital buffers and additional own fund requirements under Pillar 2.

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

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

Pursuant to KNF decision of 21 March 2014, the minimum regulatory capital ratios were increased to 9% for a Tier 1 capital ratio and 12% for a total capital ratio.

Pursuant to the KNF requirement of 23 October 2015, selected financial institutions shall maintain own funds at the level sufficient to cover an additional capital requirement for risk attaching to foreign currency home mortgages.

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

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

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

Dividend Policy

The letter of 21 December 2016 concerning the stance of the Financial Supervision Authority on banks' dividend policy in 2017, including the setting of criteria for the purpose of dividend payment from profit earned during the period from 1 January 2016 to 31 December 2016 and unallocated profits from the previous years.

According to KNF's recommendations a dividend of 50% of annual profit from 2016 may only be paid by banks which meet all of the basis criteria i.a.:

- Tier 1 capital ratio higher than the minimum value of this ratio plus safety buffer, i.e.:
  - banks classified as O-SIIs which have Tier 1 capital ratio of more than 13.25% + 75%*add-on + O-SII buffer;
  - other commercial banks which have Tier 1 capital ratio of more than 11.25% + 75%*add-on;
- total capital ratio of more than 13.25%+ add-on + O-SII buffer.

Additionally, KNF's recommendations on payment of dividends from annual profits 2016 impose on banks which are significantly involved in foreign currency mortgages to households an obligation to adjust the dividend payment rate using new additional criteria:

Criterion 1: share of fx mortgage loans in loans for nonfinancial sector
- share >10% - dividend reduction by 20%
- share >20% - dividend reduction by 30%
- share >30%- dividend reduction by 50%

Criterion 2: share of fx mortgage loans sanctioned in 2007-2008 in total fx mortgage loans
- share >20% - dividend reduction by 30%
- share >50% - dividend reduction by 50%

The bank should meet the criteria for dividend payment for the last reporting date before the decision on payment.

Taking into account the involvement of Bank Zachodni WBK in foreign currency mortgages to households the adjustment of the dividend payment rate due to the first criterion is 20% and due to the second criterion and is 50%.

At the date of this report, the Management Board has not made a decision on the payment of dividends from both the annual profit earned in 2016 and retained earnings generated in the years 2014 and 2015.

6.2. Regulatory capital adequacy

Pursuant of Article 92 of CRR, total capital ratio is determined on the basis of own funds and total capital requirements multiplied by 12.5.

The capital requirement for Bank Zachodni WBK Group as at 31.12.2016 was determined in accordance with Regulation no. 575/2013 of the European Parliament and the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms as well as KNF recommendations regarding national options.

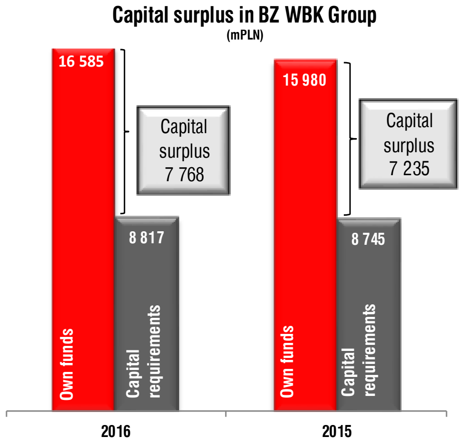
The capital requirements for credit, market and operational risks were calculated using a standardised approach. The capital requirement for credit risk is the most significant one.

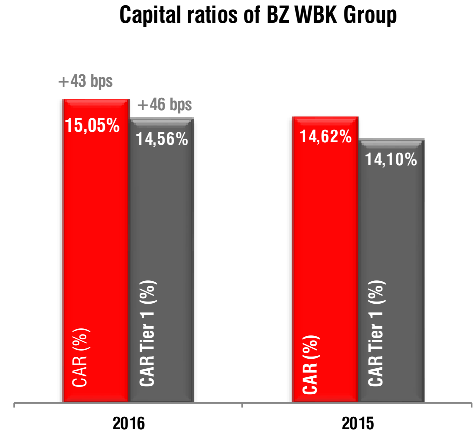
The value of asset exposure is the carrying value of the asset after adjustments for specific credit risk, additional value adjustments and other own fund deductions related to a particular asset. The off-balance sheet exposure is the percentage of the nominal value less adjustments for specific credit risk.

Taking into account total capital requirements of PLN **8 816 626k** as at 31 December 2016 and own funds of PLN **16 584 814k**, the capital ratio of Bank Zachodni WBK Group is **15.05%.**

The total capital ratio as at 31 December 2016 vs. 31 December 2015 was impacted by the following:
- increase in capital reserves as a consequence of profit distribution;
- allocation of the undistributed profit for 2015 to Tier 1 capital;
- amendment of the terms and conditions of issue of subordinated bonds allocated to Tier 2 supplementary capital;
- increase in the value of risk weighted assets for credit risk arising from the business activity and reduction of capital requirements for counterparty risk and CVA through the recognition of contractual netting in accordance with Articles 295-298 of the CRR.

Capital adequacy of Bank Zachodni WBK Group in 2015 - 2016





6.3. Internal capital adequacy

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

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

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

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

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

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

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

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7. Securitization

SCB securitized cash loans portfolio in August 2016. The transaction was a traditional and revolving one and consisted in transferring the right to securitized receivables to SC Poland Consumer 16-1 Sp. z o. o. (SPV3), with a registered office in Poland. On the basis of the securitized assets, the aforesaid company issued bonds secured in the form of a registered pledge on the assets of SPV3. SCB granted the company a subordinated loan to support the transaction.

On the basis of securitized assets, the SPV3 company issued bonds of total value of PLN 1 225 000k secured by registered pledge on SPV3's estate. As a result of securitization, the SCB Bank received funding of activity in exchange for giving the rights to future flows resulting from securitized loan portfolio. In order to support the funding of transaction, the SCB Bank granted a subordinated loan to SPV3. The loan is subordinated with regard to senior and covered bonds.

The SCB Bank does not perform trading activity, therefore, both securitization positions and securitized portfolio are included in the banking book. Moreover, the SCB Bank does not use hedging and unfunded protection in order to mitigate the risk related to maintained securitization exposures.

Within the securitization transaction with significant risk transfer (hereinafter referred to also as "SRT transaction") performed in 2016, the SCB Bank received funds with the use of assets in the form of loans granted by the SCB Bank, thus improving its financial liquidity.

Tranche Amount Status

Tranche	Amount (PLN k)	Status
A (superior)	1 000 000	Acquired by external investor
B1 (mezzanine)	140 625	Acquired by external investor
B2 (mezzanine)	84 375	Acquired by external investor
Subordinated loan	37 250	Retained*
Total	1 262 250	

* decreasing the Bank's own funds according to Art. 36 clause 1 point k) of CRR

The contractual terms of securitisation do not satisfy the criteria for derecognition of securitised assets from the bank's balance sheet pursuant to IAS 39. Therefore, the Bank recognizes securitized assets in the item Loans granted to clients. At the same time, the SCB Bank recognizes liability for securitization flows in the item Liabilities towards clients. Both the securitized portfolio and securitization positions are estimated according to the amortized cost method, in line with IAS 39. In relation to the fact that the securitized portfolio is not subject to derecognition from the SCB Bank's balance sheet, it is subject to standard procedures of monitoring and managing credit and market risk, in line with the policies and procedures applicable at the Bank.

Securitized portfolio within SRT Transaction

as of the day of transaction launch	Portfolio value (PLN k)
securitized portfolio (cash loans)	1 250 000

Within the SRT transaction, the Bank decreased the common equity Tier 1 by securitization positions maintained as part of SRT transaction according to Art. 36 clause 1. point k) of CRR Regulation, therefore fulfilling the conditions of recognising the significant risk transfer according to Art. 243 clause 1 point b) of CRR Regulation. Moreover, pursuant to Art. 243 and 245 of CRR Regulation, the SCB Bank excluded securitized exposures from calculations of amounts of risk-weighted assets.
The SCB Bank fulfils the requirement to maintain significant net economic share according to rules described in Chapter 5 of Part Three of CRR Regulation.

The main objectives of the SCB Bank related to securitization activity include the following:

- obtaining liquidity - securitization enables to exchange non-liquid assets for liquid assets and to obtain funding through sale or pledge of these liquid assets;
- diversification of funding lines - liquidity obtained from securitization enables diversification due to the length of funding and the product;
- optimization of use of the Bank's capital - through securitization transactions, the Bank can reduce the risk-weighted assets and optimize exposure to credit risk.

The Bank's role in securitization transactions is limited to being an initiator of transaction. In addition, the Bank fulfils a service role with regard to the securitized portfolio.

Risks related to securitization transactions include:

- credit risk - the risk of deterioration in securitized assets quality;
- risk of loan prepayment - the risk of early repayment of total or part of securitized assets;
- basis risk - the risk of mismatch of tenor or interest rate index of securitized assets and securitization positions;
- liquidity risk - the Bank's liquidity risk decreases as a result of securitization due to exchange of non-liquid assets for liquid assets and adjusting the funding structure to assets.

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8. Remuneration Policy

Bank Zachodni WBK Group has adopted the following remuneration policies:

- Remuneration Policies for BZ WBK Supervisory Board Members,
- Remuneration Policies for BZ WBK Management Board Members,
- Remuneration Policy for individuals holding managerial positions in Bank Zachodni WBK,
- Policy on variable components of remuneration paid to individuals holding managerial positions in BZ WBK Group.

The above-mentioned documents set out the provisions required by law, in particular the rules for calculation of fixed and variable remuneration components, the criteria for payment of variable remuneration, and the list of available remuneration components (fixed and variable, long-term incentive schemes etc.).

In Bank Zachodni WBK Group there are general regulations in place which apply to all employees, including material risk takers, and specific regulations which refer to the latter group only.

The material risk takers are also covered by the **Policy on variable components of remuneration paid to individuals holding managerial positions in BZ WBK Group** and the corresponding regulations adopted by subsidiaries. The Policy is reviewed annually or more frequently if any significant organisational changes take place.

Definition of remuneration policy: decision-making process

Regulations regarding payment of variable remuneration applicable to all employees of the bank are introduced by way of an ordinance of the Management Board Member in charge of the Business Partnership Division. The Policy on variable components of remuneration paid to individuals holding managerial positions in BZ WBK Group is adopted by the Management Board and approved by the Supervisory Board. The resolutions agreed by the Supervisory Board refer to fixed and variable components of remuneration for the Management Board Members. In the case of other employees, the bonus regulations are reviewed by the Remuneration and Nominations Committee and approved by the Management Board Member in charge of the Business Partnership Division.

The Remuneration and Nominations Committee of the bank's Supervisory Board is responsible for, among other things, reviewing the proposed regulations regarding remuneration.

The Remuneration and Nominations Committee supports the Supervisory Board with respect to:

- succession planning for Management Board Members;
- submission of recommendations to the Supervisory Board regarding the composition of the Management Board;
- overall monitoring of remuneration practices and levels;
- submission of recommendations to the Supervisory Board regarding fair and competitive remuneration policies and practices which effectively incentivise the Management Board Members and senior executives.

In 2016, the Remuneration and Nominations Committee convened 6 times.

In the period from 1 January to 31 December 2016, the composition of the Committee was as follows:

- Committee Chairman – Gerry Byrne;
- Committee Members: Danuta Dąbrowska, Witold Jurcewicz, José Luis de Mora, Jerzy Surma.

Three members held an independent status: Danuta Dąbrowska, Witold Jurcewicz and Jerzy Surma.

The remuneration policy of Bank Zachodni WBK satisfies the criteria for identification of persons who have a material impact on the bank's risk profile within the meaning of the Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile.

Relationship between remuneration and performance

All employees of the bank are covered by bonus schemes which determine the payment of variable remuneration. In each scheme, bonus payment and its amount depend on delivery of specific business objectives.

The business objectives are linked to the results of a given area or the bank as a whole in the case of support units. Variable remuneration paid to front-office units additionally takes into account individual performance of respective employees.

Characteristics of the remuneration system and performance criteria for vesting shares, share options or variable remuneration components

The remuneration system is composed of fixed and variable remuneration.

Fixed remuneration is linked to an employee's grade. For each grade, pay brackets are defined on the basis of a payroll report prepared each year by leading consultancies.

Variable remuneration depends on a bonus scheme relevant to a given employee. Bonus payment under a particular scheme is conditioned upon delivery of specific business objectives (growth rate or value of profit before tax or profit after tax). One of the objectives set for business units is to achieve a stated RoRWA ratio.

Variable remuneration components (including shares and phantom shares) are awarded in accordance with bonus regulations applicable to specific employees.

As regards employees with a material impact on the bank's risk profile, the bank applies a policy which satisfies the KNF guidelines, where at least 50% of variable remuneration is paid in the form of capital market instruments. In the case of the bank, these are phantom shares. In addition, at least 40% of variable remuneration is deferred for the period of three years, and payment of each deferred portion is determined by the absence of negative premises that would prevent from or reduce the amount of payment.

Variable remuneration components also include long-term (three-year) incentive schemes addressed to key employees of the bank. The award is granted in the form of BZ WBK shares (new issue) provided that certain business criteria defined in the terms of the Programme have been met.

Relationship between fixed and variable remuneration

The relationship between fixed and variable remuneration depends on a bonus scheme relevant to a given employee, delivery of business objectives and the awarded bonus amount. Another factor is whether an employee is covered by a long-term incentive scheme. If the minimum business objectives are not met, an employee may not be entitled to variable remuneration at all.

The total amount of variable remuneration for a given calendar year paid to staff whose professional activities have a material impact on the risk profile may not exceed 200% of fixed remuneration paid for a given calendar year.

Key parameters of variable remuneration

The overall objective of the remuneration system developed by the bank was to acquire and retain professionals who have the required qualifications to deliver all strategic processes.
As a consequence, a number of bonus schemes have been put in place in relation to specific staff categories, in particular front-office and back-office employees. Individual bonus schemes set out different criteria which determine bonus payment and amount. They also differ in terms of target bonus levels that a given employee is eligible for as well as frequency of payments.

Summary information on the 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
Fixed remuneration***	10 361	4 790	2 031	3 768	10 120	20 045	**51 115**
Variable Rremuneration****	6 910	1 271	647	1 092	3 214	6 446	**19 580**
TOTAL	**17 271**	**6 061**	**2 678**	**4 860**	**13 334**	**26 491**	**70 695**

*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.

**Including Management Board members and other executives of subsidiaries.

*** Fixed remuneration takes into account an allowance of PLN 353 841.51 in lieu of annual leave (PLN 199 047.40 paid to the Management Board members and PLN 154 794.11 paid to other executives and subsidiaries, respectively). It does not include additional benefits, though.

**** Variable remuneration paid in 2016. As at the date of report preparation, data about variable remuneration components for the accounting year were not available.

Data also refer to the former employees covered by the policy on variable components of remuneration.

The figures relating to variable remuneration components for 2016 will be published along with the information about the capital adequacy of BZ WBK Group for H1 2017.

The amounts of remuneration for 2016 split into fixed and variable remuneration (PLN k)

	Headcount	Fixed remuneration for 2016****	VARIABLE REMUNERATION PAID IN 2016							
			Deferred bonus for 2012	Deferred bonus for 2013	Deferred bonus for 2014	Deferred bonus for 2015**	VARIABLE REMUNERATION FOR 2016			
							Headcount	Bonus for 2016*	Non-redeemed phantom shares (number of phantom shares)	Long-term performance share programme completed in 2014 (number of BZ WBK shares) ******
Management Board***	12	10 361	1 005	862	2 258	2 785	-	-	11 633	6 394
Other persons holding managerial positions*****	113	40 754	527	541	3 765	7 837	-	-	22 193	10 482
TOTAL	**125**	**51 115**	**1 532**	**1 403**	**6 023**	**10 622**	**-**	**-**	**33 826**	**16 876**

* At the report preparation date, no data on variable components of remuneration for the financial year.

** The portion paid in 2016 for 2015, not deferred. Contains phantom shares cashed in the financial year.

*** 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.

**** Fixed remuneration takes into account an allowance of PLN 353 841.51 in lieu of annual leave (PLN 199 047.40 paid to the Management Board members and PLN 154 794.11 paid to other executives and subsidiaries, respectively). It does not include additional benefits, though.

***** Including subsidiaries (Management Board members and other executives).

****** Number of shares alloted to an employee as part of the long-term Performance Share Programme.

Data also refer to the former employees covered by the policy on variable components of remuneration.

The amount of variable remuneration from previous years not payable yet – shares

	BONUS DEFERRED (2012/2013/2014/2015) remuneration not payable yet	
	In phantom shares (number of phantom shares)	Long-term performance share programme launched in 2014 (number of shares)*
Management Board**	14 332	6 127
Other persons holding managerial positions**	21 943	10 482
TOTAL	**36 275**	**16 609**

* Maximum amount, subject to meeting business criteria during the programme.

** 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.

*** Including subsidiaries (Management Board members and other executives).

Data also refer to the former employees covered by the policy on variable components of remuneration.

In 2016, no reductions were made in the deferred remuneration payable to persons holding managerial positions on account of the adjustment related to the results.

New sign-on and severance payments in 2016 (PLN k)

	Area	Headcount	PAYMENT AMOUNT	Highest severance pay
New sign-on made in 2016	Management Board	-	-	-
	Other management persons	-	-	-
Severance pay in 2016	Management Board*	2	1 092	708
	Other persons holding managerial positions	-	-	-
Amounts of severance payments awarded	Management Board	-	-	-
	Other management persons	-	-	-

* 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.

In the reporting period none of employees of Bank Zachodni WBK Group received remuneration above 1m EUR.

In 2016, two material risk takers signed employment contracts while seven material risk takers terminated their relationship with the bank (two of them received a severance pay).

Detailed information regarding the remuneration paid to the Management Board Members is presented in note 48 of the Consolidated Financial Statements of Bank Zachodni WBK Group for 2016.

5th Incentive Scheme

The Extraordinary General Meeting of 30 June 2014 introduced a three-year 5th Incentive Scheme for bank and subsidiary employees that have a key contribution to the value of the organisation. The main objective of the programme starting in 2014 is to retain and motivate the top-performing executives.

The Incentive Scheme covers all Management Board Members of the bank and no more than 500 key employees of Bank Zachodni WBK Group indicated by the Management Board and approved by the Supervisory Board. Having executed an agreement with the bank, the participants are eligible to subscribe for and acquire a defined number of shares at the nominal value of PLN 10 per share provided that certain economic criteria are met. For the award to be granted, the bank must achieve a stated net profit growth rate in 2014-2016. Persons who are covered by the EU's regulations on variable remuneration components and have a significant impact on the risk profile of the Group are additionally required to achieve a stated RoRWA ratio in the respective years of the programme. For the purpose of the scheme, the bank will issue up to 250,000 performance shares.

The three-year long 5th Incentive Scheme is monitored to check if any of employees have lost their participant status. The usual reason for the loss of such status is a termination of employment, either with the bank or another entity of BZ WBK Group. Between 1 January 2016 - 31 December 2016, 48 of analysed employees lost his participant status.

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9. 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. Those rules provide for an observation period that will run from 1 January 2013 until 1 January 2017 during which the leverage ratio, its components and its behavior relative to the risk-based requirement will be monitored. Based on the results of the observation period the BCBS intends to make any final adjustments to the definition and calibration of the leverage ratio in the first half of 2017, with a view to migrating to a binding requirement on 1 January 2018 based on appropriate review and calibration. The BCBS guidelines also provide for disclosure of the leverage ratio and its components starting from 1 January 2015.

Considering the above and having regard to the legal aspects of the introduction of a leverage ratio, ie. Articles 511 CRR, the European Commission will present to the European Parliament and the Council a report on the impact and effectiveness of the leverage ratio. Where appropriate, the report shall be accompanied by a legislative proposal on the introduction of an appropriate number of levels of the leverage ratio that institutions following different business models would be required to meet.

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) 2015/62 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.

A reference day for the following data is 31 December 2016. Presented leverage ratio is calculated in relation to Tier 1 capital phase in definition. Bank Zachodni WBK Group disclose the information on sub-consolidated basis. Fiduciary items are not eliminated from the total leverage ratio exposure.

Summary reconciliation of accounting assets and leverage ratio exposures as at 31.12.2016 (PLN k)

		Applicable Amounts
1	Total assets as per published financial statements	150 099 717
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	129 029
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	538 970
5	Adjustments for securities financing transactions "SFTs"	103 565
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	5 469 293
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	(3 932 386)
8	**Total leverage ratio exposure**	**152 408 188**

Leverage ratio common disclosure as at 31.12.2016 (PLN k)

		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)	146 953 662
2	(Asset amounts deducted in determining Tier 1 capital)	(2 584 306)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	144 369 356
	Derivative exposures	
4	Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	1 045 273
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	1 420 702
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)**	2 465 975
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	103 054
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	511
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)**	103 565
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	27 275 033
18	(Adjustments for conversion to credit equivalent amounts)	(21 805 740)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	5 469 293
	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**	16 051 632
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	152 408 188
	Leverage ratio	
22	**Leverage ratio**	10,53%
	Choice on transitional arrangements and amount of derecognised fiduciary items	
EU-23	Choice on transitional arrangements for the definition of the capital measure	"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 bank 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 31 December 2016, the leverage ratio of Bank Zachodni WBK Group totalled 10.53% and was three-fold higher than the minimum requirement of 3%. The factors determining the financial leverage were PLN 688 513k worth of profit generated in the current period which was taken to own funds while increasing of total assets.

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10. Encumbered assets and unencumbered assets

An asset is treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure or credit-enhance any on-balance-sheet or off-balance-sheet transaction from which it cannot be freely withdrawn (for instance, to be pledged for funding purposes).

Assets of Bank Zachodni WBK Group as at 31.12.2016 (PLN k)

	Carrying amount of encumbered assets*	Fair value of encumbered assets	Carrying amount of unencumbered assets*	Fair value of unencumbered assets
Assets of the reporting institution	8 346 159		141 754 177	
Equity instruments	-	-	893 086	893 086
Debt securities	4 046 059	4 046 059	26 702 048	26 702 048
Other assets	4 300 100		114 159 043	

* Total assets is presented in accordance with the prudential consolidation (CRR 575/2013).

Encumbered assets/collateral received and associated liabilities as at 31.12.2016 (PLN k)

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds
Carrying amount of selected financial liabilities	8 579 614	8 346 159

As at 31.12.2016 there is no collateral received or own debt securities issued available for encumbrance.