2018

INTERIM CONSOLIDATED REPORT OF BANK BGŻ BNP PARIBAS S.A. CAPITAL GROUP

for the first quarter ended 31 March 2018

BGŻ BNP PARIBAS

The bank for a changing world

LIST OF CONTENTS

SELECTED CONSOLIDATED FINANCIAL DATA

Selected consolidated financial data

	in PLN '000		in EUR '000	
STATEMENT OF PROFIT OR LOSS	**31.03.2018 (YTD)**	31.03.2017 (YTD)	**31.03.2018 (YTD)**	31.03.2017 (YTD)
Net interest income	**449,912**	466,815	107,676	108,838
Net fee and commission income	**120,674**	127,825	28,880	29,802
Profit before tax	**121,194**	79,455	29,005	18,525
Profit after tax	**85,458**	39,563	20,452	9,224
Total comprehensive income	**92,322**	113,859	22,095	26,546
Total net cash flows	**(726,479)**	(132,340)	(173,865)	(30,855)
RATIOS				
Number of shares (items)	**84,238,318**	84,238,318	84,238,318	84,238,318
Earnings per share	**1.01**	0.47	0.24	0.11
BALANCE SHEET	**31.03.2018**	31.12.2017	**31.03.2018**	31.12.2017
Total assets	**71,920,674**	72,749,259	17,089,384	17,442,101
Loans and advances to customers measured at amortised cost	**49,500,358**	52,967,568	11,761,995	12,699,314
Loans and advances to customers measured at fair value through profit or loss	**2,750,954**	-	653,666	-
Total liabilities	**65,586,917**	66,189,796	15,584,393	15,869,428
Liabilities due to customers	**55,116,570**	56,328,897	13,096,488	13,505,214
Share capital	**84,238**	84,238	20,016	20,197
Total equity	**6,333,757**	6,559,463	1,504,992	1,572,673
CAPITAL ADEQUACY	**31.03.2018**	31.12.2017	**31.03.2018**	31.12.2017
Total own funds	**7,693,346**	7,696,324	1,828,049	1,845,243
Total risk exposure	**55,837,059**	55,988,130	13,267,687	13,423,513
Total capital ratio	**13.78%**	13.75%	13.78%	13.75%
Tier 1 capital ratio	**10.82%**	10.81%	10.82%	10.81%

Selected separate financial data

	in PLN '000		in EUR '000	
STATEMENT OF PROFIT OR LOSS	**31.03.2018 (YTD)**	31.03.2017 (YTD)	**31.03.2018 (YTD)**	31.03.2017 (YTD)
Net interest income	**444,902**	462,348	106,477	107,796
Net fee and commission income	**113,596**	116,342	27,186	27,125
Profit before tax	**126,226**	94,663	30,209	22,071
Profit after tax	**89,265**	55,874	21,363	13,027
Total comprehensive income	**96,141**	130,168	23,009	30,349
Total net cash flows	**(726,349)**	(112,253)	(173,834)	(26,172)
RATIOS	**31.03.2018**	31.03.2017	**31.03.2018**	31.03.2017
Number of shares (items)	**84,238,318**	84,238,318	84,238,318	84,238,318
Earnings per share	**1.06**	0.66	0.25	0.15
BALANCE SHEET	**31.03.2018**	31.12.2017	**31.03.2018**	31.12.2017
Total assets	**70,788,955**	71,897,892	16,820,472	17,237,980
Loans and advances to customers measured at amortised cost	**48,495,533**	52,195,203	11,523,235	12,514,134
Loans and advances to customers measured at fair value through profit or loss	**2,750,954**	-	653,666	-
Total liabilities	**64,442,618**	65,336,633	15,312,491	15,664,876
Liabilities due to customers	**57,438,917**	58,658,067	13,648,311	14,063,647
Share capital	**84,238**	84,238	20,016	20,197
Total equity	**6,346,337**	6,561,259	1,507,981	1,573,104
CAPITAL ADEQUACY	**31.03.2018**	31.12.2017	**31.03.2018**	31.12.2017
Total own funds	**7,738,388**	7,699,319	1,838,752	1,845,961
Total risk exposure	**55,024,952**	55,307,981	13,074,718	13,260,443
Total capital ratio	**14.06%**	13.92%	14.06%	13.92%
Tier 1 capital ratio	**11.06%**	10.95%	11.06%	10.95%

For purposes of data translation into EUR, the following exchange rates are used by the Bank:

For items of the statement of financial position, rates of the National Bank of Poland are applied:
- as at 31.03.2018 - EUR 1 = PLN 4.2085
- as at 31.12.2017 - EUR 1 = PLN 4.1709

For items of the statement of profit or loss and the statement of cash flows, the EUR exchange rate is calculated as the arithmetic mean of the rates published by the National Bank of Poland as at the last day of each month in the period:
- for the period from 1.01.2018 to 31.03.2018 - EUR 1 = PLN 4.1784
- for the period from 1.01.2017 to 31.03.2017 - EUR 1 = PLN 4.2891

I INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Interim condensed consolidated statement of profit or loss

	Note	1Q 2018 from 01.01.2018 to 31.03.2018	1Q 2017 from 01.01.2017 to 31.03.2017
Interest income	8	635,030	652,353
Interest expenses	8	(185,118)	(185,538)
Net interest income		449,912	466,815
Fee and commission income	9	149,714	151,883
Fee and commission expenses	9	(29,040)	(24,058)
Net fee and commission income		**120,674**	**127,825**
Dividend income		25	23
Net trading income	10	75,412	65,661
Result on investment activities	11	8,393	984
Result on fair value hedge accounting		1,516	821
Net impairment losses on financial assets and contingent liabilities	12	(62,354)	(85,999)
General administrative expenses	13	(380,088)	(388,959)
Depreciation and amortization	14	(40,933)	(47,891)
Other operating income	15	38,683	23,797
Other operating expenses	16	(40,011)	(31,547)
Operating result		**171,229**	**131,530**
Tax on financial institutions		(50,035)	(52,075)
Profit before tax		**121,194**	**79,455**
Income tax expense	17	(35,736)	(39,892)
Net profit for the period		**85,458**	**39,563**
attributable to equity holders of the Bank		85,458	39,563
EARNINGS PER SHARE (IN PLN PER ONE SHARE)			
Basic		1.01	0.47
Diluted		1.01	0.47

Interim condensed consolidated statement of comprehensive income

	1Q 2018 from 01.01.2018 to 31.03.2018	1Q 2017 from 01.01.2017 to 31.03.2017
Net profit for the period	**85,458**	**39,563**
OTHER COMPREHENSIVE INCOME		
ITEMS THAT WILL BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS UPON FULFILMENT OF CERTAIN CONDITIONS	**7,000**	**74,607**
Measurement of financial assets available for sale	9,330	92,108
Deferred income tax	(2,330)	(17,501)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**(136)**	**(311)**
Actuary valuation of employee benefits	(174)	210
Deferred income tax	38	(521)
OTHER COMPREHENSIVE INCOME (NET)	**6,864**	**74,296**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**92,322**	**113,859**
attributable to equity holders of the Group	92,322	113,859

The financial data of the Bank BGŻ BNP Paribas S.A. Capital Group as at 31 March 2018 pertains to the following companies: Bank BGŻ BNP Paribas S.A, TFI BGZ BNP Paribas S.A., Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o., BNP Paribas Leasing Services Sp. z o.o., BNP Paribas Group Service Center S.A. and BGZ Poland ABS1 Designated Activity Company.

In December 2017, the Bank sold 100% of shares in BGŻ BNP Paribas Faktoring Sp. z o.o. (i.e. 20,820 shares with a total value of PLN 10,410 thousand), representing 100% of the share capital and 100% of votes at the general meeting of shareholders of the company, for a total price of: PLN 10,410 thousand for the benefit of BNP Paribas S.A., a French joint-stock company (Societe Anonyme), based in Paris, operating through the BNP Paribas S.A. Branch in Poland, with headquarters in Warsaw. After closing the transaction, both the Bank and BGŻ BNP Paribas Faktoring Sp. z o.o. continue their existing cooperation, supporting the Bank's clients with a wide range of high-quality factoring services.

The sale and deconsolidation, being a consequence of the sale (i.e., not including the sold shares in the consolidated financial statements, in the income statement nor in the balance sheet as at 31 March 2018) both affect the comparability of the results with the first quarter of 2017.

In December 2017, the Bank carried out a securitization transaction on the portfolio of cash and car loans. The transaction was a traditional securitization involving the transfer of ownership of the securitized receivables to SPV (BGZ Poland ABS1 DAC based in Ireland). The Group has no capital involvement in this entity nor is related to it organisationally. The subject of the company's activities is limited in the manner described in article 92a paragraph 4 of the Banking Law. The sole activity of this entity is the acquisition of receivables and issuance of securities.

Pursuant to the concluded agreements, the Bank transferred receivables from the portfolio of loans and cash advances and car loans granted in the Polish currency to the SPV. Subsequently, the SPV issued securities and took out a loan secured by the above-mentioned receivables.

The SPV is consolidated for the purposes of preparation of the consolidated financial statements of the Group for the first quarter ended 31 March 2018. This fact affects the comparability of results with the first quarter of 2017.

The Bank BGŻ BNP Paribas S.A. Capital Group generated a net profit of PLN 85,458 thousand in the first quarter of 2018, i.e. more than twice as much as in the first quarter of 2017 (PLN 39,563 thousand).

The result on banking operations amounted to PLN 654,604 thousand and was slightly higher than in the same period of the previous year. The Group's operating expenses (including depreciation and amortization) totalled PLN 421,021 thousand and were reduced by 3.6%. The second factor affecting the increase in net profit in the first quarter of 2018, as compared to the first quarter of 2017, was a 27.5% increase in impairment losses on financial assets and provisions for contingent liabilities, which amounted to PLN -62,354 thousand.

In the first quarter of 2017, unlike in the first quarter of 2018, the Group incurred costs related to the merger processes of BGŻ S.A., BNP Paribas Bank Polska S.A. and Sygma Bank Polska S.A. (which amounted to PLN 16,784 thousand). Eliminating the impact of integration costs in the first quarter of 2017, the Group's net profit generated in the first quarter of 2018 would be 60.8% (i.e. PLN 32,300 thousand) higher than the profit in the first quarter of 2017.

The total income of the Group for the first quarter of 2018 amounted to PLN 92,322 thousand and was lower by 18.9%, i.e. by PLN 21,537 thousand than in the corresponding period of the previous year. The decrease was mainly due to the lower level of valuation of financial assets available for sale (by 89.9%, i.e. PLN 82,788 thousand). The decrease was partially neutralized by the higher net profit generated in the period (increase by PLN 45,895 thousand, i.e. by 116.0% YoY) and lower deferred tax.

Interim condensed consolidated statement of financial position

ASSETS	Note	31.03.2018	31.12.2017
Cash and balances at Central Bank	18	2,339,735	998,035
Amounts due from banks	19	577,255	2,603,689
Derivative financial instruments	20	429,476	474,421
Differences from hedge accounting regarding the fair value of hedged items	21	53,459	32,730
Loans and advances to customers measured at amortised cost	22	49,500,358	52,967,568
Loans and advances to customers measured at fair value through profit or loss	23	2,750,954	-
Financial assets available for sale	24	-	13,922,540
Securities measured at amortised cost	25	9,478,262	-
Financial instruments measured at fair value through profit or loss	26	118,562	-
Securities measured at fair value through other comprehensive income	27	4,801,476	-
Investment properties		54,435	54,435
Intangible assets	28	282,311	288,340
Property, plant and equipment	29	486,575	500,647
Deferred tax assets		612,851	512,045
Other assets	30	434,965	394,809
Total assets		**71,920,674**	**72,749,259**

The Group's total assets as at the end of March 2018 amounted to PLN 71,920,674 thousand and was lower by PLN 828,584 thousand, i.e. by 1.1%, compared to the end of December 2017.

The most important changes in the structure of the Group's assets after the first quarter of 2018 are a slight decrease in the share of loans and advances to customers (both measured at amortized cost and measured at fair value through profit or loss) and amounts due from banks with simultaneous increase in the share of cash and funds at the Central Bank and increase in the share of securities measured at amortized cost, financial instruments measured at fair value through profit or loss and securities measured at fair value through other comprehensive income, compared to financial assets available for sale.

The structure of assets is dominated by loans and advances to customers (both measured at amortized cost and measured at fair value through profit or loss) whose share accounted for 72.6% of total assets at the end of March 2018, compared to 72.8% at end of December 2017. In terms of value, the volume of net loans and advances (both measured at amortized cost and measured at fair value through profit or loss) decreased by PLN 716,256 thousand, i.e. by 1.4%.

The second largest asset item were totalled securities measured at amortized cost, financial instruments measured at fair value through profit or loss and securities measured at fair value through other comprehensive income, which accounted for 20.0% of total assets at the end of March 2018. The share of assets available for sale in total assets at the end of December 2017 was 19.1%. After the first quarter of 2018, the value of the categories indicated above increased by PLN 475,760 thousand or 3.4%, primarily as a result of the increase in the value of the portfolio of bonds issued by governmental institutions at the central level.

Receivables presented in accordance with the classification and measurement of assets in accordance with IFRS 9 (as of 31 March 2018) are not fully comparable with previous periods.

LIABILITIES	Note	31.03.2018	31.12.2017
Amounts due to banks	31	5,053,224	3,891,235
Differences from hedge accounting regarding the fair value of hedged items	21	21,668	(2,992)
Derivative financial instruments	20	401,096	427,710
Amounts due to customers	32	55,116,570	56,328,897
Debt securities issued	33	2,181,931	2,471,966
Subordinated liabilities	34	1,652,130	1,645,102
Other liabilities	35	941,151	1,225,323
Current tax liabilities		93,620	117,699
Deferred tax liability		8,003	8,003
Provisions	36	117,524	76,853
Total liabilities		**65,586,917**	**66,189,796**

EQUITY	Note	31.03.2018	31.12.2017
Share capital	43	84,238	84,238
Supplementary capital		5,127,086	5,127,086
Other reserve capital		909,629	909,629
Revaluation reserve		148,852	141,988
Retained earnings		63,952	296,522
retained profit		(21,506)	16,815
net profit for the period		85,458	279,707
Total equity		**6,333,757**	**6,559,463**
Total liabilities and equity		**71,920,674**	**72,749,259**

As at the end of March 2018, the total value of the Group's liabilities amounted to PLN 65,866,917 thousand and was lower by about PLN 602,879 thousand, i.e. by 0.9% as compared to the value at the end of 2017. The share of liabilities in total liabilities and equity of the Group amounted to 91.2% and was higher by 0.2 p.p. than at the end of 2017. The most significant change in the structure of liabilities after the first quarter of 2018 was a slight decrease in the share of amounts due to customers with a simultaneous increase in the share of amounts due to banks.

At the end of March 2018, amounts due to customers decreased by PLN 1,212,327 thousand, i.e. by 2.2%, as compared to the end of December 2017 and amounted to PLN 55,116,570 thousand. Their share in total liabilities decreased to 84.0% as compared to 85.1% at the end of 2017.

In the first quarter of 2018, there was also an increase in amounts due to banks, which resulted in an increase in their share in total liabilities. At the end of March 2018 it amounted to 7.7%, compared to 5.9% at the end of 2017. The value of amounts due to banks as at the end of March 2018 amounted to PLN 5,053,224 thousand and was higher by PLN 1,161,989 thousand (i.e. by 29.9%) than at the end of 2017.

Total equity as at 31 March 2018 decreased as compared to the value at 31 December 2017 by 3.4%, i.e. by PLN 225,706 thousand due to the decrease in the category of retained earnings by PLN 232,570 thousand. The decrease results from the fact of including the amount of PLN 318,029 thousand in the position of net profit from previous years, as a result of the implementation of IFRS 9 and related change in the valuation of impairment losses on loans and advances.

Interim condensed consolidated statement of changes in equity

					Retained earnings		
	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained profit	Net profit for the period	Total
Balance as at 1 January 2018 (data approved)	**84,238**	**5,127,086**	**909,629**	**141,988**	**16,815**	**279,707**	**6,559,463**
Change related to the implementation of IFRS 9					(318,028)		(318,028)
Balance as at 1 January 2018 (data restated)	**84,238**	**5,127,086**	**909,629**	**141,988**	**(301,213)**	**279,707**	**6,241,435**
Total comprehensive income for the period	**-**	**-**	**-**	**6,864**	**-**	**85,458**	**92,322**
Net profit for the period	-	-	-	-	-	85,458	85,458
Other comprehensive income for the period	-	-	-	6,864	-	-	6,864
Distribution of retained earnings	**-**	**-**	**-**	**-**	**279,707**	**(279,707)**	**-**
Distribution of retained earnings intended for supplementary capital	-	-	-	-	279,707	(279,707)	-
Other (capital of subsidiaries)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance as at 31 March 2018	**84,238**	**5,127,086**	**909,629**	**148,852**	**(21,506)**	**85,458**	**6,333,757**

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings: Retained profit	Retained earnings: Net profit for the period	Total
Balance as at 1 January 2017	**84,238**	**5,108,418**	**860,241**	**(497)**	**17,561**	**76,860**	**6,146,821**
Total comprehensive income for the period	-	-	-	142,485	-	279,707	422,192
Net profit for the period	-	-	-	-	-	-	-
Other comprehensive income for the period	-	-	-	142,485	-	279,707	422,192
Distribution of retained earnings	-	-	49,388	-	27,472	(76,860)	-
Distribution of retained earnings intended for supplementary capital	-	-	49,388	-	27,472	(76,860)	-
Other (capital of subsidiaries)	-	18,668	-	-	(28,218)	-	(9,550)
Balance as at 31 December 2017	**84,238**	**5,127,086**	**909,629**	**141,988**	**16,815**	**279,707**	**6,559,463**

Interim condensed consolidated statement of changes in equity (continued)

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings: Retained profit	Retained earnings: Net profit for the period	Total
Balance as at 1 January 2017	**84,238**	**5,108,418**	**860,241**	**(497)**	**17,561**	**76,860**	**6,146,821**
Total comprehensive income for the period	**-**	**-**	**-**	**74,296**	**-**	**39,563**	**113,859**
Net profit for the period	-	-	-	-	-	39,563	39,563
Other comprehensive income for the period	-	-	-	74,296	-	-	74,296
Distribution of retained earnings	**-**	**-**	**-**	**-**	**76,860**	**(76,860)**	**-**
Distribution of retained earnings intended for supplementary capital	-	-	-	-	76,860	(76,860)	-
Balance as at 31 March 2017	**84,238**	**5,108,418**	**860,241**	**73,799**	**94,421**	**39,563**	**6,260,680**

Interim condensed consolidated statement of cash flows

CASH FLOWS FROM OPERATING ACTIVITIES:	Note	1Q 2018 from 01.01.2018 to 31.03.2018	1Q 2017 from 01.01.2017 to 31.03.2017
Net profit (loss)		**85,458**	**39,563**
ADJUSTMENTS FOR:		**(532,201)**	**(362,731)**
Income tax expenses		35,736	39,892
Depreciation and amortization		40,933	47,891
Dividend income		(25)	(23)
Interest income		(635,030)	(652,353)
Interest expense		185,118	185,538
Change in provisions		40,479	(8,531)
Change in amounts due from banks		(41,067)	13,791
Change in derivative financial instruments (assets)		44,945	(95,428)
Change in loans and advances to customers measured at amortised cost		3,089,632	(1,001,319)
Change in loans and advances to customers measured at fair value through profit or loss		(2,750,954)	-
Change in amounts due to banks		1,198,369	(58,573)
Change in derivative financial instruments (liabilities)		(26,614)	73,580
Change in amounts due to customers		(1,147,531)	812,658
Change in other assets and current tax assets		(143,240)	9,865
Change in other liabilities and deferred income tax liabilities		(308,251)	(138,234)
Other adjustments	38	(335,074)	(35,448)
Interest received		411,133	653,108
Interest paid		(190,760)	(209,145)
Net cash flows from operating activities		**(446,743)**	**(323,168)**

CASH FLOWS FROM INVESTING ACTIVITIES:	Note	1Q 2018 from 01.01.2018 to 31.03.2018	1Q 2017 from 01.01.2017 to 31.03.2017
INVESTING ACTIVITIES INFLOWS		**11,478,984**	**8,848,818**
Sale of financial assets		11,475,163	8,841,694
Sale of intangible assets and property, plant and equipment		3,796	7,101
Dividends received and other inflows from investing activities		25	23
INVESTING ACTIVITIES OUTFLOWS		**(11,374,633)**	**(7,233,052)**
Purchase of securities		(11,350,011)	(7,208,079)
Purchase of intangible assets and property, plant and equipment		(24,622)	(24,973)
Net cash flows from investing activities		**104,351**	**1,615,766**
CASH FLOWS FROM FINANCING ACTIVITIES:			
FINANCING ACTIVITIES INFLOWS		**-**	**26,977**
Long-term loans received		-	26,977
FINANCING ACTIVITIES OUTFLOWS		**(384,087)**	**(1,451,915)**
Repayment of long-term loans and advances received		(99,087)	(1,449,377)
Redemption of debt securities		(285,000)	(2,538)
Net cash flows from financing activities		**(384,087)**	**(1,424,938)**
TOTAL NET CASH AND CASH EQUIVALENTS		**(726,479)**	**(132,340)**
Cash and cash equivalents at the beginning of the period		**3,443,205**	**2,483,623**
Cash and cash equivalents at the end of the period, including:	**37**	**2,716,726**	**2,351,283**
effect of exchange rate fluctuations on cash and cash equivalents		1,266	(22,297)
restricted cash and cash equivalents		867	2,798

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 IDENTIFICATION DATA

Bank BGŻ BNP Paribas S.A. is the parent company in the Capital Group of Bank BGŻ BNP Paribas S.A. (the "Group").

The registered office of Bank BGŻ BNP Paribas S.A. (the "Bank" or "BGŻ BNP Paribas") is located at Kasprzaka 10/16 in Warsaw. The Bank is registered in Poland, by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register, under number KRS 0000011571. The duration of the parent and the Group companies is unlimited.

2 DESCRIPTION OF THE CAPITAL GROUP

Bank BGŻ BNP Paribas S.A. operates within the BNP PARIBAS SA Capital Group with its registered office in Paris.

As at 31 March 2018, the Group comprised Bank BGŻ BNP Paribas S.A. as the parent and its subsidiaries:

2.1. Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o. ("Actus"), with its registered office at Kasprzaka 10/16 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000023062. The Bank holds 100% interest in the share capital of the company.

2.2. Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A. ("TFI"), with its registered office at Twarda 18 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register, under number KRS 0000031121. The Bank holds 100% of the company's shares.

2.3. BNP Paribas Leasing Services Sp. z o.o. ("Leasing", formerly: Fortis Lease Polska Sp. z o.o. in liquidation), with its registered office at Suwak 3 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000098813. The Bank holds 100% of the company's shares.

2.4. BNP Paribas Group Service Center S.A. ("GSC", formerly: Laser Services Polska S.A.), with its registered office at Suwak 3 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000022784. The Bank holds 100% of the company's shares.

2.5. BGŻ Poland ABS1 DAC ("SPV") based in Ireland, 3RD Floor Kilmore House, Park Lane, Spencer Dock, Dublin. This is a special purpose company, with which the Bank performed a securitization transaction concerning a part of the loan portfolio. The Group does not have any capital involvement in this company. The company is controlled by Bank BGŻ BNP Paribas S.A. only in terms of IFRS 10.

In December 2017, the Bank sold 100% of shares in BGŻ BNPP Faktoring (i.e. 20,820 shares with a total nominal value of PLN 10,410 thousand), representing 100% of the share capital and 100% votes at the company's general meeting, for the total price of : PLN 10,410 thousand for the benefit of BNP Paribas S.A., a French joint-stock company (Societe Anonyme), based in Paris, operating through the BNP Paribas S.A. Branch in Poland, with its registered office in Warsaw.

In accordance with the principles of International Financial Reporting Standards, the interim condensed consolidated financial statements cover all subsidiaries as at 31 March 2018.

3 ACCOUNTING PRINCIPLES APPLIED FOR THE PURPOSE OF PREPARATION OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements for the first quarter ended 31 March 2018 were prepared in accordance with the requirements of International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"), as adopted by the European Union, as well as in accordance with other applicable regulations. The accounting principles applied in the first quarter of 2018 do not differ from the principles applicable in 2017, which are described in detail in the Consolidated financial statements of the Bank BGŻ BNP Paribas S.A. Capital Group for the year ended 31 December 2017.

The interim condensed consolidated financial statements do not include all information and disclosures required for the annual consolidated financial statements, and therefore should be read in conjunction with the Consolidated financial statements of the Bank BGŻ BNP Paribas S.A. Capital Group for the year ended 31 December 2017.

The present financial statements include the requirements of all International Accounting Standards approved by the European Union ("IAS"), International Financial Reporting Standards ("EU IFRS") and interpretations related to these standards, except for the standards and interpretations listed below that are awaiting approval by the European Union or have been approved, but entered into or will enter into force only after the balance sheet date.

3.1 New standards and amendments to the existing standards published by IASB but not yet effective

- **IFRS 16 „Leasing”** (applicable for annual periods beginning on 1 January 2019 or after that date),
- **IFRS 17 „Insurance contracts”** (applicable for annual periods beginning on 1 January 2021 or after that date)**,**
- **Amendments to IFRS 9 „Financial Instruments” -** Characteristics of the prepayment option with negative offset (applicable for annual periods beginning on 1 January 2019 or after that date),
- **Amendments to IAS 19 „Employee Benefits”** - Plan amendment, curtailment or settlement (applicable for annual periods beginning on 1 January 2019 or after that date)**,**
- **Amendments to IFRS 10 „Consolidated Financial Statements” and IAS 28 „Investments in Associates and Joint Ventures” –** Sale or contribution of assets between an investor and its affiliate or joint venture and subsequent changes (application date is postponed until the moment of completion of research on the equity method),
- **Amendments to IAS 28 „Investments in Associates and Joint Ventures” -** Long-term shares in affiliates and joint ventures (applicable for annual periods beginning on 1 January 2019 or after that date),
- **Amendments to various standards „IFRS Improvements (2015-2017)” –** changes made as part of the annual procedure of implementing Improvements to IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily aimed at removing inconsistencies and clarifying wording (applicable for annual periods beginning on 1 January 2019 or after that date),
- **IFRIC 23 „Uncertainty over Income Tax Treatments”** (applicable for annual periods beginning on 1 January 2019 or after that date)**.**

The above mentioned standards and amendments to the existing standards did not impact significantly the financial statements for the first quarter of 2018.

3.2 Implementation of IFRS 9

IFRS 9 „Financial Instruments"

IFRS 9 "Financial Instruments", published by the International Accounting Standards Board on 24 July 2014, approved by the European Union on 22 November 2016, is the final version of the standard replacing the earlier published versions of IFRS 9. Publication of the document is a completion of the project of International Accounting Standards Board aiming to replace IAS 39 "Financial Instruments: Recognition and measurement".

As a result of IFRS 9 implementation, the following areas are subject to change: classification and measurement of financial instruments, recognition and impairment calculation of financial instruments, loan commitments and financial guarantee contracts, as well as hedge accounting.

The Bank has not decided on early implementation of IFRS 9 and applied the requirements of IFRS 9 retrospectively for the periods beginning after 1 January 2018. According to the option allowed by the standard, the Bank resigned from restating comparative data. The Bank selected the accounting policy in the area of hedge accounting and decided to continue applying the hedge accounting principles in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" until the end of works of the International Reporting Standards Board on the guidelines for hedge accounting in Macro hedging approach (Macro hedging).

The implementation of IFRS 9 affected the following accounting policies of the Bank:

Classification and measurement

In accordance with IFRS 9, financial assets qualify for the following categories of measurement at the moment of their initial recognition:

- financial assets measured at amortised cost,

- financial assets measured at fair value through other comprehensive income,

- financial assets measured at fair value through profit or loss account.

The classification of financial assets in accordance with IFRS 9 depends on:

- business model relating to financial asset management, and

- the characteristics of contractual cash flows, i.e., whether contractual cash flows represent solely principal and interest repayment ("SPPI").

Irrespective of the above, there is an irrevocable option at the moment of initial recognition of the financial asset to classify it to measurement at fair value through profit or loss if such approach leads to the more relevant information eliminating or significantly reducing the inconsistency in the measurement or recognition of assets or liabilities or related gains and losses. The Bank did not designate any financial assets to be measured at fair value through profit or loss.

Business models

The Bank classifies its financial assets to three business models, taking into account the purpose of maintaining a financial instrument:

Model 1: Receiving contractual cash flows (assuming the positive result of SPPI test).

Under Model 1, the main business goal is to collect contractual cash flows from a given group of financial assets until the maturity date. The category does not exclude the sale of assets, but it should be of incidental nature rather than part of the portfolio management strategy. Under Model 1, certain types of sales are allowed, e.g. sales resulting from an increase in credit risk.

Model 2: Receiving contractual cash flows and sale of financial assets (assuming the positive result of SPPI test).

Under Model 2, both receiving contractual cash flows and the sale of assets are integral elements of the portfolio's business objective. Compared to Model 1, Model 2 assumes more frequent and larger sales, which are not incidental, but, on the contrary, result from the planned strategy. Examples of business objectives for Model 2 may be the ongoing management of liquidity needs or matching maturities of financial assets and liabilities.

Model 3: Other assets not classified to Model 1 nor Model 2, e.g. only the sale of financial assets

In a situation when specific groups of financial assets were not acquired under Model 1 and Model 2, they should be classified as Model 3. Most often, Model 3 refers to a strategy that assumes the realization of cash flows from the sale of financial assets or portfolios that are managed based on their fair value.

SPPI test

For the purpose of classification and subsequent measurement of financial assets, the Bank verifies whether the cash flows from a given instrument constitute solely principal and interest calculated on the principal.

Principal is defined as the fair value of the financial asset at the moment of initial recognition. Interest is understood as remuneration for a change in the value of money over time, credit risk and other risks and costs typical for the contract, as well as a profit margin.

The Bank evaluates the contractual characteristics of cash flows for each homogeneous portfolio of financial assets or at the level of an individual financial asset.

A financial asset is measured at amortized cost if both of the following conditions are met:

- an asset is held by the Bank in accordance with the business model whose purpose is to maintain assets to collect contractual cash flows,
- the contractual terms of the financial asset represent contractual cash flows that are solely payment of principal and interest.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- an asset is held by the Bank in accordance with the business model, which aims to both receive contractual cash flows and sell assets,
- the contractual terms of the financial asset represent contractual cash flows that are solely payment of principal and interest.

Other financial assets are measured at fair value through profit or loss.

Summary of key changes

A summary of the most important changes introduced by IFRS 9 to financial assets is presented below:

- the categories of „held to maturity” and „available for sale” financial assets have been removed,
- financial assets classified as "loans and receivables" under IAS 39 continue to be measured at amortized cost, subject to the cash flow test requirement,
- debt instruments classified as "available for sale" are divided into the portfolio measured at amortized cost and the portfolio measured at fair value through other comprehensive income,
- capital and hybrid instruments available for sale (convertible bonds) are measured at fair value through profit or loss; the Bank did not use the option of classifying equity instruments as measured at fair value through other comprehensive income,
- financial instruments currently measured at fair value through profit or loss will continue to be measured using this method.

The analyses performed by Bank BGŻ BNP Paribas, based on the results of contractual cash flow tests and assessment of the business model, indicate that changes in the classification and measurement of assets mainly relate to the loan portfolios whose interest rate structure is based on financial leverage (change from measurement at amortized cost to measurement at fair value through profit or loss) and to the portfolio of Treasury bonds, in the part not used for current liquidity management, but for maintaining liquidity under stress conditions (change from measurement at fair value through other comprehensive income to measurement at amortized cost) and debt instruments with a participatory clause (the Bank obtains the right to participate in the result of the debtor if the conditions specified in the contract are met).

Financial liabilities

Classification of financial assets of the Bank did not change significantly. Financial liabilities as at the date of their acquisition or establishment are classified into the following categories:

- financial liabilities measured at fair value through profit or loss,
- other financial liabilities (measured at amortized cost).

Irrespective of the above, there is an irrevocable option to classify a financial liability at the moment of initial recognition at fair value through profit or loss, if such approach results in the more useful information, eliminating or significantly reducing the inconsistency in the measurement or recognition of assets or liabilities or related gains and losses. In relation to the liabilities thus designated, a part of the change in fair value, associated with a change in the credit risk of the liability, is recognized in other comprehensive income. The Bank did not designate any financial liabilities to be measured at fair value through profit or loss.

Changes in impairment allowance calculation for financial assets

The requirements of IFRS 9 relating to impairment are based on the model of expected credit loss, replacing the model of incurred credit losses from IAS 39. The main changes in the accounting policy of the Bank concerning impairment of financial assets are described in the following sections.

The Bank applies a three-step approach to the measurement of expected credit losses from debt instruments measured at amortized cost or at fair value through other comprehensive income, for which no impairment loss was recognized as at the moment of initial recognition. As a result of changes in the credit quality since the initial recognition, financial assets are transferred between the following three phases:

i) Phase 1: An allowance due to expected credit losses in 12-month horizon

If the credit risk did not increase significantly from the date of the initial recognition, and the impairment of the loan was not identified from the moment of its granting, the Bank recognizes an allowance for the expected credit loss related to the probability of default within the next 12 months. Interest income on such assets is recognized based on the gross carrying amount (amortized cost before the adjustment for impairment allowance) using the effective interest rate.

ii) Phase 2: An allowance due to expected credit losses for the entire lifetime – no impairment of a financial asset identified

In the case of an exposure for which credit risk has increased significantly since the moment of its initial recognition, but no impairment of the financial asset was identified, an impairment allowance is created for the expected credit loss for the entire financing period. Interest income on such assets is recognized based on the gross carrying amount (amortized cost before the adjustment for impairment allowance) using the effective interest rate.

iii) Phase 3: An allowance due to expected credit losses for the entire lifetime – impairment of a financial asset

Financial assets are classified as impaired instruments when there are objective impairment triggers identified as a result of an event or events that occurred after the initial recognition of a given asset ("impairment triggers"). For financial assets, for which an impairment was identified, an allowance is created for the expected credit loss for the entire financing period, while interest income is recognized based on value at amortized cost (net balance sheet value - less the impairment allowance) using the effective interest rate.

At each balance sheet date, the Bank assesses whether there has been a significant increase in credit risk for financial assets since the moment of their initial recognition, by comparing the risk of loan default during the expected financing period as at the balance sheet date and the initial recognition date, using, among others, the internal credit risk assessment system, external credit ratings, information on delay in repayments and information from internal credit risk monitoring systems, such as warning letters and information about restructuring.

The Bank assesses whether the credit risk has increased to a significant extent on the basis of individual and group assessment. In order to perform an impairment calculation on a group basis, financial assets are divided into homogeneous product groups based on common credit risk characteristics, taking into account the type of instrument, credit risk rating, initial recognition date, remaining maturity, industry branch, geographical location of the borrower and other relevant factors.

The value of expected credit loss is measured as the current value of all cash flow shortages in the expected life of a financial asset weighted with probability, and discounted using the effective interest rate. The shortfall in cash flows is the difference between all contractual cash flows due to the Bank and all cash flows that the Bank expects to collect. The value of the expected credit loss is recognized in the profit or loss account in the impairment losses.

The Bank takes into account historical data on credit losses and adjusts them to current observable data. In addition, the Bank uses reasonable and justified forecasts of the future economic situation, including its own judgment based on experience, with the purpose of estimating the expected credit losses. IFRS 9 introduces an application of macroeconomic factors to the calculation of impairment losses on financial assets. These factors include: unemployment rate, interest rates, gross domestic product, inflation, commercial property prices, exchange rates, stock indices, and wage rates. IFRS 9 also requires an assessment of both the current and the forecasted direction of the economic cycles. The inclusion of forecast information in the calculation of impairment losses on financial assets increases the level of judgement to what extent these macroeconomic factors will affect the expected credit losses. The methodology and assumptions, including all forecasts of the future economic situation, are regularly monitored.

If in the subsequent periods the credit quality of financial assets improves and reverses the previous conclusions regarding a significant increase in credit risk from the moment of initial recognition, impairment losses on these financial assets are translated from the expected credit loss over the loan lifetime to the expected credit losses in the subsequent 12 months (transition from phase II to phase I).

In the case of debt instruments measured at amortized cost or at fair value through other comprehensive income, which are recognized as impaired at the moment of initial recognition, an impairment allowance is created for the entire lifetime of the financial asset and interest income from such asset is recognized over its entire lifetime from amortized cost value (net balance sheet value), taking into account the effective interest rate, including credit risk (calculated on the basis of expected non-contractual cash flows at the moment of initial recognition).

For debt instruments measured at fair value through other comprehensive income, the measurement of the expected credit loss is based on a three-step approach, as in the case of financial assets measured at amortized cost. The Bank recognizes the amount of the impairment loss in profit or loss account, including the corresponding value recognized in other comprehensive income, without reducing the carrying amount of assets (i.e. their fair value) in the statement of financial position.

Generally, the impairment allowance calculated in accordance with IFRS 9 results in earlier recognition of credit losses as compared to the requirements of IAS 39.

Modification of cash flows arising from the contract, the significance of which excludes maintaining the same characteristics of the asset before and after the modification, requires (i) derecognition of a financial asset (ii) recognition of a new, modified financial asset and (iii) if there is evidence for that the modified financial asset is initially impaired due to credit risk - the calculation of the effective interest rate adjusted for the credit risk of that financial asset. The Bank applies qualitative and quantitative criteria for identifying modifications, and the possible effect is derecognition of a financial asset and recognition of a new asset. If the criteria for derecognition are not met, the modified financial asset remains in the balance sheet, but its gross carrying amount should be revaluated and the result from the modification should be recognized in profit or loss.

The below table summarizes the impact of IFRS 9 on the change in the classification and measurement of the Group's financial assets and liabilities as at 1 January 2018.

FINANCIAL ASSETS IN ACCORDANCE WITH IAS 39	CLASSIFICATION IN ACCORDANCE WITH IAS 39	CLASSIFICATION IN ACCORDANCE WITH IFRS 9	BALANCE SHEET AMOUNT IN ACCORDANCE WITH IAS 39	BALANCE SHEET AMOUNT IN ACCORDANCE WITH IFRS 9
Cash and balances at Central Bank	Loans and receivables	Amortised cost	998,035	998,021
Amounts due from banks	Loans and receivables	Amortised cost	2,603,689	2,607,022
Derivative financial instruments	Fair value through profit or loss	Fair value through profit or loss	474,421	474,421
Differences from hedge accounting regarding the fair value of hedged items	Hedging instruments	Hedging instruments	32,730	32,730
Loans and advances to customers	Loans and receivables	Amortised cost	52,967,568	49,137,873
Loans and advances to customers	Loans and receivables	Fair value through profit or loss	-	2,910,768
Financial assets available for sale .	Available for sale	Amortised cost	-	7,470,511
Financial assets available for sale	Available for sale	Fair value through profit or loss	-	104,983
Financial assets available for sale	Available for sale	Fair value through other comprehensive income	13,922,540	6,834,881
Deferred tax assets			512,045	644,843
Other assets			394,809	431,762
FINANCIAL LIABILITIES IN ACCORDANCE WITH IAS 39				
Provisions	Amortised cost	Amortised cost	76,853	114,890

a) The position consists of loans and advances, in which business model consists in holding assets to collect cash flows, but the characteristics of these cash flows do not meet the definition of principal and interest presented in IFRS 9. In connection with the above, the Bank classified such exposures to the category of instruments measured at fair value through profit or loss. The indicated instruments are presented in the financial statements under "Loans and advances to customers measured at fair value through profit or loss".

b) Debt instruments that, in accordance with IAS 39, were classified as available for sale and measured at fair value through other comprehensive income, that failed the SPPI test, and therefore, in accordance with IFRS 9, were classified as measured at fair value through profit or loss account and presented in the financial statements under "Financial instruments measured at fair value through profit or loss"

c) Debt instruments that, in accordance with IAS 39, were classified as available for sale and measured at fair value through other comprehensive income, were assessed in terms of the business model as maintained to collect contractual cash flows and for sale (and the result of the SPPI test was positive), and therefore were classified as measured at fair value through other comprehensive income and presented in the financial statements under "Securities measured at fair value through other comprehensive income" in line with IFRS 9.

d) Debt instruments that, in accordance with IAS 39, were classified as available for sale and measured at fair value through other comprehensive income, were assessed in terms of the business model as maintained to collect contractual cash flows and the result of SPPI test was positive and were therefore classified as measured at amortized cost and presented in the financial statements under "Securities measured at amortized cost" in line with IFRS 9.

e) The item consists of equity instruments not held for trading and classified as available for sale in accordance with IAS 39, for which the Bank did not decide to measure them at fair value through other comprehensive income. In connection with the above, these assets will be measured at fair value through profit or loss account. The indicated equity instruments are presented in the financial statements under "Financial instruments measured at fair value through profit or loss".

In addition to the above, no other changes in the classification and measurement of financial instruments occurred in the present financial statements due to the implementation of the requirements of IFRS 9.

Changes in profit or loss

In connection with the implementation of IFRS 9 and the new categories of the classification of financial instruments, revenues from financial instruments due to interests and changes in fair value are presented in the following items of the profit or loss account:

- In case of loans and advances granted to customers and measured at fair value through profit or loss, interest income is presented in the result on interest, while the change in fair value is presented in the result on investment activities.
- In case of debt instruments measured at fair value through other comprehensive income, interest income is presented in the result on interests.

The reconciliation of carrying amounts in the financial statements as at 1 January 2018, resulting from the implementation of IFRS 9, is presented below.

The value of other items of financial assets and liabilities presented in the statement of financial position is not changed significantly as a result of the implementation of IFRS 9.

The impact of the implementation of the new standard on the financial position and equity of the Group's recognised as at 1 January 2018 is as follows:

Item	Measurement category – IAS 39	Measurement category – IFRS 9	Balance sheet amount in accordance with IAS 39	Impact of IFRS 9* implementation Classification and measurement	Impact of IFRS 9* implementation Impairment	Balance sheet amount in accordance with IFRS 9
ASSETS						
Loans and advances to customers	Amortised cost	Amortised cost	52,967,568	(3,407,354)	(422,341)	49,137,873
Loans and advances to customers	Amortised cost	Fair value through profit or loss	-	2,891,806	18,962	2,910,768
Financial assets available for sale	Fair value through other comprehensive income	Fair value through other comprehensive income	13,922,540	(7,087,640)	(19)	6,834,881
Financial assets available for sale	Fair value through other comprehensive income	Amortised cost	-	7,498,570	(1,483)	7,497,087
Financial assets available for sale	Fair value through other comprehensive income	Fair value through profit or loss	-	104,618	365	104,983
Other assets	Amortised cost	Amortised cost	394,809	-	(8,119)	386,690
LIABILITIES						
Provisions	Amortised cost	Amortised cost	76,853	-	38,193	115,046
					(450,828)	

* excluding the impact of deferred tax

The total value of the impact of IFRS 9 implementation in the amount of PLN 450,828 thousand and the effect of deferred tax resulting from the implementation of IFRS 9 in the form of an increase in net deferred tax asset in the amount of PLN 132,799 thousand decreased the balance of retained earnings and revaluation reserve in the amount of PLN 318,029 thousand as at 1 January 2018.

	Impairment allowance in accordance with IAS 39	Change due to reclassification	Change due to remeasurement	Impairment allowance in accordance with IFRS 9
Impairment allowances				
Impairment allowance on funds at Central Bank	-	-	(14)	(14)
Impairment allowance on amounts due from banks	(4,477)	,-	3,333	(1,144)
Impairment allowance on amounts due from customers	(2,996,915)	-	(746,195)	(3,743,110)
Impairment allowance on securities measured at amortised cost	(11,792)	-	-	(11,792)
Provision for financial liabilities and guarantees granted	(35,419)	-	(38,193)	(73,612)
Total impairment allowances	**(3,048,603)**	**-**	**(781,069)**	**(3,829,672)**

	Fair value at closing balance	Profit/loss due to the change of fair value, which would be recognized in profit or loss / revaluation reserve in the reporting period, if the financial asset / financial liability was not reclassified	Effective interest rate as at the moment of reclassification	Interest income / interest expense recognized in the reporting period
From measured at fair value through other comprehensive income to measured at amortised cost	7,032,343	26,576	n/a	n/a
From measured at fair value through profit or loss to measured at amortised cost	-	-	-	-
From measured at fair value through profit or loss to measured at fair value through other comprehensive income	-	-	-	-
FINANCIAL LIABILITIES	-	-	-	-
From measured at fair value through profit or loss to measured at amortised cost	-	-	-	-

Impact of IFRS 9 on capital adequacy

On 12 December 2017, the European Parliament and the EU Council adopted the Regulation No. 2017/2395 amending the Regulation No. 575/2013 regarding transitional arrangements to mitigate the impact of implementing IFRS 9 on equity and the solutions regarding the fact of treating some exposures to public sector institutions, which are denominated in the national currency of any Member State, as large exposures. This Regulation entered into force on the day following its publication in the Official Journal of the European Union and has been applicable since 1 January 2018. The European Parliament and the Council (EU) considered that the application of IFRS 9 could lead to a sudden increase in allowances for expected credit losses, and therefore, the decrease in Tier 1 capital.

The Group, after analysing the requirements of Regulation No. 2017/2395, decided to apply the transitional provisions provided for in this Regulation, which means that the full impact of the implementation of IFRS 9 will not be taken into account for the purpose of assessing capital adequacy of the Group.

As a result of adjusting the calculation of regulatory capital requirements, which include transitional arrangements to mitigate the impact of IFRS 9 implementation, as set out in the Regulation of the European Parliament and the Council (EU) No. 2017/2395 of 12 December 2017, the impact on Tier 1 ratio and on the total capital ratio of the Group will be adjusted by 95% of the balance of retained earnings and revaluation reserve.

The provisions of IFRS 9 are not unambiguous and are subject to interpretations by both entities implementing the standard, as well as by the regulator or audit firms, and the position of all interested parties is not uniform in all aspects. The market practice of applying the standard's provisions is still under development and may change due to the ongoing discussions.

3.3 Implementation of IFRS 15

International Financial Reporting Standard 15 "Revenues from contracts with customers" (hereinafter “IFRS 15”) entered into force with reference to financial statements for periods beginning on 1 January 2018. The Group did not decide on its earlier application and applied the so-called modified retrospective approach provided for in IFRS 15. This means that the Group applied IFRS 15 retrospectively only to contracts that are not completed as at the first application date, i.e. 1 January 2018, including the total effect of the first application of IFRS 15, if it occurred, as an adjustment to the initial balance of retained earnings in the annual reporting period in which the date of first application occurs. The Group has applied IFRS 15 to all contracts with customers, with the exception of leasing agreements within the scope of IAS 17 Leasing, financial instruments and other contractual rights or obligations falling within the scope of IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate financial statements and IAS 29 Investments in associates and joint ventures. The Group will not use practical expedients allowed under IFRS 15 for a modified retrospective approach.

The scope of IFRS 15 does not include interest income, and therefore the changes introduced by IFRS 15 do not affect the majority of revenues and mainly affect the result on fees and commissions, other operating income and other operating expenses.

The main principle of IFRS 15 is recognizing revenue at the moment of transfer of goods and services to the customer, in the amount reflecting the price expected by the entity, in exchange for the transfer of these goods and services. New principles were applied with the use of five-step model.

- the contract with a customer has been identified and therefore the Bank may have the right to recognize revenue,
- the performance obligation resulting from a contract with the customer was identified,
- the transaction price has been determined,
- the transaction price was allocated to individual performance obligations,
- revenue is recognized when the contractual performance obligation is fulfilled.

Revenues from the sale of goods or services offered to customers in packages should be separated and presented separately, unless the package of goods/services transferred to the customer was considered as one performance obligation.

In addition, all discounts and rebates, as well as refunds and payments to the customer, shall adjust the transaction price, and, thus, also adjust the amount of revenue recognized, unless the payment to the customer concerns remuneration for separate services from the customer. In the case of payments to the customer, the revenue should be recognized in the net value (adjusted by the amount to be returned to the customer).

In the case of variable revenue, in accordance with the new standard, variable amounts are recognized as revenue, provided that there is a high probability that the significant part of this amount will not be reversed in the future.

In addition, in accordance with IFRS 15, costs incurred in order to obtain and secure a contract with the customer should be capitalised and deferred through the entire period of consuming benefits from this contract if the Bank expects that these costs will be recovered.

The Bank may include additional costs of concluding a contract as costs at the time they are incurred, if the depreciation period of an asset, that would otherwise have been recognized by the Bank, is one year or of the period is shorter.

The Group analysed the impact of IFRS 15 implementation in the context of revenue recognition. As a result of this analysis, the following types of revenues were identified, which should be recognized in accordance with IFRS 15:

- remuneration for contracts in which the Bank is an agent,
- additional remuneration paid by settlement organizations,
- loyalty programs and interchange fees, received from settlement organizations, "success fee" - contracts with a success fee remuneration are defined by the Group as such contracts, in case of which the Bank BGŻ BNP Paribas Capital Group does not have a guarantee that it would receive the remuneration, or when the remuneration is very minimal during the term of the contract until some condition occurs, when the Bank BGŻ BNP Paribas Capital Group receives a remuneration of substantial value covering the activities comprising the performance of the contract in the long preceding time,
- revenue from asset management.

The Group has analysed contracts with customers falling within the scope of IFRS 15 and did not identify significant changes with reference to the moment of recognition of revenues in annual periods – therefore, the application of IFRS 15 did not affect the opening balance of retained earnings as at 1 January 2018 (implementation of IFRS 15 did not result in an adjustment of retained earnings as at 1 January 2018). The Bank identified agreements in which, in the light of IFRS 15, it acts as an agent. If another entity is involved in providing goods or services to the customer, the Bank determines whether the nature of the Bank's performance obligation is an obligation to provide certain goods or services (in this case, the Bank is the principal) or to delegate to another entity to provide these goods or services (in this case, the Bank is an agent). Therefore, starting from 1 January 2018, some commissions paid and received, as well as other operating income and other operating costs due to the Bank's role as an agent, are presented in net value (margin value), which applies to, among others, selected contracts with car dealers, agreements with settlement organizations, loyalty programs, or revenues from management contracts. These changes will not affect the net financial result of the Bank, nor the result presented on fees and commissions and the result on operating activities.

4 GOING CONCERN

The present interim condensed consolidated financial statements have been prepared assuming that the companies within the Group will continue as a going concern in substantially the same scope, in the foreseeable future, i.e. within at least 12 months from the date of the reporting period end, considering the information presented in Note 48 Risk

Management – capital adequacy and Note 51 Major events in Bank BGŻ BNP Paribas S.A. in the first quarter of 2018, concerning capital adequacy ratios as at 31 March 2018, as well as the plan to increase of the Bank's capital.

5 APPROVAL OF THE FINANCIAL STATEMENTS

The interim consolidated report of the Bank BGŻ BNP Paribas S.A. Capital Group for the first quarter of 2018 ended 31 March 2018 was approved for publication by the Management Board on 16 May 2018.

6 SEASONAL OR CYCLICAL NATURE OF BUSINESS

There are no significant seasonal or cyclical phenomena in the Group's operations.

7 ESTIMATES

The Group makes estimates and assumptions which affect the value of its assets and liabilities in the subsequent period. The estimates and assumptions, which are reviewed on an ongoing basis, are made based on prior experience and considering other factors, including expectations as to future events, which appear reasonable in specific circumstances.

a) Impairment of financial assets

The assessment of impairment of financial assets in accordance with IFRS 9 requires estimates and assumptions, especially in the areas of estimates of the value and timing of future cash flows, the value of collaterals established, or the assessment of a significant increase in credit risk.

The assessment of impairment in accordance with IFRS 9 covers financial assets of the Bank measured at amortized cost and financial assets measured at fair value through other comprehensive income. The recognition of expected credit losses depends on the change in the level of credit risk recorded since the moment of initial recognition of the financial asset. Financial assets are subject to the assessment as to whether there are any objective impairment triggers (events of default).

The main changes in the Bank's accounting policy regarding impairment of financial assets, including significant assumptions and estimates, are listed in note 2.5 "Changes in accounting principles (policies) and changes in the presentation of financial data".

The key estimates referring to data for the first quarter of 2018, presented in accordance with the requirements of IFRS 9, are presented below.

The requirements of IFRS 9 relating to impairment are based on the model of expected credit loss.

The Bank applies a three-step approach to the measurement of expected credit losses from debt instruments measured at amortized cost or at fair value through other comprehensive income, for which no impairment loss was recognized as at the moment of initial recognition. As a result of changes in the credit quality since the initial recognition, financial assets are transferred between the following three stages:

i) Stage 1: An allowance due to expected credit losses in 12-month horizon

If the credit risk did not increase significantly from the date of the initial recognition, and the event of default did not occur from the moment of granting the financial instrument, the Bank recognizes an allowance for the expected credit loss within the next 12-month horizon.

ii) Stage 2: An allowance due to expected credit losses for the entire lifetime – no event of default identified

In the case of financial instruments, whose credit risk has increased significantly since the moment of their initial recognition, but no event of default occurred, an impairment allowance is created for the entire remaining financing period, considering the probability of the occurrence of the event of default. One of the triggers of significant increase in the credit risk is 30 or more days past due.

If in the subsequent periods the credit quality of the financial instrument improves and the previous conclusions regarding a significant credit risk increase from the moment of initial recognition are reversed, the exposure is reclassified from stage 2 to stage 1, and impairment allowances for expected impairment losses of these financial instruments are calculated in the 12-month horizon.

iii) Stage 3: An allowance due to expected credit losses for the entire lifetime – event of default

In the case of financial instruments for which the event of default occurred, an allowance for the expected credit loss is created for the entire remaining financing period.

In order to assess whether there has been a significant increase in credit risk since the initial recognition of the financial instrument, the Bank compares the risk of default during the expected period of financing granted as at the balance sheet date and the date of initial recognition. For this purpose, the Bank applies an internal credit risk rating system, information on delay in repayments and information from internal credit risk monitoring systems, such as warning letters and information about restructuring.

The value of the allowance due to expected impairment losses is calculated using the probability of default, the value of the exposure expected at the moment of default and the estimation of loss in case of default. When calculating the probability of default, the Bank takes into account factors regarding the forecast of the future economic situation. The Bank uses three scenarios when forecasting the future economic situation: optimistic, pessimistic and the most probable. The considered macroeconomic factors include: GDP growth, the level of exchange rates and interest rates, and the unemployment rate. The final selection of the factor affecting the estimates and the form of quantification of the impact of the forecast of macroeconomic conditions on portfolio performance depends on the exposure to the particular sub-portfolio and the results of a number of statistical analyses.

As regards business entities which apply full accounting system, the Bank has compiled a list of events of default, such as considerable financial difficulties of the customer, substantial deterioration of the customer's rating or more than 90 days past due (or 30 days for restructured exposures).

As regards retail customers and micro enterprises with simplified accounting system, more than 90 days past due (or more than 30 days for exposures with forbearance granted to debtors) is the key event of default. Other triggers include debt restructuring or a suspicion of fraud.

For exposures for which events of default occurred, individual or collective (group) tests are performed by the Bank. Individual assessment is performed for assets considered by the Bank to be individually significant and in all the cases in which the Bank has decided to perform an individual test of impairment for a given exposure.

Impairment assessment for individually significant assets

The individual test is performed by the Bank for individually significant financial assets. It consists in case-by-case verification of financial assets in terms of impairment. During the individual assessment, the Bank determines expected future cash flows and impairment is calculated as the difference between the present value (carrying amount) of a financial asset which is individually significant and the value of future cash flows generated by that asset, discounted using the effective interest method. Cash flows from collateral are taken into account for purposes of estimating future cash flows.

Collective (group) assessment

The following assets are tested collectively:

- classified as individually insignificant;
- classified as individually significant, for which the event of default was not identified.

The value of the allowance for the expected credit losses depends on the type of credit exposure, delinquency period and collateral type and value (for selected portfolios), on the probability of default (PD) parameters, loss given default (LGD) parameters and credit conversion factor (CCF).

The amount of collective impairment allowances is determined with the application of statistical methods for defined exposure portfolios which are homogenous from the perspective of credit risk. Homogeneous exposure portfolios are defined based on customer segment, type of credit products and exposure delinquency classes and, for institutional customers with a rating assigned by the Bank internally, the credit rating assigned to the customer. The criteria applied by the Bank to define homogeneous portfolios are aimed at grouping exposures so that the credit risk profile is reflected as accurately as practicable and, consequently, so as to estimate the level of allowances for the expected credit losses on financial assets as objectively and adequately as possible.

The PD parameters are updated periodically during the year, in line with the value estimation principles adopted by the Bank. The aforesaid parameters are determined based on statistical analyses of historical data as well as observable migration of credit exposures. LGD and CCF parameters are updated periodically during the year. As regards CCF, the Bank's analysis focuses on the percentage of off-balance sheet liabilities converted into on-balance sheet exposures. In selected portfolios, LGD is determined for each exposure individually, based on its type and collateral value. For the remaining exposures, it is determined at the level of a given homogenous portfolio.

While classifying the exposure to stage 3, the Bank takes into account a quarantine period, in which a credit exposure with an objective impairment trigger identified may be reclassified to stage 2 or 1 only if the Bank's receivables from the customer have been paid on time (no amounts overdue over 30 days) for a specific number of months. The required quarantine period differs depending on the customer type. Its length is determined by the Bank on the basis of historical observations which allow for determining the period after which the probability of default drops to the level comparable to that of other exposures classified to the portfolio with no indications of impairment.

Allowances for the expected credit losses on financial assets estimated in a collective impairment test are back-tested on a regular basis. The models of risk parameters used for purposes of estimating impairment allowances are covered by the model management process, which specifies the principles of their development, approval and monitoring (including model back-testing). Additionally, there is a validation unit in the Bank, which is independent of the owners and users of the models. The tasks of the unit include: annual validation of risk parameters considered to be significant. The process of validation covers both qualitative and quantitative approach. The process of estimating impairment allowances is subject to periodic functional control and verified independently by the Bank's internal audit.

b) Classification of financial instruments

When classifying financial instruments in accordance with IFRS 9, the Bank used the assessment of business models for maintaining financial assets and assessing whether the contractual terms related to a financial asset resulted in cash flows that were solely payment of principal and interest on the principal amount remaining to be repaid.

• Fair value of derivative instruments

The fair value of derivative instruments which are not quoted on active markets is determined using measurement techniques (e.g. models). Such methods are evaluated and verified periodically by qualified independent employees who have not participated in their development. All models require approval before use as well as calibration to ensure that the results reflect actual data and comparable market prices. The models used at present rely on the data obtained from Reuters and/or Bloomberg information systems. Derivative instruments are measured on the basis of generally acceptable models. Linear instruments are measured using the discounted cash flow method while plain vanilla options using the Black-Scholes model. Other options included in structured deposits are measured either through decomposition into vanilla options or through Monte Carlo simulations.

CVA/DVA is estimated for all derivatives which are active at a specific date. The adjustment is determined based on the projected future exposure resulting from the instrument, counterparty rating and collateral provided/accepted.

• Securities

Securities, for which no liquid market exists, are measured using the discounted cash flow model. As regards level 3 securities, the credit risk margin is a non-observable parameter corresponding to the market margin for instruments with similar characteristics.

- ### Impairment of fixed assets

At the end of each reporting period, the Group verifies whether there is any objective impairment trigger concerning its fixed assets. If such triggers have been identified, the Group estimates the recoverable amount. Determination of the value in use of a fixed asset requires the Group to make assumptions as to the estimated amounts, dates of future cash flows that may be generated by the Group on the fixed asset as well as other factors. When estimating the fair value less costs to sell, the Group relies on available market data or valuations of independent appraisers, which generally are also based on estimates.

- ### Provision for retirement benefits

Provisions for retirement benefits have been estimated by an independent actuary using actuarial methods. The underlying assumptions are revised at the end of each quarter.

- ### Leasing – Group as a lessor

Lease agreements, under which substantially all of the risks and rewards incidental to the ownership of the assets are transferred to the lessee are classified as finance leases. The balance sheet includes the value of receivables in the amount equal to the net investment in the lease. The recognition of revenues from financial leasing contracts is performed in a manner reflecting the constant periodic rate of return on the net investment in the lease made by the Group under finance lease.

The Group does not offer operational lease products, i.e. the one in which the entire risk and rewards resulting from holding the assets to the lessee are not transferred.

8 NET INTEREST INCOME

	1Q 2018 from 01.01.2018 to 31.03.2018	1Q 2017 from 01.01.2017 to 31.03.2017
INTEREST INCOME	**635,030**	**652,353**
Amounts due from banks	8,998	7,106
Overdrafts to customers	91,624	88,353
Loans and advances to customers, including:	392,992	468,013
corporate	85,090	109,629
households	291,941	332,017
public sector institutions	1,127	1,307
other entities	14,834	25,060
Loans and advances to customers measured at fair value through profit or loss	21 043	
Debt instruments measured at amortised cost	58,063	-
Derivative instruments as part of fair value hedge accounting	27,058	13,676
Debt securities – available for sale	-	75,205
Debt instruments measured at fair value through profit or loss	87	-
Debt instruments measured at fair value through other comprehensive income	35,165	-
INTEREST EXPENSE	**(185,118)**	**(185,538)**
Amounts due to banks	(20,301)	(23,129)
Debt securities issued	(795)	(2,959)
Amounts due to customers, including:	(139,247)	(145,585)
corporate	(45,059)	(48,389)
households	(77,149)	(78,948)
public sector institutions	(4,358)	(4,419)
other entities	(12,681)	(13,829)
Derivative instruments as part of fair value hedge accounting	(23,112)	(13,865)
Repo transactions	(1,663)	-
Net interest income	**449,912**	**466,815**

In the first quarter of 2018, interest income, constituting the main source of the Group's revenues, decreased as compared to the first quarter of 2017 by PLN 16,903 thousand, i.e. by 3.6%, which was the effect of a decrease in interest income by PLN 17,323 thousand, i.e. by 2.7% YoY with a simultaneous decrease in interest expenses by PLN 420,000 PLN, i.e. by 0.2% YoY.

The comparison of net interest income between the first quarter of 2018 and of 2017 is negatively affected by the fact that in the first quarter of 2017 the income and expenses related to interest on receivables and liabilities of BGŻ BNP Paribas Faktoring Sp. z o.o., were consolidated, while in the first quarter of 2018 they were not. Due to the above, the net interest income is lower by PLN 3,143 thousand (interest income on loans and advances to customers is lower by PLN 7,787 thousand and interest expenses on liabilities towards banks by PLN 4,644 thousand).

The factor having a negative impact on the level of the result on the interest was the fact that interest rates on funds held as a mandatory reserve at the NBP were reduced. It is estimated that the net interest income in the first quarter of 2018 was lower than the result for the first quarter of 2017 by approx. PLN 3,825 thousand.

The improvement in margins on customer deposits (cost reduction) had a positive impact on the interest income, both in respect of liabilities to enterprises and in the case of liabilities to households, which remain the group with the largest share in total liabilities to customers. The mentioned decrease in the acquisition cost was the reason for which the level of interest expenses on this customer category was lower than in the first quarter of 2017 (-4.4% YoY), despite a slight increase in average liabilities to customers (by 0.4% YoY).

At the end of March 2018, the Group was applying fair value hedge accounting. The change in the fair value measurement of hedging transactions is recognized in the result on hedge accounting. Interest on IRS transaction and hedged items is recognized in net interest income.

The net interest income on hedging relationships (the sum of interest income and interest expenses from derivatives as part of fair value hedge accounting) for the first quarter of 2018 amounted to PLN +3,946 thousand, as compared to the negative value for the first quarter of 2017, at the level of PLN - 189 thousand.

9 NET FEE AND COMMISSION INCOME

	1Q 2018 from 01.01.2018 to 31.03.2018	1Q 2017 from 01.01.2017 to 31.03.2017
FEE AND COMMISSION INCOME	**149,714**	**151,883**
loans and advances	44,906	55,853
settlements and account maintenance	34,183	38,082
guarantees	8,090	6,674
brokerage operations	10,614	5,588
payment cards	22,305	19,216
insurance activity	9,462	10,238
asset management	7,504	4,011
other	12,650	12,221

FEE AND COMMISSION EXPENSES	(29,040)	(24,058)
loans and advances received	(76)	(1,343)
payment cards	(19,750)	(10,151)
insurance activity	(3,114)	(6,353)
related to partners' network	(1,871)	(1,147)
other	(4,229)	(5,064)

Net fee and commission income	**120,674**	**127,825**

The net fee and commission income in the first quarter of 2018 amounted to PLN 120,674 thousand and was lower by PLN 7,151 thousand, i.e. 5.6% YoY, as a result of an increase in commission costs (by PLN 4,982 thousand, i.e. by 20.7%) and a slight decrease in fee and commission income (by PLN 2,169 thousand, i.e. 1.4% YoY).

The fact that fees and commissions are lower in comparison to the first quarter of 2017 is a result of the fact that in the first quarter of 2018 the revenue and costs of fees and commissions of BGŻ BNP Paribas Faktoring Sp. z o.o., are not consolidated. The net fee and commission income is lower due to the above by PLN 3,345 thousand (revenues are lower by PLN 4,610 thousand and costs by PLN 1,265 thousand).

The increase in fee and commission income was recorded primarily in terms of revenues from:

- brokerage operations – by PLN 5,026 thousand, i.e. by 89.9%,
- loans and advances by PLN 3,992 thousand, i.e. by 7.1%,
- assets management by PLN 3,493 thousand, i.e. by 87.1%,
- payment cards by PLN 3,089 thousand, i.e. by 16.1%,

with a simultaneous decrease in revenues from fees and commissions from accounts servicing and settlement operations by PLN 18,838 thousand, i.e. by 49.5%.

The increase in fees and commissions was mainly caused by higher commission costs related to payment cards, incurred for payment card operators, which increased by PLN 9,599 thousand, i.e. 94.6%.

10 NET TRADING INCOME

	1Q 2018 from 01.01.2018 to 31.03.2018	1Q 2017 from 01.01.2017 to 31.03.2017
Equity instruments measured at fair value through profit or loss	780	-
Debt instruments measured at fair value through profit or loss	(37)	-
Derivative instruments and result on foreign exchange transactions	74,669	65,661
Result on financial instruments measured at fair value through profit or loss, total	**75,412**	**65,661**

The result on trading activities for the first quarter of 2018 amounted to PLN 75,421 thousand and was higher by PLN 9,751 thousand or 14.9% YoY. The level and volatility of this result are mainly determined by the valuation of derivative instruments and the result from exchange positions.

11 RESULT ON INVESTMENT ACTIVITIES

During the year, the Group did not change the classification of any financial assets measured at amortized cost to be measured at fair value through other comprehensive income.

	1Q 2018 from 01.01.2018 to 31.03.2018	1Q 2017 from 01.01.2017 to 31.03.2017
Financial assets available for sale	-	984
Debt instruments measured at fair value through other comprehensive income	-	-
Debt instruments measured at fair value through profit or loss, including:	8,393	-
Loans and advances to customers measured at fair value through profit or loss	7,833	-
Other securities	-	-
Impairment allowance on shares in subsidiary	-	-
Total	**8,393**	**984**

The result on investment activities for the first quarter of 2018 amounted to PLN 8,393 thousand and was higher by PLN 7,409 thousand as compared to the result achieved in the same period of 2017. As part of this result, in the first quarter of 2018, the change in the valuation of the portfolio of loans and advances to customers measured at fair value through profit or loss account resulting from the adjustment to IFRS 9 was presented for the first time.

12 NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND CONTINGENT LIABILITIES

31.03.2018	Phase 1	Phase 2	Phase 3	Total
Amounts due from banks	212	-	-	212
Loans and advances to customers measured at amortised cost	58,153	(97,253)	(30,175)	(69,275)
Contingent commitments granted	2,032	864	3,828	6,724
Securities measured at amortised cost	(18)	3	-	(15)
Debt instruments measured at fair value through other comprehensive income	-	-	-	-
Total net impairment losses on financial assets and contingent liabilities	**60,379**	**(96,396)**	**(26,347)**	**(62,354)**

	1Q 2017 from 01.01.2017 to 31.03.2017
Amounts due from banks	1,050
Loans and advances to customers measured at amortised cost	(87,769)
Contingent commitments granted	720
Securities measured at amortised cost	-
Debt instruments measured at fair value through other comprehensive income	-
Total net impairment losses on financial assets and contingent liabilities	**(85,999)**

The result of impairment allowances on financial assets and provisions for contingent liabilities for the first quarter of 2018 amounted to PLN -62,354 thousand and improved by PLN 23,645 thousand, i.e. by 27.5% compared to the corresponding period in 2017.

As part of this category, the result on 4 sale transactions of debt portfolios realized in the first quarter of 2017 is presented. The net effect on the Bank's result from the sale of portfolios amounted to PLN 16,154 thousand. In the first quarter of 2018, the Bank did not sell any loan portfolios.

Annualized cost of credit risk expressed as the ratio of net impairment allowances to the average of net loans and advances to customers (calculated on the basis of balances at the end of the quarters) was 0.46% after the first quarter of 2018 and was lower by 0.16 p.p. from the cost recognized in the corresponding period of the previous year (0.62%).

Considering the main operational segments[1]:

[1] Information based on segmentation notes included in the Consolidated Interim Report of the Capital Group of Bank BGŻ BNP Paribas for the first quarter ended on 31 March 2018.

- The Retail and Business Banking Segment - increase by PLN 26,492 thousand YoY,
- SME Banking Segment – increase by PLN 11,236 thousand YoY,
- Corporate Banking Segment (together with CIB) – decrease by PLN 6,052 thousand YoY,
- Other Operations Segment – decrease by PLN 8,030 thousand YoY.

13 GENERAL ADMINISTRATIVE EXPENSES

	1Q 2018 from 01.01.2018 to 31.03.2018	1Q 2017 from 01.01.2017 to 31.03.2017
Personnel expenses	(207,741)	(216,103)
Marketing expenses	(23,168)	(15,664)
IT and telecom expenses	(24,824)	(26,652)
Rental expenses	(37,283)	(37,459)
Other non-personnel expenses	(42,280)	(42,685)
Business travels	(2,318)	(2,513)
ATM and cash handling expenses	(668)	(663)
Costs of outsourcing services related to leasing operations	(1,525)	(4,631)
Bank Guarantee Fund fee	(39,046)	(41,421)
Polish Financial Supervision Authority fee	(1,235)	(1,168)
Total general administrative expenses	**(380,088)**	**(388,959)**

The Group's general administrative expenses incurred in the first quarter of 2018 amounted to PLN 380,088 thousand and were lower by PLN 8,871 thousand, i.e. by 2.3% as compared to the corresponding period of the previous year.

The largest decrease concerns personnel expenses, which are lower by PLN 8.4 million than in the first quarter of the previous year. The reduction in costs was due to lack of integration costs, which in January-March 2017 amounted to PLN 3.9 million, lower level of holiday provision and training costs. Employment at the Bank Capital Group as at the end of March 2018 was 7,581 FTEs and was lower by 53 FTEs than at the end of March 2017.

The reduction of costs was also influenced by:

- a decrease in outsourcing costs in leasing activities by PLN 3.1 million,
- a decrease in IT and telecommunication costs by PLN 1.8 million,
- a decrease of fees for the Bank Guarantee Fund by PLN o 1.4 million,

The total BFG premiums posted by the Bank in the first quarter of 2018 cost amounted to PLN 39.0 million (in the first quarter of 2017 - PLN 41.1 million), including:

- provision for the annual premium for the bank's forced restructuring fund for 2018: PLN 24.1 million (PLN 30.0 million in the corresponding period of the previous year). The amount of the annual premium for the bank's forced restructuring fund established by BFG for the Bank in 2018 is PLN 52.8 million,
- contribution to the bank guarantee fund due for the first quarter of 2018: PLN 14.9 million (in the corresponding period of the previous year: PLN 11.4 million).

In the first quarter of 2018, compared to the first quarter of 2017, the marketing costs increased by PLN 7.5 million, which resulted from the increased number of marketing campaigns run in the media (cash loan campaign, personal account image campaign, Wspieramy Startujący Biznes campaign [We Support Starting Business]).

The transformation costs in the first quarter of 2018 amounted to PLN 888 thousand and were comparable (after excluding wages) to the costs for the corresponding period in the previous year.

14 DEPRECIATION AND AMORTIZATION

	1Q 2018 from 01.01.2018 to 31.03.2018	1Q 2017 from 01.01.2017 to 31.03.2017
Property, plant and equipment	(22,124)	(22,182)
Intangible assets	(18,809)	(25,709)
Total depreciation and amortization	**(40,933)**	**(47,891)**

Depreciation and amortization costs in the analysed period, in relation to the first quarter of 2017, decreased by PLN 7.0 million, i.e. by 14.5%. This resulted from the assets eliminated from use after the liquidation resulting from the operational merger of the BGŻ S.A. with BNP Paribas Bank Polska S.A. and Sygma Bank Polska S.A.

15 OTHER OPERATING INCOME

	1Q 2018 from 01.01.2018 to 31.03.2018	1Q 2017 from 01.01.2017 to 31.03.2017
Sale or liquidation of property, plant and equipment and intangible assets	2,376	363
Sale of goods and services	1,580	3,113
Release of provisions for litigation and claims and other liabilities	159	557
Recovery of debt collection costs	4,804	3,446
Recovered indemnities	12,548	1,825
Income from leasing operations	8,134	6,067
Other operating income	9,082	8,426
Total other operating income	**38,683**	**23,797**

Other operating income in the first quarter of 2018 increased by PLN 14,886 thousand in comparison to the corresponding period of 2017.

The factors that contributed to the above growth were primarily:

- revenues due to recovered overdue, forgiven and uncollectable receivables as well as repayment of derecognized receivables - increase by PLN 10,723 thousand;
- revenues from leasing activities - increase by PLN 2,067 thousand,
- profit on the sale or liquidation of fixed assets and intangible assets - increase by PLN 2,013 thousand; (sale of the Bank's real estate).

The item "Other operating income" in the first quarter of 2018 includes an annual adjustment of VAT charged in 2017 in the amount of PLN 2.9 million (as compared to PLN 7.9 million in the corresponding period of the previous year).

16 OTHER OPERATING EXPENSES

	1Q 2018 from 01.01.2018 to 31.03.2018	1Q 2017 from 01.01.2017 to 31.03.2017
Loss on sale or liquidation of property, plant and equipment and intangible assets	(1,716)	(1,661)
Impairment allowances on other receivables	-	(9,589)
Provisions for restructuring of assets, litigation and claim and other liabilities	(13,571)	(202)
Debt collection	(10,944)	(8,313)
Donations made	(630)	(635)
Costs of leasing operations	(7,605)	(7,492)
Costs of compensations, penalties and fines	(819)	-
Other operating expenses	(4,726)	(3,655)
Total other operating expenses	**(40,011)**	**(31,547)**

Other operating expenses in the first quarter of 2018 amounted to PLN 40,011 thousand and were higher by PLN 8,464 thousand, i.e. by 26.8% as compared to the corresponding period of the previous year.

The level of other operating expenses in the analysed period was mainly influenced by:

- costs due to the creation of provisions for litigations and other liabilities - increase by PLN 13,369 thousand;
- costs due to debt recovery - increase by PLN 2,631 thousand;
- costs due to created revaluation allowances - in the first quarter of 2017, this item included a provision for unsettled card transaction balances resulting from the migration of IT systems after the end of the operational merger (decrease by PLN 9,589 thousand).

17 INCOME TAX EXPENSE

	1Q 2018 from 01.01.2018 to 31.03.2018	1Q 2017 from 01.01.2017 to 31.03.2017
Current income tax	(25,355)	(27,111)
Deferred income tax	(10,381)	(12,781)
Total income tax expense	**(35,736)**	**(39,892)**
Profit before income tax	121,194	79,455
Statutory tax rate	19%	19%
Income taxes on gross profit	**(23,027)**	**(15,096)**
Receivables written-off	(21)	926
Non-tax-deductible tangible costs/income	285	492
PFRON	(217)	(304)
Prudential fee to the Bank Guarantee Fund	(7,419)	(7,870)
Impairment allowance on receivables	(591)	(1,265)
Tax on financial institutions	(9,507)	(9,909)
Other differences	4,761	(6,866)
Total income tax expense	**(35,736)**	**(39,892)**

18 CASH AND CASH BALANCES AT CENTRAL BANK

CASH AND CASH EQUIVALENTS	31.03.2018	31.12.2017
Cash and other balances	800,726	918,927
Account in the National Bank of Poland	1,539,279	79,108
Cash and cash equivalents, gross	2,340,005	998,035
Impairment allowances	(270)	-
Total cash and balances at Central Bank	**2,339,735**	**998,035**

CHANGE OF IMPAIRMENT ALLOWANCES	31.03.2018	31.12.2017
Opening balance	-	-
Impact of IFRS 9 on the opening balance	(14)	
Increases	(254)	-
Decreases		-
Closing balance	**(270)**	**-**

19 AMOUNTS DUE FROM BANKS

	31.03.2018	31.12.2017
Current accounts	130,783	1,732,861
Interbank deposits	246,232	800,105
Loans and advances	23,053	23,053
Other receivables	177,870	52,147
Total amounts due from banks (gross)	**577,938**	**2,608,166**
Impairment allowances on amounts due from banks	(683)	(4,477)
Total amounts due from banks (net)	**577,255**	**2,603,689**

Change in the balance of allowances on amounts due from banks is presented in the below table:

	3 months ended 31.03.2018	12 months ended 31.12.2017
Impairment allowances on amounts due from banks at the beginning of the period	**(4,477)**	**(2,053)**
Impact of IFRS 9 on the opening balance	3,333	-
Recognition of impairment allowances	(1,766)	(5,974)
Release of impairment allowances	2,234	3,550
Charge to revaluation write-offs	-	-
Other changes	(7)	-
Impairment allowances on amounts due from banks at the end of the period	**(683)**	**(4,477)**

20 DERIVATIVE FINANCIAL INSTRUMENTS

31.03.2018	Nominal value	Fair value Assets	Fair value Liabilities
TRADING DERIVATIVES (HELD FOR TRADING)			
CURRENCY DERIVATIVES:			
Foreign Exchange Forward (FX Forward + NDF)	4,002,620	27,362	53,050
Currency Swap (FX Swap)	4,806,333	58,432	22,556
Currency Interest Rate Swaps (CIRS)	7,589,016	131,,238	127,499
OTC currency options	1,354,129	5,974	6,019
Total currency derivatives:	**17,752,098**	**223,006**	**209,124**
INTEREST RATE DERIVATIVES:			
Interest Rate Swap	27,619,714	193,533	179,160
Forward Rate Agreements (FRA)	950,000	206	71
OTC interest rate options	2,417,459	6,849	6,889
Total interest rate derivatives:	**30,987,173**	**200,588**	**186,120**
OTHER DERIVATIVES			
OTC options	141,909	2,994	2,994
OTC commodity swaps	171,462	2,888	2,858
Currency Spot (FX Spot)	354,305	-	-
Other options	-	-	-
Total other derivatives:	**667,676**	**5,882**	**5,852**
TOTAL TRADING DERIVATIVES:	**49,406,947**	**429,476**	**401,096**
including: valued using models	*49,406,947*	*429,476*	*401,096*

		Fair value	
31.12.2017	Nominal value	Assets	Liabilities
TRADING DERIVATIVES (HELD FOR TRADING)			
CURRENCY DERIVATIVES:			
Foreign Exchange Forward (FX Forward + NDF)	3,447,179	34,264	65,128
Currency Swap (FX Swap)	6,655,454	108,078	68,971
Currency Interest Rate Swaps (CIRS)	5,841,300	131,149	101,365
OTC currency options	1,138,116	5,969	5,985
Total currency derivatives:	**17,082,049**	**279,460**	**241,449**
INTEREST RATE DERIVATIVES:			
Interest Rate Swap	29,873,473	173,999	166,172
Forward Rate Agreements (FRA)	1,450,000	97	63
OTC interest rate options	2,866,088	13,071	13,142
Total interest rate derivatives:	**34,189,561**	**187,167**	**179,377**
OTHER DERIVATIVES			
OTC options	226,962	4,010	4,004
OTC commodity swaps	110,646	2,858	2,880
Currency Spot (FX Spot)	1,365,326	295	-
Other options	3,500	631	-
Total other derivatives:	**1,706,434**	**7,794**	**6,884**
TOTAL TRADING DERIVATIVES:	**52,978,044**	**474,421**	**427,710**
including: valued using models	*52,978,044*	*474,421*	*427,710*

21 HEDGE ACCOUNTING

As at 31 March 2018, the Group used fair value hedge (**macro fair value hedge**).

Hedging relationship description	The hedges are used against interest rate risk, specifically changes in the fair value of fixed-rate assets and liabilities resulting from changes in a specific reference rate.
Hedged items	Fixed-rate PLN, EUR and USD current accounts are the hedged items.
Hedging instruments	Hedging instruments include standard IRS transactions, i.e. plain vanilla IRS in PLN, EUR and USD, in which the Group receives a fixed interest rate and pays a floating rate based on WIBOR 6M, WIBOR 3M, EURIBOR 3M, EURIBOR 1M, USD LIBOR 1M.
Presentation of result on the hedged and hedging transactions	The change in fair value of hedging instruments is recognized in the Result on hedge accounting. Interest on IRS transactions and current accounts is recognized in Interest income.

		Fair value	
IRS	Nominal value	Assets	Liabilities
31.03.2018	5,747,068	49,925	-
31.12.2017	5,308,397	26,399	-

The below table presents derivative hedging instruments at their nominal value as at 31 March by residual maturity dates:

	31.03.2018							
	Fair value		Nominal value					
Hedging derivatives	positive	negative	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Forward rate agreements								
Swap (IRS)	53,459	3,534	-	900,000	219,251	3,814,689	813,128	5,747,068
Hedging derivatives - total	**53,459**	**3,534**	**-**	**900,000**	**219,251**	**3,814,689**	**813,128**	**5,747,068**

	31.12.2017							
	Fair value		Nominal value					
Hedging derivatives	positive	negative	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Forward rate agreements								
Swap (IRS)	32,730	6,331	16,684	-	1,104,439	3,333,001	854,273	5,308,397
Hedging derivatives - total	**32,730**	**6,331**	**16,684**	**-**	**1,104,439**	**3,333,001**	**854,273**	**5,308,397**

In addition, as at 31 March 2018, the Group applies fair value hedge accounting (**micro fair value hedge**).

Hedging relationship description	The hedges are used against interest rate risk, specifically changes in the fair value of fixed-rate assets and liabilities resulting from changes in a specific reference rate.
Hedged items	Fixed rate bond PS0422 is the hedged item.
Hedging instruments	Hedging instrument is the standard IRS transactions, i.e. plain vanilla IRS in PLN, in which the Group receives a fixed interest rate and pays a floating rate based on WIBOR 6M.
Presentation of result on the hedged and hedging transactions	The change in fair value of hedging transactions is recognized in the Result on hedge accounting. Interest on IRS transactions and bonds is recognized in Interest income.

IRS	Nominal value	Fair value	
		Assets	Liabilities
31.03.2018	750,000	-	9,502

The below table presents derivative hedging instruments at their nominal value as at 31 March 2018 by residual maturity dates:

Hedging derivatives	31.03.2018							
	Fair value		Nominal value					
	positive	negative	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Forward rate agreements								
Swap (IRS)	-	9,502	-	-	-	750,000	-	750,000
Hedging derivatives - total	**-**	**9,502**	**-**	**-**	**-**	**750,000**	**-**	**750,000**

22 LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST

	31.03.2018	31.12.2017
OVERDRAFTS:	**9,360,092**	**8,676,125**
corporate	5,179,188	4,615,526
households:	4,159,750	4,050,776
retail customers	175,111	174,843
individual entrepreneurs	432,056	431,127
farmers	3,552,583	3,444,806
public sector institutions	3,520	1,379
other entities	17,634	8,444
LOANS AND ADVANCES:	**43,550,357**	**47,076,223**
corporate:	11,864,560	12,758,353
investment loans	6,784,022	7,463,839
revolving loans	2,675,448	2,942,520
other	2,405,090	2,351,994
households:	27,930,728	30,246,761
retail customers, including:	20,842,239	20,764,213
mortgage loans	13,604,845	13,628,114
individual entrepreneurs	2,077,908	1,923,343
farmers	5,010,581	7,559,205
public sector institutions	122,884	170,794
other entities	533,761	852,796
Lease receivables	3,098,424	3,047,519
Total gross loans and advances	**52,910,449**	**55,752,348**
Impairment allowances (negative value)	(3,410,091)	(2,784,780)
Total net loans and advances	**49,500,358**	**52,967,568**

At the end of March 2018, the gross value of loans and advances to customers measured at amortized cost amounted to PLN 52,910,449 thousand. Comparability with data as at 31 December 2017 was disturbed by the fact that the portfolio of loans and advances to customers, classified as measured at fair value through profit or loss in accordance with IFRS 9, was shown separately and amounted to PLN 2,750,954 thousand as at 31 March 2018.

Fair value measurement of Loans and advances to customers classified as measured at fair value through profit or loss as at 31 March 2018 amounted to PLN -134,180 thousand.

The gross value of loans and advances to corporate clients (including overdrafts) as at 31 March 2018 amounted to PLN 17,043,748 thousand and currently constitutes 32.2% of the total gross value of loan portfolio measured at amortized cost.

The gross value of loans and advances to households (including overdrafts) as at 31 March 2018 amounted to PLN 32,090,478 thousand and constitutes 60.7% of the total gross value of loan portfolio measured at amortized cost. In the structure of loans for households, 42.4% (i.e. PLN 13,904,845 thousand) are loans for real estates, granted to retail clients, including: 60.8% of loans denominated in PLN and 38.7% - loans denominated in CHF.

Approximately 5.9% of the gross value of loan portfolio measured at amortized cost are lease receivables.

The share of the exposures with identified impairment in the total gross value of loan portfolio measured at amortized cost amounted to 7.7% as at 31 March 2018.

Impairment allowances on loans and advances to customers

	31.03.2018	31.12.2017
OVERDRAFTS:	**(545,912)**	**(436,623)**
corporate	(342,139)	(282,483)
households:	(202,889)	(153,568)
retail customers	(20,293)	(16,355)
individual entrepreneurs	(76,325)	(65,656)
farmers	(106,271)	(71,557)
public sector institutions	(29)	(1)
other entities	(855)	(571)
LOANS AND ADVANCES:	**(2,864,179)**	**(2,348,157)**
corporate	(947,521)	(811,200)
investment loans	(339,767)	(252,920)
revolving loans	(418,958)	(419,232)
other	(188,796)	(139,048)
households:	(1,786,095)	(1,437,777)
retail customers, including:	(1,260,529)	(926,140)
mortgage loans	(411,796)	(315,298)
individual entrepreneurs	(308,596)	(244,373)
farmers	(216,970)	(267,264)
public sector institutions	(1,265)	(189)
other entities	(6,600)	(4,893)
Lease receivables	(122,698)	(94,098)
Total impairment allowances	**(3,410,091)**	**(2,784,780)**

31.03.2018	Phase 1	Phase 2	Phase 3	Total
Total impairment allowances	261,985	396,148	2,751,958	(3,410,091)

Change in the balance of impairment allowances on loans and advances to customers:

	3 months ended 31.03.2018	12 months ended 31.12.2017
Impairment allowances, opening balance	**(2,784,780)**	**(3,001,356)**
Impact of IFRS 9 on the opening balance	(746,195)	-
Recognition of impairment allowances	(538,807)	(1,020,806)
Release of impairment allowances	469,531	672,520
Charge to revaluation write-offs	184,754	548,116
Other changes (including foreign exchange gains or losses)	5,406	16,746
Impairment allowances, closing balance	**(3,410,091)**	**(2,784,780)**

Bank's exposures to credit risk related to loans and advances by impairment triggers occurrence

EXPOSURES WITH IDENTIFIED IMPAIRMENT	31.03.2018	31.12.2017
gross balance sheet value	4,067,164	4,122,924
allowance	(2,726,578)	(2,494,662)
Total net value	**1,340,586**	**1,628,262**

EXPOSURES WITH IDENTIFIED IMPAIRMENT, FOR WHICH IMPAIRMENT IS IDENTIFIED	31.03.2018	31.12.2017
gross balance sheet value, including:	-	-
exposures for which the value of collateral was included in the discounted expected future cash flows, including:	-	-
past due exposures	-	-
allowance	-	-
Total net value		

EXPOSURES WITHOUT IMPAIRMENT TRIGGERS	31.03.2018	31.12.2017
gross balance sheet value	48,843,285	51,629,424
allowance	(683,513)	(290,118)
Total net value	**48,159,772**	**51,339,306**

Gross amount of foreign currency mortgage loans for retail customers (in PLN '000)

Loans by currency	31.03.2018	31.12.2017
CHF	5,269,653	5,350,126
EUR	63,676	65,037
PLN	8,268,053	8,209,418
USD	3,463	3,533
Total	**13,604,845**	**13,628,114**

Value of CHF loan portfolio

	31.03.2018		31.12.2017	
Gross loan portfolio, including:	Total portfolio	including CHF exposures	Total portfolio	including CHF exposures
OVERDRAFTS:	**9,360,092**	**3**	**8,676,125**	**5**
corporate	5,179,188	-	4,615,526	-
households:	4,159,750	3	4,050,776	5
retail customers	175,111	3	174,843	5
individual entrepreneurs	432,056	-	431,127	-
farmers	3,552,583	-	3,444,806	-
public sector institutions	3,520	-	1,379	-
other entities	17,634	-	8,444	-
LOANS AND ADVANCES:	**43,550,357**	**5,496,954**	**47,076,223**	**5,596,958**
corporate	11,864,560	52,321	12,758,353	53,834
investment loans	6,784,022	8,657	7,463,839	10,690
revolving loans	2,675,448	30,998	2,942,520	32,588
other	2,405,090	12,666	2,351,994	10,556
households:	27,930,728	5,389,022	30,246,761	5,467,012
retail customers, including:	20,842,239	5,349,338	20,764,213	5,426,710
mortgage loans	13,604,845	5,269,653	13,628,114	5,350,126
individual entrepreneurs	2,077,908	33,384	1,923,343	33,996
farmers	5,010,581	6,300	7,559,205	6,306
public sector institutions	122,884	-	170,794	-
other entities	533,761	1,133	852,796	1,790
Lease receivables	3,098,424	54,478	3,047,519	74,322
Total gross loans and advances	**52,910,449**	**5,496,957**	**55,752,348**	**5,596,963**

Value of impairment allowances for CHF loans

	31.03.2018		31.12.2017	
Loan portfolio (gross), including:	Total portfolio	including CHF exposures	Total portfolio	including CHF exposures
OVERDRAFTS:	**(545,912)**	**-**	**(436,623)**	**(3)**
corporate	(342,139)	-	(282,483)	-
households:	(202,889)	-	(153,568)	(3)
retail customers	(20,293)	-	(16,355)	(3)
individual entrepreneurs	(76,325)	-	(65,656)	-
farmers	(106,271)	-	(71,557)	-
public sector institutions	(29)	-	(1)	-
other entities	(855)	-	(571)	-
LOANS AND ADVANCES:	**(2,864,179)**	**(296,622)**	**(2,348,157)**	**(244,872)**
corporate	(947,521)	(7,846)	(811,200)	(3,998)
investment loans	(339,767)	(1,679)	(252,920)	(613)
revolving loans	(418,958)	(378)	(419,232)	(263)
other	(188,796)	(5,789)	(139,048)	(3,122)
households:	(1,786,095)	(274,250)	(1,437,777)	(226,166)
retail customers, including:	(1,260,529)	(263,917)	(926,140)	(217,462)
mortgage loans	(411,796)	(247,494)	(315,298)	(206,799)
individual entrepreneurs	(308,596)	(9,027)	(244,373)	(7,614)
farmers	(216,970)	(1,306)	(267,264)	(1,090)
public sector institutions	(1,265)	-	(189)	-
other entities	(6,600)	(1)	(4,893)	-
Lease receivables	(122,698)	(14,525)	(94,098)	(14,708)
Total impairment allowances	**(3,410,091)**	**(296,622)**	**(2,784,780)**	**(244,875)**

In the first quarter of 2018, the Bank did not conclude any agreements regarding the sale of loan portfolios.

Securitization

In 2017, the Bank concluded 9 agreements regarding the sale of the loan portfolio.

In December 2017, the Bank performed a securitization transaction on the portfolio of cash and car loans. The transaction is a traditional securitization involving the transfer of ownership of the securitized receivables to SPV (BGŻ Poland ABS1 DAC based in Ireland). The revolving period is 24 months.

SPV issued bonds with a total value of PLN 2,180,850 thousand on the basis of securitized assets and received a loan of PLN 119,621 thousand, which was secured by a registered pledge on the rights to cash flows from securitized assets.

As a result of securitization, the Bank obtained financing in return for the transfer of rights to future cash flows resulting from the securitized loan portfolio in the amount of PLN 2,300,471 thousand as at 22 November 2017 (cut-off). The maximum deadline for full redemption of bonds and repayment of the loan is 27 April 2032.

The main benefit of the performed transaction is a positive impact on capital adequacy ratios and improvement of liquidity and diversification of financing sources.

In the light of the provisions of IAS 39, the contractual terms of the securitization do not fulfil the conditions for derecognition of securitized assets. In connection with the above, the Bank recognizes securitized assets in “Loans and advances to customers” as at 31 December 2017 at net value of PLN 2,106,698 thousand. At the same time, the Bank recognizes a liability due to cash flows from securitizations in "Liabilities due to customers" in the amount equal to PLN 2,300,471 thousand as at 31 December 2017. As at 31 December 2017, the Bank held receivables due to settlements with a securitization company in the amount of PLN 87,699 thousand. These receivables are presented in “Other assets”.

The Bank acts as a servicing entity in this transaction.

Balance sheet values and fair values of financial assets covered by securitization and related liabilities:

	Balance sheet amount		Fair value	
	31.03.2018	31.12.2017	31.03.2018	31.12.2017
Assets	2,121,611	2,194,397	2,121,611	2,194,397
Liabilities	2,301,527	2,303,210	2,301,527	2,303,210

23 LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.03.2018	31.12.2017
Preferential loans	2,750,954	-
Total loans and advances to customers measured at fair value through profit or loss	**2,750,954**	**-**

The table below presents a comparison of the fair value of preferential loans with their gross balance sheet value, which would have been recognized if the Group - in accordance with the requirements of IFRS 9 - did not reclassify these portfolios to measured at fair value through profit or loss.

	Fair value	Gross balance sheet value
31.03.2018	2 750 954	2 885 134

24 FINACIAL ASSETS AVAILABLE FOR SALE

	31.03.2018	31.12.2017
Debt securities available for sale:	-	13,870,298
issued by central banks – NBP bills	-	2,099,429
issued by governments – Treasury-bonds	-	11,703,293
issued by non-financial entities – bonds	-	62,574
issued by local governments – municipal bonds	-	5,002
Equity securities available for sale: (stock and shares)	-	51,591
Share units	-	651
Total financial assets available for sale	**-**	**13,922,540**
including:		
measured using the market quotation method	-	*11,703,944*
measured using models	-	*2,218,596*

25 SECURITIES MEASURED AT AMORTISED COST

	31.03.2018	31.12.2017
Debt securities:	9,497,488	-
issued by central banks – NBP bills	-	-
issued by governments – Treasury-bonds	8,957,879	-
issued by non-financial entities – bonds	534,579	-
issued by local governments – municipal bonds	5,030	-
Total securities measured at amortised cost, gross	9,497,488	-
Allowances (negative value)	**(19,226)**	**-**
Total securities measured at amortised cost, net	9,478,262	-

Impairment allowances on debt instruments measured at amortized cost:

	31.03.2018	31.12.2017
Debt securities:	(19,226)	-
issued by central banks – NBP bills	-	-
issued by governments – Treasury-bonds	-	-
issued by non-financial entities – bonds	(33)	-
issued by local governments – municipal bonds	(19,193)	-
Total allowances	**(19,226)**	**-**

26 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.03.2018	31.12.2017
Debt securities measured at fair value through profit or loss		
Debt instruments held for trading	-	-
Debt instruments obligatory measured at fair value through profit or loss	118,562	-
Bonds issued by non-financial institutions	55,400	-
Bonds convertible to non-financial institutions' shares	6,362	-
Equity instruments	56,164	-
Units	636	
Financial instruments measured at fair value through profit or loss	**118,562**	**-**

27 SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31.03.2018	31.12.2017
Debt securities		
NBP bills	-	-
Treasury bonds issued by banks	-	-
Bonds issued by non-financial institutions	-	-
Bonds issued by local governments – municipal bonds	-	-
Bonds issued by central governments	4,801,476	-
Securities measured at fair value through other comprehensive income	**4,801,476**	**-**

The measurement of debt securities measured at fair value through other comprehensive income is based on the discounted cash flow model using current market interest rates, taking into account the issuer's credit risk in the amount corresponding to the parameters observed on the market for transactions with similar credit risk parameters and similar time horizon. The measurement does not take into account assumptions that cannot be observed directly on the market.

28 INTANGIBLE ASSETS

	31.03.2018	31.12.2017
Licenses	226,545	219,590
Other intangible assets	6,896	4,996
Expenditure on intangible assets	48,870	63,754
Total intangible assets	**282,311**	**288,340**

In the first quarter of 2018, the gross carrying amount of intangible assets acquired by the Group amounts to PLN 15,037 thousand (in the first quarter of 2017, it amounted to PLN 16,415 thousand), while the net carrying amount of sold and liquidated components amounted to PLN 137 thousand (in the first quarter of 2017 it was PLN 5,444 thousand).

29 PROPERTY, PLANT AND EQUIPMENT

	31.03.2018	31.12.2017
Fixed assets assets, including:	484,265	488,482
land and buildings	228,557	225,119
IT equipment	119,656	122,943
office equipment	26,771	26,717
other, including leasehold improvements	109,281	113,703
Fixed assets under construction	2,310	12,165
Total property, plant and equipment	**486,575**	**500,647**

In the first quarter of 2018, the gross carrying amount of the components of "Property, plant and equipment" purchased by the Group is PLN 9,585 thousand (in the first quarter of 2017 it amounted to PLN 8,558 thousand), while the net carrying amount of sold and liquidated components is PLN 1,531 thousand (in the first quarter of 2017 it was PLN 1,657 thousand).

30 OTHER ASSETS

OTHER ASSETS:	31.03.2018	31.12.2017
Receivables from contracts with customers:	**340,622**	**343,077**
sundry debtors	252,047	249,559
accrued income	79,524	86,454
payment card settlements	1,348	1,460
social insurance settlements	7,703	5,604
Other:	**190,577**	**134,462**
interbank and intersystem settlements	514	460
deferred expenses	47,404	34,767
tax and other regulatory receivables	78,313	70,461
other lease receivables	50,584	18,733
other	13,762	10,041
Total other assets (gross)	**531,199**	**477,539**
Impairment allowances on other receivables from other debtors	(96,234)	(82,730)
Total other assets (net)	**434,965**	**394,809**

31 AMOUNTS DUE TO BANKS

	31.03.2018	31.12.2017
Current accounts	869,293	285,008
Interbank deposits	375,381	18,131
Loans and advances received	3,735,369	3,476,702
Other liabilities	73,181	111,394
Total amounts due to banks	**5,053,224**	**3,891,235**

Deposits are deposits with fixed and variable interest rates.

There were no breaches of contractual provisions and conventions related to the financial situation of the Bank and disclosure obligations in 2018 and 2017.

32 AMOUNTS DUE TO CUSTOMERS

	31.03.2018	31.12.2017
OTHER FINANCIAL INSTITUTIONS:	**2,763,420**	**3,109,991**
Current accounts	262,863	465,431
Term deposits	1,080,357	1,168,269
Loans and advances received	1,418,926	1,475,684
Other liabilities, including:	1,274	607
due to cash collateral	1,253	584
other	21	23
RETAIL CUSTOMERS:	**27,849,090**	**27,649,983**
Current accounts	15,809,372	14,812,376
Term deposits	11,876,581	12,690,377
Other liabilities, including:	163,137	147,230
due to cash collateral	32,465	34,352
other	130,672	112,878
CORPORATE CUSTOMERS:	**22,646,888**	**24,662,821**
Current accounts	12,977,007	14,414,954
Term deposits	9,357,882	9,912,792
Other liabilities, including:	311,999	335,075
due to cash collateral	284,325	292,678
other	27,674	42,397
INCLUDING FARMERS:	**1,561,969**	**1,698,793**
Current accounts	1,394,002	1,540,706
Term deposits	154,994	142,209
Other liabilities, including:	12,973	15,878
due to cash collateral	6,703	5,777
other	6,270	10,101
PUBLIC SECTOR CUSTOMERS:	**1,857,172**	**906,102**
Current accounts	643,673	642,122
Term deposits	1,212,347	262,046
Other liabilities, including:	1,152	1,934
due to cash collateral	23	23
other	1,129	1,911
Total amounts due to customers	**55,116,570**	**56,328,897**

At the end of March 2018, amounts due to customers totalled PLN 55,116,570 thousand and were lower by 2.2% as compared to the end of 2017.

The share of current accounts in the structure of amounts due to customers remained at the same level as at the end of 2017 and amounted to 53.9%. As regards the value of funds deposited on current accounts, they decreased by PLN 641,968 thousand, i.e. by 2.1%. This was a result of a drop in the corporate clients segment (-10.0%) with simultaneous increase in current funds of individual clients (+ 6.7%). The share of term deposits in the structure of amounts due to customers, similarly as in the case of the above mentioned current accounts, has not changed as compared to the end of 2017 and amounted to 42.7%. As regards the value, term deposits decreased by PLN 506,317 thousand, i.e. by 2.1%, as compared to the end of December 2017. The decreases concerned the segment of individual clients (shifting funds to current accounts) and the corporate clients segment. These declines were partially compensated by the increase in term deposit balances in the public sector clients segment.

Total retail deposits increased by PLN 199,107 thousand, i.e. by 0.7% and accounted for 50.5% of all amounts due to customers at the end of March 2018 (increase by 1.4 p.p. as compared to the end of December 2017).

Total deposits of corporate clients dropped by PLN 2,015,933 thousand, i.e. by 8.2%. Their share in the total amounts due to customers decreased in the analysed period to 41.1% as compared to 43.8% at the end of December 2017.

The increase in deposits from the public sector was more than doubled, by PLN 951,070 thousand (mainly for term deposits), up to PLN 1,857,172 thousand. This fact had a positive impact on amounts due to customers. At the same time, their share in total amounts due to customers increased from 1.6% at the end of December 2017 to 3.4% at the end of March 2018.

33 DEBT SECURITIES ISSUED

Changes in the balance of debt securities issued

	3 months ended 31.03.2018	12 months ended 31.12.2017
Opening balance	**2,471,966**	**398,059**
Issuance of securities of securitization company	-	2,180,850
Redemption of certificates of deposit	(285,000)	(109,000)
Changes in discount, interests, commission on securities, foreign currency exchange differences	(5,035)	2,057
Balance of debt securities issued at the end of the period	**2,181,931**	**2,471,966**

In the first quarter of 2018, the Bank redeemed deposit certificates issued on the basis of the Agreement concluded in March 2008.

In December 2017, SPV issued bonds for the total amount of PLN 2,180,850 thousand with the maximum initial maturity date to 27 April 2032. The repayment of bonds is secured by receivables from loans and borrowings subject to securitization.

34 SUBORDINATED LIABILITIES

As at 31 March 2018, the carrying amount of subordinated liabilities is PLN 1,652,130 thousand (as at 31 December 2017 it amounted to PLN 1,645102 thousand).

Change in the balance of subordinated liabilities	3 months ended 31.03.2018	12 months ended 31.12.2017
Opening balance	**1,645,102**	**1,768,458**
Loans taken up	-	-
Change in the balance of interest	(1,088)	(345)
Exchange differences	8,116	(123,011)
Closing balance	**1,652,130**	**1,645,102**

35 OTHER LIABILITIES

	31.03.2018	31.12.2017
Liabilities due to contracts with customers	**388,818**	**441,041**
Sundry creditors	142,107	170,158
Payment card settlements	76,621	35,898
Deferred income	73,089	75,722
Escrow account liabilities	67,666	138,871
Social insurance settlements	29,335	20,392
Other liabilities	**552,333**	**784,282**
Interbank and intersystem settlements	97,964	342,148
Provisions for non-personnel expenses	188,051	159,650
Provisions for other employees-related liabilities	77,312	134,096
Provision for unused annual holidays	30,490	28,990
Other regulatory liabilities	79,330	55,045
Other lease liabilities	12,563	39,452
Other	66,623	24,901
Total other liabilities	**941,151**	**1,225,323**

36 PROVISIONS

	31.03.2018	31.12.2017
Provision for restructuring	6,984	10,479
Provision for retirement benefits and similar obligations	13,396	12,940
Provision for contingent financial liabilities and guarantees granted	66,926	35,419
Provisions for litigation and claims	20,640	7,109
Other provisions	9,578	10,906
Total provisions	**117,524**	**76,853**

Provisions for restructuring	3 months ended 31.03.2018	12 months ended 31.12.2017
Opening balance	**10 479**	**29 523**
Provisions recognition	-	1,602
Provisions utilization	(3,495)	(20,884)
Provisions release	-	-
Other changes	-	238
Closing balance	**6,984**	**10,479**

Provision for retirement benefits and similar obligations	3 months ended 31.03.2018	12 months ended 31.12.2017
Opening balance	**12,940**	**13,332**
Provisions recognition	578	1,702
Provisions release	(122)	(2,094)
Closing balance	**13,396**	**12,940**

Provisions for financial liabilities and guarantees granted	3 months ended 31.03.2018	12 months ended 31.12.2017
Opening balance	**35,419**	**42,659**
Impact of IFRS 9 on the opening balance	38,193	-
Provisions recognition	33,998	32,277
Provisions release	(40,721)	(40,383)
Other changes	37	866
Closing balance	**66,926**	**35,419**

Provisions for litigation and claims	3 months ended 31.03.2018	12 months ended 31.12.2017
Opening balance	**7,109**	**26,687**
Provisions recognition	13,704	7,046
Provisions utilization	(133)	(23,894)
Provisions release	(40)	(2,060)
Other changes	-	(670)
Closing balance	**20,640**	**7,109**

Other provisions	3 months ended 31.03.2018	12 months ended 31.12.2017
Opening balance	**10,906**	**8,840**
Provisions recognition	52	11,764
Provisions release	(1,380)	(5,747)
Other changes	-	(3,951)
Closing balance	**9,578**	**10,906**

37 CASH AND CASH EQUIVALENTS

For the purposes of the preparation of statement of cash flows, the balance of cash and cash equivalents includes the following balances with maturities are shorter than three months.

	31.03.2018	31.12.2017
Cash and balances at Central Bank (Note 18)	2,339,735	998,035
Current accounts of banks and other receivables	130,782	1,645,170
Interbank deposits	246,209	800,000
Total cash and cash equivalents	**2,716,726**	**3,443,205**

38 ADDITIONAL INFORMATION REGARDING THE STATEMENT OF CASH FLOWS

Cash flows from operating activities – other adjustments	3 months ended 31.03.2018	3 months ended 31.03.2017
FX differences from subordinated loans	8,116	(58,352)
Change on hedge accounting	(45,389)	(4,528)
Impact of IFRS 9	(318,028)	-
Capital of subsidiaries resulting from merger	-	52,075
Other adjustments	20,227	(24,643)
Cash flows from operating activities – total other adjustments	**(335,074)**	**(35,448)**

39 CONTINGENT LIABILITIES

The following table presents the value of liabilities granted and received by the Bank.

	31.03.2018	31.12.2017
CONTINGENT COMMITMENTS GRANTED	**19,730,600**	**19,466,753**
financial commitments	15,105,400	15,126,896
guarantees	4,625,200	4,339,857
CONTINGENT COMMITMENTS RECEIVED	**11,809,946**	**12,009,299**
financial commitments	10,786,506	10,871,719
guarantees	1,023,440	1,137,580

40 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Based on the methods used to determine fair value, the Bank classifies particular assets and liabilities into the following categories:

Level 1

Assets and liabilities measured on the basis of market quotations available on active markets for identical instruments.

Level 2

Assets and liabilities measured using valuation techniques based on directly or indirectly observed market quotations or other information based on market quotations.

Level 3

Assets and liabilities measured using valuation techniques where input data is not based on observable market data.

The Bank periodically (at least quarterly) assigns individual assets and liabilities to particular levels of the fair value hierarchy. The basis for classification to particular levels of the valuation hierarchy is the input data used for the valuation, i.e. market quotes or other information. The lowest level of input data used for the valuation, having a significant impact on determining the fair value, determines the classification of an asset or liability to a particular hierarchy level.

If the input data is changed to data classified to another level, e.g. as a result of changes in the valuation methodology or changes in market data sources, the Bank transfers the asset or liability to the appropriate level of measurement in the reporting period in which the change occurred.

In 2018 and 2017, the Bank did not make any changes in the method of fair value measurement that would result in the transfer of financial assets and liabilities between levels.

In the first quarter of 2018, particular instruments were included in the following valuation levels:

- to the first level: Treasury bonds (fair value is determined directly by reference to published active market quotations);
- to the second level: interest rate options in EUR and GBP, FX options, base interest rate and FX swaps maturing within 10 years, FRA maturing within 1 year, FX Forward, NDF and FX swaps maturing within 1 year, commodity swaps, interest rate swaps maturing within 10 years, structured instruments (fair value determined using measurement techniques which are based on available, verifiable market data), money bills, CATALYST-listed corporate bonds (fair value determined using measurement techniques which are based on available, verifiable market data or based on prices available on a limited-liquidity market);
- to the third level: interest rate options in PLN, FX options maturing over 1 year, FX Forward, NDF and FX swaps maturing over 1 year, base interest rate and FX swaps maturing over 10 years, interest rate swaps with residual maturity exceeding 10 years, structured instruments (fair value determined using measurement techniques (models) which are not based on available, verifiable market data), corporate bonds other than CATALYST-listed ones, shares which are not listed on the WSE (fair value determined using measurement techniques (models) which are not based on available, verifiable market data, i.e. in cases other than those described in 1 and 2).

The table below presents classification of assets and liabilities re-measured to fair value in the consolidated financial statements into three categories:

31.03.2018	Level 1	Level 2	Level 3	Total
ASSETS MEASURED TO FAIR VALUE:	**4,801,476**	**394,143**	**97,095**	**5,292,714**
Derivative financial instruments	-	394,143	35,333	429,476
Financial instruments measured at fair value through other comprehensive income	4,801,476	-	-	4,801,476
Financial instruments measured at fair value through profit or loss	-	-	61,762	61,762
LIABILITIES MEASURED AT FAIR VALUE:	**-**	**359,542**	**41,554**	**401,096**
Derivatives	-	359,542	41,554	401,096

31.12.2017	Level 1	Level 2	Level 3	Total
ASSETS MEASURED TO FAIR VALUE:	**11,703,944**	**2,606,666**	**173,516**	**14,484,126**
Derivative financial instruments	-	429,190	45,231	474,421
Hedging instruments	-	32,730	-	32,730
Available for sale financial assets	11,703,944	2,144,746	73,850	13,922,540
Investment properties	-	-	54,435	54,435
LIABILITIES MEASURED AT FAIR VALUE:	**-**	**382,304**	**55,024**	**437,328**
Derivatives	-	382,304	45,406	427,710
Hedging instruments	-	-	9,618	9,618

The fair value of level 2 and 3 financial instruments is determined using the measurement techniques (e.g. models).

The input data used for purposes of valuation of level 2 and 3 instruments include foreign exchange rates, yield curves, reference rates, changes in foreign exchange rates, reference rates, stock market indices and stock prices, swap points, basis spreads, stock market index values and futures prices.

As regards level 3 municipal bonds, the credit risk margin is a non-observable parameter corresponding to the market margin for instruments within similar characteristics. The effect of changes in the credit margin on changes in the fair value is considered immaterial.

In the case of investment property, the input data used for the valuation are offer prices for comparable properties, actual transaction prices and other data regarding the real estate market conditions in a given area. The adoption of other estimates than those used as at 31 December 2017 could result in a significant change in the valuation of the investment property, however, the Group does not have reliable estimates of their impact on the fair value of the property.

The valuation was made by an external property appraiser with the use of a mixed approach, residual method.

Presented below are changes in the measurement of level 3 assets and liabilities as well as amounts charged to profit or loss and statement of comprehensive income.

	Derivative financial instruments – assets	Financial assets measured at fair value	Derivative financial instruments – liabilities	Hedging instruments - liabilities
Balance as at 01.01.2018	**45,231**	**73,850**	**(45,406)**	**(9,618)**
Debt instruments measured at amortised cost reclassified to the portfolio in accordance with IFRS 9	-	(18,553)	-	-
Loans and advances reclassified to the portfolio in accordance with IFRS 9	-	54,114	-	-
Total gains/losses recognized in:	(9,898)	2,140	3,852	(3,418)
statement of profit or loss	*(9,898)*	*2,140*	*3,852*	*(3,418)*
statement of other comprehensive income	-	-	-	-
Purchase	-	6,518	-	-
Sale	-	(143)	-	-
Transfer	-	-	-	-
Impairment allowance	-	-	-	-
Merger	-	636	-	-
Balance as at 31.03.2018	**35,333**	**118,562**	**(41,554)**	**(13,036)**
Unrealized gains/losses recognized in profit or loss related to assets and liabilities at the end of the period	**(9,898)**	**2,140**	**3,852**	**(3,418)**

	Derivative financial instruments – assets	Financial assets measured at fair value	Derivative financial instruments – liabilities	Hedging instruments - liabilities
Balance as at 01.01.2017	**23,252**	**56,166**	**(14,681)**	**-**
Total gains/losses recognized in:	21,979	4,237	(30,725)	*(9,618)*
statement of profit or loss	*21,979*	*34*	(30,725)	*(9,618)*
statement of other comprehensive income	-	*4,203*	-	-
Purchase	-	3,300	-	-
Sale	-	(137)	-	-
Transfer	-	22,076	-	-
Impairment allowance	-	(11,792)	-	-
Balance as at 31.12.2017	**45,231**	**73,850**	**(45,406)**	**(9,618)**
Unrealized gains/losses recognized in profit or loss related to assets and liabilities at the end of the period	**21,979**	**34**	**(30,725)**	**(9,618)**

The Bank measures the fair value by discounting all contractual cash flows related to transactions, with the use of yield curves characteristic of each transaction group.

The yield curve used for fair value measurement of liabilities (such as customer and interbank deposits) and receivables (such as loans to customers and interbank deposits) comprises:

- the credit risk free yield curve;
- the cost of obtaining financing above the credit risk free yield curve;
- the market margin that reflects credit risk for receivables.

The yield curve for fair value measurement of loans is constructed through classification of loans into sub-portfolios depending on the product type and currency as well as customer segmentation. A margin is determined for each sub-portfolio taking into account credit risk. The margin is determined by reference to margins used for each type of loan granted over the past three months and if in this period loans were not granted or their volume was low, the starting point is the margin from the previous quarter increased by the average change in the level of margins on the whole loan portfolio observed during the quarter.

The following table presents the book and fair values of those financial assets and liabilities which have not been presented in the Group's statement of financial position at fair value, along with the measurement classification level. The current credit risk margin and the current liquidity margin, the values of which are not quoted on an active market, are the non-observable parameters for all the categories.

31.03.2018	Book value	Fair value	Level
FINANCIAL ASSETS			
Amounts due from banks	577,255	573,836	3
Loans and advances to customers measured at amortised cost	49,500,358	50,652,359	3
Debt instruments measured at amortised cost	9,478,262	9,555,808	3
FINANCIAL LIABILITIES			
Amounts due to banks	5,053,224	5,087,717	3
Amounts due to customers	55,116,570	55,230,970	3
Subordinated loan	1,652,130	1,830,934	3

31.12.2017	Book value	Fair value	Level
FINANCIAL ASSETS			
Amounts due from banks	2,603,689	2,600,055	3
Loans and advances to customers measured at amortised cost	52,967,568	45,939,989	3
Debt instruments measured at amortised cost	-	-	
FINANCIAL LIABILITIES			
Amounts due to banks	3,891,235	3,909,461	3
Amounts due to customers	56,328,897	56,432,669	3
Subordinated loan	1,645,102	1,802,804	3

a) Amounts due from banks and amounts due to banks

Amounts due from banks and amounts due to banks include interbank deposits and interbank settlements. The fair value of fixed and floating rate deposits/placements is based on discounted cash flows determined by reference to money market interest rates for items with similar credit risk and residual maturity.

b) Loans and advances to customers

The estimated fair value of loans and advances is the discounted value of future cash flows to be received, using the current market rates adjusted by actual or estimated margins earned over the past three months for each product group.

c) Investments in associates

The fair value of investments in associates is equal to their carrying amounts.

e) Liabilities due to subordinated loan

Liabilities include subordinated loans. The fair value of the floating rate loan is based on discounted cash flows determined by reference to money market interest rates for items with similar credit risk and residual maturity.

f) Amounts due to customers

The fair value of fixed and floating rate deposits is based on discounted cash flows determined by reference to money market interest rates adjusted by the actual cost of securing funds over the past three months. For demand deposits, it is assumed that the fair value is equal to their carrying amount.

g) Debt securities issued

The fair value of debt securities issued was estimated using a model discounting future cash flows from the investment, based on the market yield curves adjusted by the issuer's credit risk.

41 RELATED PARTY TRANSACTIONS

Bank BGŻ BNP Paribas S.A. operates within the BNP Paribas S.A. Capital Group.

Bank BGŻ BNP Paribas S.A. is the parent in the Capital Group of Bank BGŻ BNP Paribas S.A.

As at 31 March 2018 the Group comprised Bank BGŻ BNP Paribas S.A., the parent, and its subsidiaries:

1. Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o. ("Actus"), with its registered office at Kasprzaka 10/16 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000023062. The Bank holds 100% interest in the share capital of the company.

2. Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A. ("TFI") with its registered office at Twarda 18 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register, under number KRS 0000031121. The Bank holds 100% of the company's shares.

3. BNP Paribas Leasing Services Sp. z o.o. ("Leasing", formerly: Fortis Lease Polska Sp. z o.o. in liquidation) with the registered office at Suwak 3 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000098813. The Bank holds 100% of the company's shares.

4. BNP Paribas Group Service Center S.A. ("GSC", formerly: Laser Services Polska S.A.) with the registered office at Suwak 3 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000022784. The Bank holds 100% of the company's shares.

5. BGŻ Poland ABS1 DAC ("SPV") based in Ireland, 3RD Floor Kilmore House, Park Lane, Spencer Dock, Dublin. A special purpose company, with which the Bank performed a securitization transaction concerning a part of the loan portfolio. The Bank does not have any capital involvement in this company. The company is controlled by BGŻ BNP Paribas S.A. Capital Group only in terms of IFRS 10.

All transactions between the Bank and its related parties were entered into as part of its daily operations and included mainly loans, deposits, transactions in derivative instruments as well as income and expenses related to advisory and financial intermediation services.

Transactions with shareholders of BGŻ BNP Paribas S.A. and related parties

31.03.2018	BNP Paribas S.A.	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Total
ASSETS	**358,535**	**97,254**	**181,681**	**48**	**637,518**
Receivables on current accounts, loans and deposits	97,620	95,265	170,922	4	**363,811**
Derivative financial instruments	218,551	186	-	-	**218,737**
Hedging instruments	41,913	1,803	-	-	**43,716**
Other assets	451	-	10759	44	**11,254**
LIABILITIES	**3,024,292**	**14,740**	**3,654,328**	**4,213**	**6,697,573**
Loans and advances received	1,222,295	-	2,937,416	-	**4,159,711**
Current accounts and deposits	204,496	14,723	459,094	4,213	**682,526**
Subordinated liabilities	1,403,426	-	253,054	-	**1,656,480**
Derivative financial instruments	180,789	4	-	-	**180,793**
Hedged instruments	13,036	-	-	-	**13,036**
Other liabilities	250	13	4,764	-	**5,027**
CONTINGENT LIABILITIES					
Financial commitments granted	-	-	96,890	56	**96,946**
Guarantees granted	37,890	54,859	418,184	-	**510,933**
Commitments received	47,458	70,522	444,135	-	**562,115**
Derivative financial instruments (nominal value)	30,314,556	108,707	-	-	**30,423,263**
Hedged instruments (nominal value)	5,567,608	29,460	-	-	**5,597,068**
3 months ended 31.03.2018					
STATEMENT OF PROFIT OR LOSS	**(6,323)**	**247**	**(14,677)**	**(14)**	**(20,767)**
Interest income	3,277	271	361	-	**3,909**
Interest expense	(7,954)	(81)	(10,443)	(14)	**(18,492)**
Fee and commission income	-	54	3,464	-	**3,518**
Fee and commission expense	(30)	-	(17)	-	**(47)**
Dividend income	-	-	-	-	**-**
Net trading income	-	3	(49)	-	**(46)**
Other operating income	-	-	3,675	-	**3,675**
Other operating expenses	(1,616)	-	(4,667)	-	**(6,283)**
General administrative expenses	-	-	(7,001)	-	**(7,001)**

31.12.2017	BNP Paribas S.A.	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Total
ASSETS	**1,730,525**	**32,927**	**5,661,299**	**38**	**7,424,789**
Receivables on current accounts, loans and deposits	1,466,676	16,861	902,976	3	**2,386,516**
Derivative financial instruments	263,483	16,066	-	-	**279,549**
Hedging instruments	366	-	4,758,323	35	**4,758,724**
Other assets	**2,901,637**	**33,249**	**5,186,468**	**4,113**	**8,125,467**
LIABILITIES	1,324,886	33,080	1,306,853	-	**2,664,819**
Loans and advances received	-	-	1,752,397	4,113	**1,756,510**
Current accounts and deposits	1,398,737	-	250,822	-	**1,649,559**
Subordinated liabilities	177,919	169	-	-	**178,088**
Derivative financial instruments	95	-	1,876,396	-	**1,876,491**
CONTINGENT LIABILITIES					
Financial commitments granted	197	18	134	44	**393**
Commitments received	459	78	341	-	**878**
Derivative financial instruments (nominal value)	71,725	313	55	-	**72,093**
12 months ended 31.12.2017					
STATEMENT OF PROFIT OR LOSS	**13,655**	**(2,232)**	**19,969,766**	**(7)**	**19,981,182**
Interest income	335	882	1,289	-	**2,506**
Interest expense	(39,158)	(2,100)	(39,321)	(7)	**(80,586)**
Fee and commission income	-	356	17,963,054	-	**17,963,410**
Fee and commission expense	(510)	(28)	(455)	-	**(993)**
Dividend income	-	-	33,462	-	**33,462**
Net trading income	86,611	(1,342)	510	-	**85,779**
Other operating income	-	-	2,111,410	-	**2,111,410**
Other operating expenses	(33,623)	-	(47,212)	-	**(80,835)**
General administrative expenses	-	-	(52,971)	-	**(52,971)**

Remuneration of the Management Board and Supervisory Board

Management Board	31.03.2018	31.12.2017
Short-term employee benefits	4,936	14,563
Long-term benefits	2,115	5,907
Benefits due to termination of employment	-	3,698
Post-employment benefits	-	3,101
Share-based payments	1,138	1,279
TOTAL	**8,189**	**28,548**

Supervisory Board	31.03.2018	31.12.2017
Short-term employee benefits	519	2,011
Long-term benefits	-	-
Benefits due to termination of employment	-	-
Share-based payments	-	-
TOTAL	**519**	**2,011**

42 CONSOLIDATED CAPITAL ADEQUACY RATIO

	31.03.2018	31.12.2017
Total equity	7,693,346	7,696,324
Total risk exposure	55,837,059	55,988,130
Total capital ratio	13.78%	13.75%
Tier 1 capital ratio	10.82%	10.81%

43 INFORMATION ON OPERATING SEGMENTS

Segment reporting

The Group has identified the following operating segments for reporting purposes and allocated income and expenses as well as assets and liabilities thereto: Retail and Business Banking, Small and Medium-Sized Enterprises (SME), Corporate Banking, Corporate and Institutional Banking (CIB) as well as Other Operations, including ALM Treasury and the Corporate Centre. Additionally, performance related to Agro customers, i.e. individual farmers and agro-food sector enterprises, as well as the Personal Finance segment has been presented. Although the aforesaid segment performance overlaps with that of the basic operating segments, it is additionally monitored separately for purposes of the Group's management reporting. The abovementioned segmentation reflects the principles of customer classification to each segment in line with the business model adopted by the Bank, which are based on such criteria as the entity, finances and type of business activity.

The Group's management performance is monitored by considering all items of the statement of profit or loss of the particular segment, to the level of gross profit, i.e. for each segment revenue, expenses and net impairment losses are reported. Management revenue takes into account cash flows between customer segments and the asset liability management unit, measured by reference to internal transfer prices of funds based on market prices and liquidity margins for each maturity and currency. Management expenses of the segments include direct operating expenses and expenses allocated using the allocation model adopted by the Group. Additionally, the management performance of the segments may take into account amounts due to each business line for services between such lines.

The Group's operations are carried out in Poland only. As no considerable differences in the risks, which might be affected by the geographical location of the Bank's branches, can be identified, no geographical disclosures have been presented.

The Group applies consistent, detailed principles to all identified segments. As regards the revenue, in addition to standard items, components of the net interest income of the segments have been identified, to include external and internal revenue and expenses. As regards operating expenses, the Group's indirect expenses are allocated to each segment in the Expense allocation (internal) item. Total integration of banks BGŻ and BNP Paribas Bank Polska costs are presented in the Other Operations segment. Considering the profile of the Bank's business, no material seasonal or cyclical phenomena are identified. The Group provides financial services, the demand for which is stable, and the effect of seasonality is immaterial.

Description of operating segments

The Retail and Business Banking Segment covers comprehensive services to retail customers, including private banking customers, as well as business clients (microenterprises), including:

- entrepreneurs whose annual net income for the preceding financial year is below PLN 10 million and the Group's credit exposure to a customer is less than PLN 2 million;
- farmers, in case of whom the Group's credit exposure is less than PLN 2 million and the Standard Output (parameter describing the economic size of farms in accordance with the Community Typology for Agricultural Holdings) in the preceding financial year was less than EUR 75 thousand or EUR 100 thousand (depending on the region).

The scope of financial services offered by the Retail and Business Banking Segment includes maintenance of current and deposit accounts, acceptance of term deposits, granting mortgage loans, cash loans, mortgage advances, overdrafts, loans to microenterprises, issuing debit and credit cards, cross-border cash transfers, foreign exchange transactions, sale of insurance products as well as other services of lesser importance to the Group's income.

Additionally, the performance of the Retail and Business Banking Segment includes: balances and performance of e-banking (BGŻ Optima), performance of brokerage services and distribution of investment fund units.

The Retail and Business Banking customers are served by the Bank's Branches and alternative channels, i.e. online banking, mobile banking and telephone banking, e-banking channel (BGŻ Optima) and the Banking Premium channel. Selected products are also sold by financial intermediaries active at the country and local level.

Personal Finance is responsible for development of product offering and management of financial services provided to consumers, with the following major products: cash loans, car loans, instalment loans and credit cards. The aforesaid products are distributed through the Retail and Business Banking branch network as well as external distribution channels.

SME Banking provides services to:

- institutional customers (other than retail customers) with annual net revenue for the preceding financial year of PLN 10-60 million or the Bank's credit exposure to one customer of PLN 2-25 million;
- farmers, in case of whom the Bank's credit exposure to a customer is PLN 2-25 million and the Standard Output (parameter describing the economic size of farms in accordance with the Community Typology for Agricultural Holdings) in the preceding financial year was at least EUR 75 thousand or EUR 100 thousand (depending on the region);
- Agro entrepreneurs with full financial reporting and sales revenue of PLN 10-60 million or the Bank's credit exposure of PLN 2-25 million, including agricultural producers groups.

The SME sales network has been divided into 7 SME Regions with 44 SME Business Centres dedicated solely to provision of services to Small and Medium Enterprises.

Corporate Banking offers a wide variety of financial services to large and medium-sized enterprises as well as local government entities with annual turnover exceeding PLN 60 million or the Bank's exposure to a customer of PLN 25 million or more, in addition to entities operating in multinational capital groups.
Corporate Banking customers are classified into 4 key groups:

- Polish mid-caps (with annual income of PLN 60-600 million);
- multinational customers (companies operating in multinational capital groups);
- top Polish corporations;
- public sector and institutions.

Additionally, an agro sub-segment and a non-agro sub-segment have been identified in the aforesaid groups.

Services are provided by 8 Business Centres located in large cities across Poland, which are separate from the Bank's branch network. Operating services are provided to all institutional segment customers by the Bank's Branches, via telephone and Internet.

The basic products and services provided to Corporate Customers include cash management and global trade finance services – comprehensive services related to import and export LCs, bank guarantees and documentary collection, supply chain and exports financing, acceptance of deposits (from overnight to term deposits), corporate finance services which involve provision of overdraft facilities, revolving and investment loans as well as agro-business loans), financial market products, to include foreign exchange and derivative transactions for the account of customers, lease and factoring products as well as specialized services such as financing real estate, structured finance services to mid-caps and investment banking.

The Corporate and Institutional Banking (CIB) Segment supports sales of products of the BNP Paribas Group, an international institution, dedicated to the largest Polish enterprises. It offers world-class quality expertise to customers by combining the knowledge of the Polish market with experience gained on international markets as well as top-class industry experts' competence. It supports development of Polish enterprises and implementation of projects of strategic importance to Poland, to include construction of power plants, green energy or fuel sector funding or securing financing for cross-border acquisitions of listed companies. In addition to the Strategic Customer Department, the organizational structure of CIB comprises the Financial Markets Division.

Other Banking Operations of the Group are performed mainly through the **ALM Treasury**, the main objective of which is ensuring an appropriate and stable level of funding to guarantee the security of the Bank's operations and compliance with the standards defined in the applicable laws.

The AML Treasury assumes responsibility for liquidity management at the Group, setting internal and external reference prices, management of the interest rate risk inherent in the Bank's balance sheet as well as the operational and structural currency risk. The AML Treasury focuses on both prudential (compliance with external and internal regulations) and optimization aspects (financing cost management and generating profit on management of the Group's balance sheet items).

The Other Operations segment includes also direct costs of the support functions, which have been allocated to segments in the Expense allocation (internal) item, as well as results that may not be assigned to any of the aforementioned segments (to include equity investment, gains/losses on own accounts and customer accounts not allocated to a specific segment).

31.03.2018*	Retail and Business Banking	SME Banking	Corporate Banking	CIB	Other Operations	Total	including Agro customers	including Personal Finance
STATEMENT OF PROFIT OR LOSS								
Net interest income	282,927	61,498	63,638	1,990	39,859	**449,911**	95,814	96,829
external interest income	350,012	94,005	89,800	4,309	96,904	**635,030**	166,009	150,184
external interest expenses	(90,218)	(16,251)	(37,690)	-	(40,960)	**(185,119)**	(14,359)	(7,394)
internal interest income	182,374	36,022	64,507	-	(282,902)	**-**	32,297	-
internal interest expenses	(159,241)	(52,277)	(52,979)	(2,319)	266,817	**-**	(88,132)	(45,961)
Net fee and commission income	77,743	17,725	27,331	281	(2,406)	**120,674**	30,516	19,232
Dividend income	-	-	-	-	25	**25**	-	-
Net trading income	8,368	6,565	18,869	17,163	24,445	**75,411**	5,103	77
Result on investment activities	-	-	(20)	-	8,414	**8,394**	-	-
Result on hedge accounting	-	-	-	-	1,516	**1,516**	-	-
Other operating income and expenses	454	(1,362)	(277)	95	(239)	**(1,329)**	(1,662)	(685)
Net impairment losses on financial assets and contingent liabilities	(16,282)	(31,634)	(8,158)	712	(6,991)	**(62,354)**	(47,886)	7,634
Total operating expenses	(207,555)	(29,251)	(34,197)	(5,994)	(103,091)	**(380,087)**	(2,661)	(67,033)
Depreciation and amortization	(19,442)	(933)	(2,099)	(1,041)	(17,418)	**(40,932)**	(38)	(2,842)
Expense allocation (internal)	(80,268)	(16,643)	(13,910)	(2,019)	112,840	**-**	-	(18,841)
Operating result	**45,946**	**5,965**	**51,177**	**11,186**	**56,954**	**171,228**	**79,187**	**34,370**
Tax on financial institutions	(25,923)	(9,487)	(11,733)	(400)	(2,492)	**(50,035)**	-	(6,600)
Segment profit before income tax	**(20,023)**	**(3,521)**	**39,443**	**10,786**	**54,462**	**121,193**	**79,187**	**27,771**
Income tax expense	**-**	**-**	**-**	**-**	**-**	**(35,736)**	**-**	**-**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**85,458**	**-**	**-**
STATEMENT OF FINANCIAL POSITION AS AT 31.03.2018								
Segment assets	28,670,250	9,009,868	13,205,484	390,266	20,644,807	**71,920,675**	15,405,923	6,694,453
Segment liabilities	29,803,539	7,032,475	14,740,149	-	14,010,755	**65,586,918**	6,291,821	-

*As the figures have been rounded and presented in PLN '000, in some cases their total may not correspond to the exact grand total.

31.03.2017 *	Retail and Business Banking	SME Banking	Corporate Banking	CIB	Other Operations	Total	including Agro customers	including Personal Finance
STATEMENT OF PROFIT OR LOSS								
Net interest income	290,126	57,074	65,659	1,337	52,620	**466,815**	89,560	120,913
external interest income	353,342	105,715	94,528	3,893	94,876	**652,353**	162,788	168,226
external interest expenses	(90,246)	(15,554)	(41,047)	-	(38,690)	**(185,538)**	(13,176)	(1,526)
internal interest income	178,095	28,879	65,424	-	279,871	**552,269**	29,872	-
internal interest expenses	(151,066)	(61,966)	(53,245)	(2,556)	(283,437)	**(552,269)**	(89,924)	(45,787)
Net fee and commission income	73,163	23,425	31,375	468	(607)	**127,825**	36,643	15,345
Dividend income	-	-	-	-	23	**23**	842	-
Net trading income	9,115	5,663	19,798	17,217	13,867	**65,661**	5,547	(15)
Result on investment activities	98	-	-	-	886	**984**	-	-
Result on hedge accounting	-	-	-	-	822	**821**	-	-
Other operating income and expenses	(9,548)	(611)	1,025	182	1,203	**(7,750)**	(1,894)	(1,604)
Net impairment losses on financial assets and contingent liabilities	(42,774)	(42,870)	(1,395)	-	1,039	**(85,999)**	(27,781)	(20,921)
Total operating expenses	(189,394)	(29,290)	(39,089)	(7,692)	(123,493)	**(388,959)**	(2,669)	(63,289)
Depreciation and amortization	(15,520)	(289)	(1,617)	(251)	(30,215)	**(47,891)**	(68)	1,688
Expense allocation (internal)	(81,547)	(21,320)	(19,666)	(1,970)	124,502	**-**	-	(17,210)
Operating result	**33,719**	**(8,217)**	**56,092**	**9,291**	**40,646**	**131,530**	**100,180**	**34,907**
Tax on financial institutions	(27,602)	(10,285)	(11,338)	(302)	(2,548)	**(52,075)**	-	(6,956)
Segment profit before income tax	**6,118**	**(18,502)**	**44,753**	**8,989**	**38,098**	**79,455**	**100,180**	**27,952**
Income tax expense	**-**	**-**	**-**	**-**	**-**	**(39,892)**	**-**	**-**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**39,563**	**-**	**-**
STATEMENT OF FINANCIAL POSITION AS AT 31.12.2017								
Segment assets	29,292,775	11,413,453	14,144,921	1,002,127	15,745,240	**71,598,515**	15,486,436	7,428,107
Segment liabilities	33,669,807	6,458,256	15,820,831	-	9,388,939	**65,337,835**	6,000,836	-

* As the figures have been rounded and presented in PLN ‘000, in some cases their total may not correspond to the exact grand total.

44 THE SHAREHOLDERS' STRUCTURE OF BANK BGŻ BNP PARIBAS S.A.

As at 31 March 2018 and as at the date of signing the report for the first quarter of 2018, i.e. 16 May 2018, the structure of the shareholders of BGŻ BNP Paribas S.A., including those holding at least 5% of the total number of votes at the General Shareholders' Meeting was as follows:

SHAREHOLDERS	NUMBER OF SHARES	PERCENTAGE INTEREST IN SHARE CAPITAL	NUMBER OF VOTES AT THE GENERAL SHAREHOLDERS' MEETING	PERCENTAGE SHARE IN THE TOTAL NUMBER OF VOTES AT THE GENERAL SHAREHOLDERS' MEETING
BNP Paribas, total:	74,409,864	88.33%	74,409,864	88.33%
BNP Paribas directly	50,524,889	59.98%	50,524,889	59.98%
BNP Paribas Fortis SA/NV directly	23,884,975	28.35%	23,884,975	28.35%
Rabobank International Holding B.V.	5,613,875	6.66%	5,613,875	6.66%
Other shareholders	4,214,579	5.01%	4,214,579	5.01%
Total	**84,238,318**	**100.00%**	**84,238,318**	**100.00%**

There were no changes in shareholding structure in the first quarter of 2018.

As at 31 December 2017, the Bank's share capital amounted to PLN 84,238 thousand.

The share capital is divided into 84,238,318 shares with the par value of PLN 1.00, including: 15,088,100 A series shares, 7,807,300 B series shares, 247,329 C series shares, 3,220,932 D series shares, 10,640,643 E series shares, 6,132,460 F series shares, 8,000,000 G series shares, 5,002,000 H series shares and 28,099,554 I series shares.

The Bank's shares are ordinary bearer and registered shares (as at 31 March 2018, there were 13,024,915 registered shares, including 4 shares from B series).

No special control rights are attached to the ordinary bearer shares, but 4 B series registered shares in the Bank are preference shares with respect to payment of the full par value per share in the event of the Bank's liquidation, once the creditors' claims have been satisfied, with priority over payments per ordinary shares, which, after the rights attached to the preference shares have been exercised, may be insufficient to cover the total par value of those shares.

The Bank's Statute does not impose any limitations as to exercising the voting rights or set forth any provisions whereby the equity rights attached to securities would be separated from the holding itself. One right to vote at the General Shareholders' Meeting of the Bank is attached to each share. The Bank's Statute does not impose any limitations as to transferring the title to the securities issued by the Bank.

As at 31 March 2018 one of the members of the Management Board or Supervisory Board of the Bank declared holding any shares of Bank BGŻ BNP Paribas S.A., and there were no change in this respect from the date of presenting the report for 2017, i.e. 14 March 2018.

Investor obligation of BNP Paribas concerning the liquidity of the Bank’s shares.

As declared by BNP Paribas SA to the Polish Financial Supervision Authority (PFSA) in September 2014, the number of the Bank’s shares that are in free float should have been increased to at least 12.5% by 30 June 2016 and to at least 25% plus one share by the end of 2018 at the latest, provided that reaching the assumed percentage of free float shares within the declared deadline was unreasonable due to unforeseen or exceptional market conditions, or if it exposed the BNP Paribas Group to unjustified financial losses, BNP Paribas should immediately commence negotiations with PFSA to agree a modified schedule of reaching the assumed percentage of free float shares.

On 31 May 2016 the Management Board of Bank BGŻ BNP Paribas S.A. was informed that during the meeting held on 31 May 2016, PFSA unanimously accepted a change in the deadline to fulfil the investor obligation of BNP Paribas SA with the registered office in Paris regarding improvement in liquidity of the Bank’s shares at Warsaw Stock Exchange. The change in the deadline to fulfil the investor obligation of BNP Paribas SA, justified with an unforeseen adverse change in market conditions compared to the date of accepting the obligation, consists in PFSA considering the obligations fulfilled if liquidity of shares of Bank BGŻ BNP Paribas S.A. reaches at least 12.5% shares by the end of 2018 and 25% plus one share by the end of 2020.

45 DIVIDENDS PAID

The Group did not pay any dividends for 2017.

46 DISTRIBUTION OF RETAINED EARNINGS

In accordance with the draft resolutions submitted by the Bank on 20 April 2018 for the Ordinary General Meeting of the Bank convened for 18 May 2018, it is planned that the Bank's profit after tax (net financial result) for the year 2017 in the amount of PLN 298,389,438.93 (two hundred and ninety-eight million, three hundred and eighty-nine thousand, four hundred and thirty-eight zlotys and ninety-three grosz) shall be transferred in full to reserve capital.

47 LITIGATION AND CLAIMS

As at 31 March 2018 the total value in dispute of legal cases amounted to PLN 587,303 thousand (as at 31 December 2017 it amounted to PLN 646,404 thousand), including:

- value in dispute in cases concerning payments against the Bank (i.e. except adverse proceedings and proceedings on invalidity of legal actions) amounted to PLN 178,025 thousand (as at 31 December 2017 it amounted to PLN 172,407 thousand),
- value in dispute against the Bank concerning invalidity of legal actions amounted to PLN 1,090 thousand (as at 31 December 2017 it amounted to PLN 138 thousand),
- value in disputes, in which the Bank is plaintiff, amounted to PLN 409,333 thousand (as at 31 December 2017 it amounted to PLN 473,858 thousand).

Bank BGŻ BNP Paribas S.A. and any other companies of the Capital Group are not a party to any proceedings before courts, arbitration or public administration bodies, the value of which would account for at least 10% of their equity.

Judgment on the method of calculating the interchange fee

On 6 October 2015, the Court of Appeals issued a decision regarding calculation of the interchange fee by banks acting in agreement. Thus, the decision of the 1st instance (Regional) Court of 2013 was changed by dismissing the banks’ appeals in whole, while upholding the appeal brought by the Office of Competition and Consumer Protection (UOKiK), which had questioned a considerable reduction in the fines by the 1st instance court. This denotes that the penalty imposed under the first decision of the President of UOKiK of 29 December 2006 was upheld. It involved a fine levied on 20 banks, including Bank BGŻ S.A. and Fortis Bank Polska S.A., for practices limiting competition by calculating interchange fees on Visa and MasterCard transactions in Poland in agreement. The total fine levied on Bank BGŻ BNP Paribas amounted to PLN 12,544 thousand and included: i) a fine for the practice of Bank Gospodarki Żywnościowej in the amount of PLN 9,650 thousand; and ii) a fine for the practice of Fortis Bank Polska S.A. (FBP) in the amount of PLN 2,895 thousand. The penalty was paid by the Bank on 19 October 2015. The Bank prepared a last resort appeal against the aforesaid court decision and brought it on 25 April 2016. On 4 April 2017, The Supreme Court accepted the case for reconsideration. On 25 October 2017, the Supreme Court issued a judgment by virtue of which it overruled the judgment of the second instance court and remitted the case. The Bank received a refund of the fine and established a provision corresponding to its amount, for the purposes of the proceedings pending before the Court of Appeal in Warsaw.

Corporate claims against the Bank (interchange fee)

By 31 March 2018 the Bank received 26 requests for settlement from companies using payment cards. The total amount of these claims was PLN 986.06 million, including PLN 975.99 million where the Bank had joint and several responsibility with other banks. The claims were related to the interchange fees determined under agreements for restricting competition and the Bank executed the decision of the President of UOKiK referred to above.

Proceedings instigated by the Bank's customers being parties to CHF denominated loan agreements

As at 31 March 2018 the Bank was the defendant in (62) sixty two court cases in which the Bank's customers demand to declare the mortgage loan contract is invalid in terms of granting a foreign currency loan, denominated or indexed to CHF ("CHF contracts") by determining that the Bank granted a loan in PLN without denomination to a foreign currency or compensation for abuse of the entity's right by the Bank, including the principles of social coexistence and misleading the customer and misleading the customer. In the last quarter, the Bank received 15 (fifteen) new claims. The total value of claims claimed in the abovementioned cases is PLN 19.92 million. Based on the current assessment of the validity of the claims, a provision was created for 20 proceedings in the amount of approx. PLN 124 thousand.

(*) The list does not include adverse proceedings.

48 RISK MANAGEMENT

The most important changes in the approach to credit risk management, basic measures of market risk, liquidity risk, country and counterparty risk as well as changes in the approach to operational risk management introduced in the first quarter of 2018 are described below.

CREDIT RISK

Credit risk is inherent in the core financial operations of the Bank, the scope of which includes both lending and providing funding with the use of capital market products. Consequently, credit risk is identified as the risk with the highest potential to affect the present and future profits and equity of Bank BGŻ BNP Paribas. The materiality of credit risk is confirmed by 69% share in the total economic capital estimated by the Group for purposes of covering major risks involved in the Group's operations, in addition to its 91% share in the total value of regulatory capital.

Credit risk management is primarily aimed at implementation of the Group's strategy through a harmonious increase in the loan portfolio, accompanied by maintenance of the credit risk appetite at an acceptable level.

Credit risk management principles adopted by the Group include:

- each credit transaction requires comprehensive credit risk assessment expressed in internal rating or scoring;
- in-depth and careful financial analysis serves as the basis for regarding the customer's financial information and collateral-related data as reliable; prudential analyses performed by the Group always take into account a safety margin;
- as a rule, financing is provided to the customer based on its ability to generate cash flows that ensure payment of its liabilities to the Group;
- credit risk assessment is additionally verified by credit risk assessment personnel, independent of the business;
- pricing terms of a credit transaction have to take account of the risk involved in such a transaction;
- credit risk is diversified on such dimensions as geographical regions, industries, products and customers;
- credit decisions may only be taken by competent employees;
- the Group enters into credit transactions only with customers it knows and long-term relationships are the basis for cooperation with customers;

- the customer and the transactions made with the customer are monitored transparently from the perspective of the customer, in a manner strengthening the relationship between the Bank and the customer.

Forbearance practices

The Bank treats its exposures as forborne if the obligor is provided with a forbearance due to a material economic loss or any facility for exposures with impairment triggers.

A facility is understood as the occurrence of at least one of the following events:

- a change to the repayment schedule;
- cancellation of overdue amounts (e.g. capitalization of an overdue amount, which can be repaid at a later date);
- redemption of principal, interest or fees;
- originating a new loan to repay the existing debt;

only in the period of customer's financial difficulties, i.e.:

- the exposure is subject to debt collection; or
- the exposure is not subject to debt collection but there is evidence (provided by the customer or obtained in the decision-making process) that the customer is facing financial difficulties.

A material economic loss is defined by the Bank as the drop of present value of expected cash flows, resulting from forbearance granted, equal or higher than 5%. The drop of the present value is calculated in accordance with the below formula:

$$\frac{NPV_0 - NPV_1}{NPV_0}$$

where:

NPV0 – the present value of expected cash flows (including interest and fees / commissions) prior to the introduction of changes in loan terms, discounted with the original effective interest rate,

NPV1 – the present value of expected cash flows (including interest and fees / commissions), after the introduction of changes in the loan terms, discounted using the original effective interest rate. In the case of consolidation of many loans for the original interest rate for the purpose of assessing the significance of economic loss, the average EIR weighted with the gross balance sheet exposure at the moment of granting the facility is assumed.

The "forborne" status is no longer assigned if the following conditions have been satisfied:

- the exposure has not been considered impaired for 24 months in a row;
- none of the exposures to the customer are past due by more than 30 days;
- the obligor has been making regular and considerable payments for at least a half of the trial period.

FINANCIAL RISK

Market risk in the banking book

The use of sensitivity limits for the interest position in individual time periods in the first quarter of 2018 was low. The level of interest rate risk measured by the average use of the technical limits of the interest rate gap increased as compared to the previous quarter and amounted to 26% at the end of March.

The currency risk of the banking book is transferred to the trading book.

Market risk in the trading book

In the first quarter of 2018, the market risk measured by VaR was lower than in the previous quarter - the average utilization of the VaR limit for the trading book was 32%. Exposures to interest rate risk were the main source of risk in the trading book (the dominant share of interest rate swaps). The currency risk exposures had immaterial impact on the bank's market risk because the end-of-day positions on particular currencies were limited to the minimum levels.

Liquidity risk

In the first quarter of 2018, the Bank maintained the supervisory liquidity measures for the short and long term above regulatory limits and internal limits. LCR was at the level of 140.3% -143.2%.

The main sources of financing are liabilities to customers, medium and long-term credit lines and equity. The average and long-term credit lines received, including subordinated loans, come mainly from the BNP Paribas group.

Country and counterparty risk

Counterparty risk is the credit risk concerning the counterparty transactions in case of which the amount of liability may change in time depending on market parameters.

The counterparty risk was calculated for the following types of transactions contained in the trading portfolio of the Bank: foreign exchange transactions, interest rate swap transactions, FX options, interest rate options and commodity derivatives.

As at the end of March 2018 the Bank's exposure to the counterparty risk due to concluded derivative transactions was PLN 685 million. Corporate clients constituted 72% of the exposure, while the remaining 28% were exposures related to banks.

As at the end of the 1st quarter of 2018, 45% of the Bank’s exposure towards countries was foreign lending operations of the Bank, 29% was related to international trade transactions, 26% was treasury transactions (including deposits and derivatives). France accounted for 38%, Belgium for 20%, the Netherlands for 15% and Great Britain for 10% of the exposure. The remaining exposure was related to Germany and Luxembourg.

OPERATIONAL RISK

The Bank’s operational risk is defined in accordance with the resolution of the Polish Financial Supervision Authority and the requirements of Recommendation M of the PFSA as the possibility of incurring a loss or an unreasonable cost through the fault of inappropriate or unreliable internal processes, people, technical systems or as a result of external factors. It comprises legal but not strategic risk. Operational risk as such is inherent in any banking operations.

Operational risk is managed with a view to reducing the losses and costs resulting from the aforesaid risk, ensuring top quality of the services provided by the Bank in addition to security and compliance of the Bank’s operations with the applicable laws and standards.

Procedures

Operational risk management consists in employment of measures aimed at operational risk identification, analysis, monitoring, control, reporting and mitigating in addition to implementation of recovery actions. Such measures take into account the structures, processes, resources and scopes of responsibilities for the said processes at various organizational levels. The operational risk management strategy has been described in the Operational Risk Management Strategy of Bank BGŻ BNP Paribas S.A., which was approved by the Management Board of the Bank and accepted by the Supervisory Board. The Operational Risk Policy of Bank BGŻ BNP Paribas S.A., adopted by the Management Board of the Bank, is another document of key importance. It addresses all aspects of the Bank’s operations in addition to defining the Bank’s objectives and the methods of their achievement as regards the quality of operational risk management as well as compliance with legal requirements set out in the recommendations and resolutions issued by local banking supervision authorities. The Bank’s operational risk management objectives include, in particular, compliance with high operational risk management and assessment standards that guarantee security of customer deposits, the Bank’s equity, stability of its financial performance as well as maintenance of the operational risk level within the range of the operational risk appetite and tolerance defined by the Bank. When developing the operational risk management and assessment system, the Bank complies with the applicable legal requirements, in particular, with the recommendations and resolutions of the national financial supervision authorities and the standards adopted by the Group.

In accordance with the Policy, the Bank's operational risk management instruments include:

- tools used for purposes of recording operational events, together with the principles of their recording, allocation and reporting;
- operational risk analysis, its monitoring and daily control;
- counteracting an elevated level of operational risk, to include risk transfer;
- calculation of the capital requirement related to the operational risk.

Compliance with the operational risk policy is verified by the Bank's Management Board periodically and, if necessary, the required adjustments are made in order to improve the system. To this end, the Management Board of the Bank is regularly provided with information concerning the scale and types of operational risk to which the Bank is exposed, its effects and management methods.

Internal environment

The Bank precisely defines the roles and responsibilities in the operational risk management process, considering its organizational structure. The Operational Risk Department is responsible for daily operational risk analysis in addition to development of appropriate risk control and mitigation techniques and their improvement. Development and implementation of the Bank's strategy with respect to insurance as a risk mitigation technique is the responsibility of the Real Estate and Administration Department, while the Security and Continuity of Business Department is in charge of business continuity management.

As part of the legal risk management process, the Legal Division monitors, identifies and performs analyses of changes to laws of general application and their effect on the Group's operations, in addition to court and administrative proceedings which affect the Bank. The Compliance Monitoring Department is responsible for daily non-compliance risk analysis in addition to development of appropriate risk controls and their improvement.

Considering the elevated level of external and internal risks related to fraud and offense against the assets of the Bank and its customers, the Bank has extended the scope of and improved its processes aimed at counteracting, detecting and examining such cases, which is entrusted with the Fraud Prevention Department, constituting a part of Operational Risk and Anti-Fraud Division.

Risk management

The Bank places a strong focus on identification and assessment of the factors that trigger its present exposure to operational risk in relation to banking products. It is the Bank's objective to reduce the operational risk level through improvement of its internal processes as well as mitigating the risk inherent in the process of launching new products and services and outsourcing operations to third parties.

In accordance with the operational risk management policy, the operational risk analysis is aimed at acquiring an understanding of the interdependence between the risk generating factors and operational event types, and it is performed primarily with the objective to define the operational risk profile.

The operational risk profile is the assessment of materiality of the risk, which is understood as the scale and structure of the operational risk exposure, defining the degree of exposure to the operational risk (operational losses), where the structural dimensions selected by the Bank (key process areas) and the scale (residual risk level) are expressed. It is determined in the course of annual operational risk mapping sessions, which involve operational risk assessment for the major operational risk factors (people, processes, systems and external events) as well as the key process areas at the Bank.

Keeping a track record of operational events enables efficient operational risk analysis and monitoring. The process of operational event recording is overseen by the Operational Risk Department, which assumes responsibility for verification of the quality and completeness of data concerning operational events recorded in dedicated tools available to all organizational units of the Bank.

Internal control system

The internal control system principles have been formulated in the Internal Control Policy of the Bank BGZ BNP Paribas S.A., which was approved by the Management Board of the Bank. The document specifies the key principles, defines the organizational framework and establishes the standards of the Bank's internal control environment. The Bank's general internal control objectives are, in particular, improvement of effectiveness and efficiency of internal controls, ensuring credibility and financial reporting, adherence of the Bank's risk management principles and ensuring compliance of the Bank's activity with the law, internal regulations and market standards. The above mentioned objectives are a part of a uniform, effective internal control system based on three lines of defence. The tasks realized as a part of the internal control system aim to improve the process of the Bank responding to identified internal control inefficiencies and to raise the risk awareness in the organization. The Bank's management is involved in the process of ensuring and confirming the efficiency of the significant processes and controls (management sign-off).

As part of implementing the requirements of Recommendation H, the Bank implemented independent monitoring of compliance with control mechanisms. Details in this regard are described in the Rules for exercising internal control at Bank BGŻ BNP Paribas S.A.

Monitoring and reporting

The Bank periodically monitors the efficiency of the operational risk management system and its appropriateness for its current risk profile. The organization of the operational risk management system is reviewed as part of periodic control exercised by the Internal Audit Division, which is not directly involved in the operational risk management process but provides professional and unbiased opinions supporting achievement of the Bank's objectives. The operational risk management system is overseen and its appropriateness and efficiency are assessed by the Supervisory Board.

The Bank has been collecting information on losses driven by operational risk for more than ten years. In addition, the Bank estimates its regulatory capital necessary to cover operational risk in accordance with the applicable regulations. The said calculation is performed using the standard approach (STA). Requirements regarding Bank's subsidiaries, to be disclosed in the consolidated financial statements, are determined in accordance with the BIA indicator method.

Subsidiaries

Operational risk management in subsidiaries is performed in dedicated units / persons appointed for this purpose. The method of operational risk management in subsidiaries is organized adequately to the scope of the particular entity's activity and the profile of its operations, in accordance with the rules applied in the Group.

CAPITAL ADEQUACY

The objective of capital adequacy management in the Group is to fulfil prudential regulations in the scope of capital requirements due to the risk borne, quantified in the form of a capital ratio.

From 1 January 2014, there are new principles for calculating capital ratios in banks due to the entry into force of EU Regulation No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending the EU Regulation No 648/2012.

Capital ratios, capital requirements and own funds were calculated in accordance with the above mentioned Regulation, using national options consistent with the assumptions used by the Polish Financial Supervision Authority (PFSA) for interim reporting.

The Bank's Management Board informed that on 6 February 2018, after preparing the opening balance as at 1 January 2018, taking into account the implementation of IFRS 9, it was informed about the level of solvency ratios as of 1 January 2018.

The level of Common Equity Tier 1 (CET I) ratios, both in separate and consolidated terms as well as the total capital ratio (TCR) in separate terms, were above the regulatory levels resulting from the "PFSA Position on Minimum Capital Ratios" applicable to banks in 2018 and published on 24 November 2017.

The level of Tier I capital ratios (Tier I), both in separate and consolidated terms, and the total capital ratio (TCR) on a consolidated basis, were below the new requirements.

Taking into account the existing situation, the Management Board of the Bank will immediately take additional measures to meet the new regulatory requirements. Among various activities, the Bank plans to increase the share capital by issuing new shares. The BNP Paribas Group provided support to the Bank's Management Board in the implementation of the planned activities aimed at achieving the required capital ratios.

At the same time, the Bank will meet the legal requirements under the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial sector.

The minimum consolidated capital adequacy ratios of the Group under the provisions of CRR law and administrative decisions issued by the Polish Financial Supervision Authority (PFSA) in force in the Group in 2018 are as follows:

CET I = 9.97%

Tier I = 11.58%

Total Capital Ratio = 13.73%

As at 31 March 2018, the consolidated capital adequacy ratios of the Group were as follows:

CET I = 10.82%

Tier I = 10.82%

Total Capital Ratio = 13.78%

The minimum separated capital adequacy ratios of the Bank under the provisions of CRR law and administrative decisions issued by the Polish Financial Supervision Authority (PFSA) in force in the Bank in 2018 are as follows:

CET I = 9,98%

Tier I =12,00%

Total Capital Ratio = 13,75%

As at 31 March 2018, the separated capital adequacy ratios of the Bank were as follows:

CET I = 11,06%

Tier I = 11,06%

Total Capital Ratio = 14,06%

As at 31 March 2018, the level of Tier I capital ratios (Tier I), both in separate and consolidated terms, and the total capital ratio (TCR) on a consolidated basis, were below regulatory requirements.

49 MANAGEMENT OF BANK BGŻ BNP PARIBAS S.A.

Composition of the Bank's Supervisory Board as at 31 March 2018:

FULL NAME	OFFICE HELD IN THE SUPERVISORY BOARD OF THE BANK
Józef Wancer	Chairman of the Supervisory Board
Jarosław Bauc	Vice-Chairman of the Supervisory Board Independent Member of the Supervisory Board
Jean-Paul Sabet	Vice-Chairman of the Supervisory Board
Francois Benaroya	Member of the Supervisory Board
Yvan De Cock	Member of the Supervisory Board
Stefaan Decraene	Member of the Supervisory Board
Jacques d'Estais	Member of the Supervisory Board
Alain Van Groenendael	Member of the Supervisory Board
Piotr Mietkowski	Member of the Supervisory Board
Monika Nachyła	Member of the Supervisory Board
Mariusz Warych	Independent Member of the Supervisory Board

Composition of the Bank's Management Board as at 31 March 2018:

FULL NAME	OFFICE HELD IN THE MANAGEMENT BOARD OF THE BANK
Przemysław Gdański	Vice-President of the Management Board in-charge of Management Board
Jean-Charles Aranda	Member of the Management Board
Daniel Astraud	Vice-President of the Management Board
Philippe Paul Bézieau	Vice-President of the Management Board
Blagoy Bochev	Vice-President of the Management Board
Przemysław Furlepa	Vice-President of the Management Board
Wojciech Kembłowski	Vice-President of the Management Board
Jaromir Pelczarski	Vice-President of the Management Board
Jerzy Śledziewski	Vice-President of the Management Board

Changes in the Management Board from 1 January to 31 March 2018:

- On 19 February 2018, Mr Bartosz Urbaniak submitted a resignation from the position of the Management Board Member, with the effect from 31 March 2018.

On 10 April 2018, the Polish Financial Supervision Authority, pursuant to article 22b of the Banking Law Act of 29 August 1997, unanimously agreed to the appointment of Mr. Przemysław Gdański as the President of the Management Board of Bank BGŻ BNP Paribas S.A. In connection with the above, on 10 April 2018, the resolution of the Bank's Supervisory Board of 26 October 2017 on the appointment of Mr. Przemysław Gdański as the President of the Bank's Management Board came into force.

50 FACTORS WHICH, ACCORDING TO THE BANK, WILL AFFECT THE BANK'S PERFORMANCE WITHIN AT LEAST THE NEXT QUARTER

- **The economic situation in Poland**. The published data on economic activity for the period January-March indicate that in the first quarter of 2018 GDP growth was maintained at around 5% YoY, a level similar to the previous quarter (4.9% YoY). In the fourth quarter of 2017, the growth structure was balanced, although the investment growth was much smaller than initially estimated (slightly above 5% against over 10% according to the first estimate). However, deteriorating OECD leading indicators, weaker Eurozone data and growing supply constraints suggest that GDP growth has peaked and may slow down in the coming quarters. However, it seems that, contrary to fears, the introduction of trade restrictions on Sunday did not significantly affect retail sales in March, and April data on the CSO (GUS) business climate suggest that its effects may be visible in the following months.
- **The situation on the domestic labour market.** The unemployment rate reaches another historical minimum. At the end of the first quarter of 2018 it was 6.3%, after eliminating the impact of seasonal factors. The impact of unfavourable demographic trends and lowering the retirement age on the number of economically active people was limited in the previous quarters by a significant influx of workers from Ukraine. However, already in the first quarter of 2018, the annual change in the number of economically active people was close to 0%. In the short-term, a reduction in labour supply may increase wage pressure, while in the medium and long term, reduce the potential and real GDP growth.
- **The decrease of inflation**. In February and March 2018, inflation remained below the lower limit for deviations from the NBP target (1.5%). In particular, a decrease in core inflation contributed to this. This was reflected in the additional relaxation of the MPC's communication regarding the future monetary policy. Comments of the NBP President Adam Glapiński at a conference after the April meeting of the Council indicate that the consensus has strengthened to leave the reference rate unchanged in the near future. According to President Glapiński, they may remain unchanged until the end of 2020. Milder rhetoric was aimed at lowering market expectations regarding the NBP interest rates. The opposite direction may only be the effect of a significant increase in wage pressure and its greater reflection in inflation, in the conditions of monetary policy tightening in the US and announcements of the ECB's asset purchase program expiring.
- **Increased imbalance in public finances**. Despite high economic activity and improvement of tax collection, which both favoured the reduction of the general government deficit from 2.5% of GDP in 2016 to 1.7% of GDP in 2017, according to the European Commission in 2017, the structural deficit was around 2% of GDP, and in in subsequent years, its deepening is forecasted. Prime Minister Mateusz Morawiecki announced the introduction of new activities in the fiscal policy, but their effect should be insignificant (increase in the deficit by approx. 0.25% of GDP in 2018 and 0.4% of GDP in 2019). The growing forecasted structural deficit and increasing expenditures / decreasing the public finance sector revenues make them susceptible to a possible stronger slowdown in economic activity.
- **Potential weakening of Polish zloty exchange rate against key currencies**, in response to a possible increase in volatility and risk aversion in the financial markets. Another risk would be a potential further strengthening of the zloty exchange rate against key currencies, which, in the light of growing domestic labour costs, may reduce the competitiveness of Polish exports and, consequently, deteriorate the trade balance and current account, and weaken the rate of economic growth. BNP Paribas predicts that at the end of 2018 the EUR/PLN exchange rate will be close to the current one, i.e. it will be around 4.20.
- **Further increase in market interest rates in the world,** as a potential risk factor for Polish bonds and Polish zloty exchange rate, as well as for the medium term economic growth rate.

- **Potential increase in volatility and risk aversion on the European financial markets**, resulting from the tightening of monetary policy parameters by the ECB, including restrictions on the scale of assets purchase from the beginning of 2018 and announcements of its completion at the end of this year. Higher risk aversion on the European bond market may increase the risk premium for Polish assets and increase the profitability of Polish Treasury securities (especially at the long end of the yield curve).
- **The global trade war seems to be the main external risk**. Currently, the trade dispute is focused on the US-China line. Recently, the rhetoric of the leaders of these countries regarding further restrictions on trade has softened. Nevertheless, the escalation of the dispute could contribute to the slowdown in economic growth in Poland.
- **A draft of bill on support for people having problems with timely payment of mortgage loans**. The bill prepared by the Chancellery of the President assumes the creation of a new Restructuring Fund. The fund will be financed from quarterly contributions paid by banks, depending on the volume of their own portfolios of denominated and indexed loans (maximum 0.5% of the balance sheet value of the loan portfolio). The bill assumes that the maximum annual burden on the banking sector will not exceed PLN 2.8 billion in the first year.
- **Implementation of IFRS 9**, which changes the principles for creating specific provisions for loans and may probably result in a higher volatility in risk costs.
- **Implementation of the Payment Services Directive (PSD II)** related to payment services within the EU internal market in the Polish law. PSD II will introduce, among others, an online access service to customer account data and payment initiation service at the customer's request. The above mentioned services may be provided by third parties. The Directive imposes on banks the obligation to provide public application interfaces software (APIs) and to implement additional security requirements.
- **Implementation of the EU PAD directive** on free basic payment account. The account, together with a specific package of free services, will have to be included in the offer of banks, payment institutions and credit unions. It will be available to current bank account holders, provided they have previously closed their bank accounts.
- **Implementation of Markets in Financial Instruments Directive (MIFID II)** – regarding markets and financial instruments. The regulation is aimed at increasing the security of clients, e.g. through greater transparency or changes in the remuneration models of distributors via a top-down limitation of management fees in investment funds.

51 MAJOR EVENTS IN BANK BGŻ BNP PARIBAS S.A. IN THE FIRST QUARTER OF 2018

23.01.2018

Extraordinary Shareholders' Meeting of Bank BGŻ BNP Paribas S.A:

- appointment of Mr Francois Benaroya as a Member of the Supervisory Board until the end of the current five-year office term;
- approval of the Policy on remuneration for Members of the Supervisory Board of Bank BGŻ BNP Paribas S.A.;
- approval of amendments to the Bank's Statute and adoption of the uniform text.

6.02.2018

Capital adequacy ratios as at 1 January 2018

The Management Board of the Bank informed that on 6 February 2018, after preparing the opening balance as at 1 January 2018, including the impact of IFRS 9 implementation, it learned about the level of solvency ratios as at 1 January 2018. The opening balance will be subject to verification by the auditor.

The level of Common Equity Tier 1 (CET I) ratios, both in separate and consolidated terms, and the total capital ratio (TCR) in separate terms were above the regulatory levels resulting from the "PFSA position on minimum levels of capital ratios" for banks in 2018, published on 24 November 2017.

The level of Tier I capital ratios (Tier I), both in separate and consolidated terms, and the total capital ratio (TCR) in consolidated terms, were below the new requirements.

Considering the existing situation, the Management Board of the Bank will immediately take additional measures to meet the new regulatory requirements. Among various other activities, the Bank is planning to increase the share capital by issuing new shares. The BNP Paribas Group provided the support to the Bank's Management Board in the implementation of the planned activities aimed at achieving the required capital ratios. The capital increase should be realized within the next 6 months, provided that the consents required by law are obtained.

At the same time, the Bank will fulfil the legal requirements under the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial sector.

19.02.2018 **Changes in the composition of the Management Board of the Bank**

Mr Bartosz Urbaniak submitted his resignation from the position of Member of the Management Board with effect from 31 March 2018. Since 1 April 2018 Mr Bartosz Urbaniak will be the Managing Director of the Bank responsible for managing the Agro business line and will manage the new unit: Agro Hub - Agro Competence Centre in Warsaw within the structures of the BNP Paribas Group.

16.03.2018 **PFSA recommendation to increase capital**

On 16 March 2018, the Bank received a letter from the Polish Financial Supervision Authority regarding a recommendation to increase own funds by retaining the entire profit generated in the period from 1 January to 31 December 2017.

In the current report No. 25/2017, the bank informed that on 23 November 2017 it received a decision of the Polish Financial Supervision Authority of 23 November 2017 approving the inclusion of net profit generated by the Bank in the period from 1 January 2017 to 30 June 2017, in the amount of PLN 130,029,336.35 to the Tier 1 capital of the Bank.

20.03.2018 **Entering into the National Court Register changes in the Statute of the Bank**

On 19 March 2018, the Bank was notified that the District Court for Warsaw, 12th Commercial Division of the National Court Register, amended the Bank's Statute, adopted by the Extraordinary General Meeting of the Bank on 23 January 2018.

52 SUBSEQUENT EVENTS

10.04.2018 **Disclosure of delayed confidential information about joining negotiations to acquire the core business of Raiffeisen Bank Polska S.A.**

On 10 April 2018, the Bank's Management Board announced that on 26 March 2018 the Management Board of the Bank decided to join the negotiations conducted by BNP Paribas S.A., a majority shareholder of the Bank, with Raiffeisen Bank International AG ("RBI") regarding the acquisition of Raiffeisen Bank Polska S.A. core business ("RBPL"), excluding RBPL mortgage foreign currency loans, by dividing RBPL by demerger ("Negotiations").

At the same time, the Management Board of the Bank announced that joining the Negotiations does not mean that the acquisition of the core business of RBPL will be realized. In addition, the Bank's authorities have not yet made binding decisions regarding the execution of the transaction.

10.04.2018 **Conclusion of the Transaction Agreement regarding the purchase of the core business of Raiffeisen Bank Polska S.A.**

Transaction

The Transaction anticipated in the Transaction Agreement includes:

(i) acquisition of shares representing less than 50% of the share capital of RBPL by BNPP from RBI; and

(ii) the demerger of RBPL performed in accordance with article 124c of the Banking Law and article 529 § 1 point 4 of the Commercial Companies Code by transferring (separating) the RBPL Core Business to the Bank and issuing new issue shares by the Bank to RBI and BNPP (the "**Demerger**"); RBPL will be a divided company and the Bank will be the acquiring company (collectively "**Transaction**").

Description of the Transaction

The Transaction will be carried out as follows:

(i) after all conditions precedent specified in the Transaction Agreement have been met or terminated, in order to facilitate the Demerger, BNPP will acquire a minority stake in the RBPL from the RBI, representing less than 50% of the share capital of RBPL, the value of which is estimated at approximately 45% of the share capital of RBPL,

(ii) on the Demerger Date (as defined below), the Core Business of RBPL will be taken over by the Bank, and in exchange for the Core Business of RBPL, the Bank will issue ordinary new issue common shares ("**Demerger Shares**") for BNPP and RBI as shareholders of RBPL. RBPL shares that will be in possession of BNPP will cease to exist,

(iii) the Demerger Shares allotted to RBI will represent 9.8% of the Bank's share capital as at the Demerger Date. Immediately after the Demerger Date, the Demerger Shares will be purchased from the RBI by the BNPP or by a third party or third parties designated by the BNPP.

As a result of the Transaction, on the day of registering the increase of the Bank's share capital in connection with the Demerger by the appropriate registry court ("**Demerger Date**"), the Bank will take over the core business of RBPL ("Core Business of RBPL"), in the form of an organized part of the enterprise, including all assets and RBPL liabilities connected with this activity, and excluding assets and liabilities that will remain in RBPL after Demerger ("**RBPL Mortgage Activity**"). RBPL's Mortgage Activity, which is to remain in RBPL after Demerger, will include foreign currency mortgage and non-mortgage loans granted by RBPL, other credit exposures as well as all legal relations between RBPL and six investment funds in liquidation, managed by November 2017 by FinCrea TFI S.A.

Price

The Transaction Agreement stipulates that the Bank will acquire the Core Business of RBPL with guaranteed Tier 1 capital amounting to PLN 3,400 million ("**Target Capital**") for an agreed price of PLN 3,250 million ("**Purchase Price**") including a prepaid allowance of PLN 50 million for digitalization investment projects to be implemented in the period from the date of signing of the Transaction Agreement to the Demerger Date. The above implies a P/TBV multiplier (price to the book value of tangible assets) in the amount of 0.95x based on the pro-forma basic RBPL financial data as at the end of 2017 and a P/BV multiplier (price to book value) of 0.87x based on the estimated pro-forma book value of the Core Business of RBPL as at the Demerger Date, taking into account the adopted value of intangible assets of the Core Business of RBPL.

In the event that the Tier 1 capital of the Core Business of RBPL transferred to the Bank was lower or higher than the Target Capital, the resulting difference will be settled between the Bank and RBPL after closing the books of the Core Business of RBPL after the Demerger Date so that the Tier 1 capital of the Core Business of RBPL is equal Target Capital.

The Purchase Price assumes the creation of certain intangible IT assets (in the amount of PLN 50 million) related to digitization investment projects. If the value of intangible assets of the RBPL Core Business as at the Demerger Date differs from the assumed value of these assets, the difference will be settled between RBPL and the Bank in cash together with the settlement relating to the Target Capital referred to above.

The obligation to pay the Purchase Price to RBI will be met by payment by BNPP of the Purchase Price or by ordering BNPP to pay the Purchase Price for (i) RBPL shares that will be purchased by BNPP from RBI and (ii) the Demerger Shares to be issued by the Bank for RBI.

Execution of the Transaction

The Transaction is subject to the fulfilment of the conditions specified in the Transaction Agreement, which include:

(i) conclusion of the cooperation agreement with RBL, RBI and BNPP before Demerger. The agreement shall specify the terms of cooperation between RBPL and the Bank in relations to the Demerger;

(ii) performing an audit review of the pro-forma financial information of RBPL and considering this information and the results of the audit as satisfactory by the Bank;

(iii) signing the Demerger Plan (as defined below) by RBPL and the Bank;

(iv) obtaining the consent of the competent competition and consumer protection authority;

(v) obtaining consent and approval from the PFSA in relations to the Demerger;

(vi) obtaining consent and approval from the PFSA and the European Central Bank in relation to the cross-border merger of RBPL with RBI; and

(vii) obtaining consents from the Bank's and RBPL's general meetings for the Demerger.

Conducting the Transaction is also dependent on the fulfilment of other conditions, such as signing specific agreements regarding the Transaction by the Bank, RBPL, and, if applicable, RBI, as well as obtaining specific tax interpretations regarding the Demerger.

It is expected that the Demerger Date will take place in the fourth quarter of 2018.

The share exchange parity established for the purpose of Demerger

The Transaction Agreement stipulates that in the RBPL demerger plan to be agreed between the Bank and RBPL ("**Demerger Plan**"), the number of the Demerger Shares allocated to RBI and BNPP in return for each RBPL share held by these entities will be 0.3595197657 ("**Share Exchange Parity**"). The Share Exchange Parity was calculated as the Purchase Price divided by PLN 65.56, constituting the arithmetic average of the average daily prices weighted by the trading volume of the Bank's shares listed on the Warsaw Stock Exchange S.A. from the period of 30 days beginning on 8 March 2018 and ending on 6 April 2018[2], divided by 137.886.467 representing the number of reference shares of RBPL. The resulting number of the Demerger Shares that will be issued by the Bank is 49,592,910, which accounts for 37.05% of the Bank's share capital after the shares have been issued (without taking into account the share capital increase referred to below).

The Share Exchange Parity and the number of the Demerger Shares to be issued by the Bank will be subject to a dilution adjustment, if applicable, in connection with the Bank's share capital increase to be performed prior to the Demerger, which the Bank reported in the Current Report No. 9/2018 of 6 February 2018. The Bank plans to increase the Bank's own funds (share capital and supplementary capital) by approximately PLN 800 million.

The number of RBPL reference shares attributable to BNPP (in the number equal to the number of RBPL shares that BNPP will acquire from RBI prior to the Demerger) and RBI will be determined in such a way that the RBI will be entitled to the Demerger Shares constituting 9.8% of the Bank's share capital on the Demerger Date.

The intention is that the Demerger Plan should be agreed by the Bank and RBPL until 27 April 2018, with the possibility of a possible extension of this period.

Other documents of the Transaction

[2] Slightly higher than the average of the last three months of daily volume-weighted average prices (PLN 65.40) as at 6 April 2018 and daily volume-weighted average price as of 6 April 2018 (PLN 65.02) and higher than the spot closing price from 6 April 2018 (PLN 62.80).

In the course of the Transaction, RBI, BNPP, RBPL and the Bank will conclude certain accompanying agreements regarding the Transaction and services that will be provided in connection with the Transaction.

Strategic justification for the Transaction

Conclusion of the Transaction Agreement is consistent with the development strategy consistently implemented by the Bank's Management Board, which assumes dynamic growth ensuring the highest return on capital.

Because of the complementary scope of operations of both banks, the Transaction will allow the Bank to become one of the leading market participants with total assets of over PLN 100 billion, it will strengthen the Bank's position of the sixth bank on the market in Poland and allow to enter the top five.

Many years of experience of the employees of the RBPL Core Business, in particular in the SME, corporate banking and factoring segments, private banking, as well as the retail banking network, will strengthen the Bank's role as one of the main participants in the Polish banking sector and the BNP Paribas Group's ability to contribute to the development of the Polish economy.

10.04.2018 **Consent of PFSA to appoint Mr. Przemysław Gdański as the President of the Bank's Management Board**

On 10 April 2018, the Polish Financial Supervision Authority, pursuant to article 22b of the Act of 29 August 1997 Banking Law, unanimously agreed to the appointment of Mr. Przemysław Gdański as the President of the Management Board of Bank BGŻ BNP Paribas S.A.

In connection with the above, on 10 April 2018 ,the resolution of the Bank's Supervisory Board of 26 October 2017 on the appointment of Mr. Przemysław Gdański as the President of the Bank's Management Board came into force.

20.04.2018 **Convening the Ordinary General Meeting of Bank BGŻ BNP Paribas S.A. as at 18 May 2018 and forwarding the content of draft resolutions with attachments to be discussed at the Meeting**

Agent:

1. Opening the Meeting.
2. Election of the Chairman of the Meeting.
3. Statement of the validity of the convocation of the General Meeting and its ability to adopt resolutions.
4. Acceptance of the Agenda.
5. Consideration of the Supervisory Board's Report on the results of the audit of the financial statements of Bank BGŻ BNP Paribas S.A. including the Brokerage Office, the Report of the Management Board Report on the activities of Bank BGŻ BNP Paribas S.A., including the Brokerage Office, the Consolidated Financial Statements of the Capital Group of Bank BGŻ BNP Paribas S.A. and the Management Board Report on the activities of the Bank BGŻ BNP Paribas S.A. Capital Group for the financial year from 1 January 2017 to 31 December 2017, Reports on non-financial information of Bank BGŻ BNP Paribas S.A. and the Capital Group of Bank BGŻ BNP Paribas S.A. in 2017 and the Management Board's motions regarding the distribution of profit for the financial year 2017 together with the assessment of adequacy and effectiveness of the internal control system at Bank BGŻ BNP Paribas S.A.
6. Consideration and approval of:
   1) The Management Board Report on the activities of Bank BGŻ BNP Paribas S.A. in 2017,
   2) Separate Financial Statements of Bank BGŻ BNP Paribas S.A. for the year ended 31 December 2017.
7. Adoption of a resolution concerning the distribution of net profit generated by Bank BGŻ BNP Paribas S.A. for 2017.
8. Consideration and approval of:

1) The Management Board Report on the activities of Bank BGŻ BNP Paribas S.A. Capital Group in 2017,
2) Consolidated Financial Statements of Bank BGŻ BNP Paribas S.A. Capital Group for the year ended 31 December 2017.

9. Consideration and approval of Reports on non-financial information of Bank BGŻ BNP Paribas S.A. and the Capital Group of Bank BGŻ BNP Paribas S.A. in 2017.
10. Consideration and approval of the Supervisory Board Report on the activities of Bank BGŻ BNP Paribas S.A. and its committees in 2017, including the assessments indicated in principle II.Z.10 of "Best Practices of WSE Listed Companies 2016" and assessment of the application of "Principles of corporate governance for supervised institutions" issued by the Polish Financial Supervision by Bank BGŻ BNP Paribas S.A.
11. Adoption of a resolution regarding the approval of the assessment of remuneration policy submitted by the Supervisory Board and assessment of this remuneration policy in accordance with § 28 paragraph 4 "Principles of corporate governance for supervised institutions" issued by the Polish Financial Supervision Authority.
12. Adoption of resolutions regarding granting BGŻ BNP Paribas S.A. Management Board members a discharge for their duties in 2017.
13. Adoption of resolutions regarding granting BGŻ BNP Paribas S.A. Supervisory Board members a discharge for their duties in 2017.
14. Adoption of a resolution regarding the share capital increase by issuing J series ordinary bearer shares and ordinary registered K series shares as a private subscription, depriving existing shareholders of all pre-emptive rights to all series J shares and all series K shares, dematerialization and applying for shares for the admission and introduction of series J shares and rights to series J shares to trading on the regulated market operated by Warsaw Stock Exchange S.A. and changes to the Bank's Articles of Association.
15. Closing the Meetings.

25.04.2018

PFSA decision to agree for including the net profit for the second half of 2017 in Tier 1 capital

On 25 April 2018, the Bank announced that it received the decision of the Polish Financial Supervision Authority of 23 April 2018 to approve the net profit attributable to Tier 1 capital of the Bank. The net profit was generated in the period from 1 July 2017 to 31 December 2017, and amounted to PLN 168,360,062.58.

Including the net profit of the second half of 2017 to Tier 1 will allow to improve the unit capital ratios of the Bank 0.31 p.p. (Common Equity Tier 1 ratio and Tier 1 ratio) and 0.31 p.p. (total capital ratio - TCR), assuming the data for 1 January 2018.

In the case of consolidated ratios, the improvement would be: 0.28 p.p. and 0.28 p.p.

27.04.2018

Information on the amount determined by BFG for Bank BGŻ BNP Paribas S.A. of the annual contribution to the bank's forced restructuring fund for 2018

On 17 April 27 2018, the Bank informed that it received information on the amount of the annual premium set by BFG for the Bank for the fund of forced restructuring of banks for 2018 in the amount of PLN 52,777,541.35 (including the amount of the premium paid for 2017).

In total, the BFG contributions booked by the Bank in the costs of the first quarter of 2018, recognized in the same way as in the previous year, amount to PLN 39,045,462.31 (provision for the yearly fee for the fund for the forced restructuring of banks for 2018 in the amount of PLN 24,156,864.13 and the contribution to the bank guarantee fund due for the first quarter of 2018 in the amount of PLN 14,888,598.18).

28.04.2018

Reconciliation of the demerger plan of Raiffeisen Bank Polska S.A. (RBPL). The first notification of the planned demerger. Fulfillment of the condition of a significant contract.

On 28 April 2018, the Bank's Management Board and the Management Board of RBPL agreed and signed a plan for the demerger of RBPL prepared in accordance with article 534 § 1 and § 2 of the Act of 15 September 2000 - Code of Commercial Companies (Journal of Laws of 2017, item 1577, as amended) ("KSH") ("Demerger Plan") .

The reconciliation and signing of the Demerger Plan is the fulfillment of one of the conditions of the Transaction Agreement (i.e. the acquisition of the core business of RBPL excluding RBPL currency mortgage loans by the Bank, by dividing RBPL by demerger) necessary for the purchase of a separate part of the RBPL by the Bank.

The Demerger Plan contains a description of assets and liabilities that will be transferred to the Bank after the demerger ("Core Business of RBPL"). It also contains information on assets and liabilities that will not be transferred to the Bank, including:

- the portfolio of currency mortgage loans, as defined in Appendix 1 to the Demerger Plan;
- the portfolio of selected exposures, specified in Table 1A-a in Appendix 1 to the Demerger Plan;
- legal relations between RBPL and specific investment funds in liquidation, listed in Appendix 1 to the Demerger Plan.

Moreover, the Demerger Plan:

- determines the share exchange parity, according to which RBPL shareholders will receive shares issued by the Bank for holding certain RBPL reference shares; and
- contains a fairness opinion issued by mCorporate Finanse S.A. confirming that the adopted share exchange parity is fair and reliable from the financial point of view of the Bank's shareholders.

The selected financial data regarding the Core Business of RBPL is presented below, based on the unaudited pro forma financial statements of RBPL for the year 2017 ("Financial Information on the Core Business of RBPL") provided by the Management Board of RBPL.

Financial Information of the Core Business of RBPL

The Financial Information of the Core Business of RBPL was prepared on the basis of the demerger of RBPL assets and liabilities defined in the Demerger Plan solely for illustrative purposes, and, by their nature, they show indicatively the results of operations and financial situation of the Core Business of RBPL as at 31 December 2017.

Statement of the financial position of Core Business of (in PLN million)

Balance sheet	Core Business of RBPL for the year 2017
Assets	39,847
Cash in hand and balances in Central Bank	1,316
Amounts due from banks	103
Loans and advances to customers	18,001
Derivative financial instruments	443
Financial assets held for trading	6,675
Investments in securities	12,648
Investments in subsidiaries	31

Tangible and intangible fixed assets	356
Other assets	230
Deferred tax assets	44
Liabilities	36,070
Amounts due to banks and other monetary financial institutions	635
Amounts due to customers	34,392
Provisions for liabilities and charges	142
Derivative financial instruments	406
Other liabilities	495
TOTAL equity	3,777

At the end of 2017, the intangible assets of RBPL amounted to PLN 268 million, while property, plant and equipment amounted to PLN 88 million.

All RBPL deposits will be assigned to the Core Business of RBPL and transferred to the Bank, which will cause a significant excess of liquidity. In order to balance assets and liabilities, as well as to meet the requirements of the guaranteed Tier 1 capital, as explained below, the "theoretical" supplementary asset portfolio in the amount of PLN 5.4 billion, composed of Polish government bonds with an average interest rate of 1.71% was adopted. The bonds are exempt from tax from financial institutions, which contributes PLN 93 million to "theoretical" interest income in pro forma profits and loss account for the financial year 2017.

The Transaction Agreement stipulates that on the Demerger Date (i.e. the date of the registration of the Bank's share capital increase due to the demerger by the competent registry court), the Bank will acquire the Core Business of RBPL with guaranteed Tier 1 basic capital amounting to PLN 3,400 million. Tier 1 core capital will take into account relevant adjustments and deductions from own funds in accordance with the EU Regulation on prudential requirements for credit institutions and investment firms (CRRs), but will not take into account any transitional provisions resulting from the application of IFRS 9 to the RBPL Core Business, even if these provisions are currently applied in RBPL.

The amount of the adjustment for the adoption of IFRS 9 in the Core Business of RBPL (profit or loss account, result from previous years and provisions) was estimated at PLN 311 million before tax (deferred tax assets) as at 1 January 2018.

Statement of profit or loss pro forma (in PLN million)

Statement of profit or loss	Core Business of RBPL for the year 2017
Net interest income	883
Interest income	1.257
Interest expenses	-374
Non-interest income	596
Net fee and commission income	574
Result on financial instruments measured at fair value and from the exchange position	17

Dividend income	5
Operating result	1.479
Impairment allowances on financial assets	-116
Profit on operating activity	1.363
General administrative costs	-1.011
Result on other operating income and other operating expenses	-108
Other operating income	44
Other operating expenses	-152
Tax on financial institutions	-80
Gross profit/loss	164
Income tax	-81
Net profit/loss	83

The pro forma profit and loss account of the Core Business of RBPL includes the following one-off items:

- an allowance in the amount of PLN 114.0 million due to the Polbank brand (included in „Other operating expenses”);
- PLN 7.2 million of costs related to the initial public offer (included in „Other operating expenses”);
- restructuring costs in the amount of PLN 32.1 million and restructuring provisions in the amount of PLN 13.4 million (included in "General administrative expenses" and "Other operating expenses”);
- One-off costs in the amount of PLN 10.9 million due to retention bonuses (included in „Other operating expenses”).

The presented profit and loss pro forma account of the Core Business of RBPL is based on the assumption of using free funds in the amount of PLN 4.0 billion to calculate the costs of tax on financial institutions.

The presented profit and loss pro forma form of the Core Business of RBPL includes:

- PLN 6 million of revenue related to the service provision agreement, which will be concluded by the Bank and RBPL in order to service RBPL after the transaction;
- PLN 2 million of costs related to IT services that will be provided by RBPL to the Core Business of RBPL.

These amounts are estimates and relate to future services that were not provided in 2017.

- PLN 93 million of "theoretical" interest income on the supplementary assets portfolio (PLN 5.4 billion), assuming an average interest rate on such portfolio on the level of 1.71% and no costs due to tax on financial institutions.

In total, risk-weighted assets assigned to the RBPL Core Business as at 31 December 2017 are estimated at PLN 20.9 billion.

The document of the *Demerger Plan* with appendices is placed on the Bank's website: www.bgzbnpparibas.pl in the "Investor Relations" tab.

II INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

Interim condensed separate statement of profit or loss

	1Q 2018 from 01.01.2018 to 31.03.2018	1Q 2017 from 01.01.2017 to 31.03.2017
Interest income	640,104	641,742
Interest expenses	(195,202)	(179,394)
Net interest income	**444,902**	**462,348**
Fee and commission income	142,894	140,047
Fee and commission expenses	(29,298)	(23,705)
Net fee and commission income	**113,596**	**116,342**
Dividend income	25	20,568
Net trading income	75,318	65,675
Result on investment activities	8,393	984
Result on fair value hedge accounting	1,516	821
Net impairment losses on financial assets and contingent liabilities	(55,155)	(85,830)
General administrative expenses	(369,228)	(384,598)
Depreciation and amortization	(40,821)	(47,577)
Other operating income	36,510	29,639
Other operating expenses	(38,795)	(31,634)
Operating result	**176,261**	**146,738**
Tax on financial institutions	(50,035)	(52,075)
Profit before tax	**126,226**	**94,663**
Income tax expense	(36,961)	(38,789)
Net profit for the period	**89,265**	**55,874**
attributable to equity holders of the Bank	89,265	55,874
EARNINGS PER SHARE (IN PLN PER ONE SHARE)		
Basic	1.06	0.66
Diluted	1.06	0.66

Interim condensed separate statement of comprehensive income

	1Q 2018 from 01.01.2018 to 31.03.2018	1Q 2017 from 01.01.2017 to 31.03.2017
Net profit for the period	**89,265**	**55,874**
OTHER COMPREHENSIVE INCOME		
ITEMS THAT WILL BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS UPON FULFILMENT OF CERTAIN CONDITIONS	**7,031**	**74,605**
Measurement of financial assets available for sale	9,345	92,105
Deferred income tax	(2,314)	(17,500)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**(155)**	**(311)**
Actuary valuation of employee benefits	(191)	210
Deferred income tax	36	(521)
OTHER COMPREHENSIVE INCOME (NET)	**6,876**	**74,294**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**96,141**	**130,168**
attributable to equity holders of the Group	96,141	130,168

Interim condensed separate statement of financial position

ASSETS	31.03.2018	31.12.2017
Cash and balances at Central Bank	2,339,735	998,035
Amounts due from banks	462,639	2,515,457
Derivative financial instruments	429,476	474,421
Differences from hedge accounting regarding the fair value of hedged items	53,459	32,730
Loans and advances to customers measured at amortised cost	48,495,533	52,195,203
Loans and advances to customers measured at fair value through profit or loss	2,750,954	-
Financial assets available for sale	-	13,921,889
Securities measured at amortised cost	9,478,262	-
Financial instruments measured at fair value through profit or loss	117,926	-
Securities measured at fair value through other comprehensive income	4,801,476	-
Investments in subsidiaries	63,404	63,404
Intangible assets	281,954	287,907
Property, plant and equipment	486,306	500,348
Deferred tax assets	554,702	468,617
Other assets	473,129	439,881
Total assets	**70,788,955**	**71,897,892**

LIABILITIES	31.03.2018	31.12.2017
Amounts due to banks	3,806,609	2,926,396
Differences from hedge accounting regarding the fair value of hedged items	21,668	(2,992)
Derivative financial instruments	401,096	427,710
Amounts due to customers	57,438,917	58,658,067
Debt securities issued	-	288,553
Subordinated liabilities	1,652,130	1,645,102
Other liabilities	920,245	1,204,865
Current tax liabilities	84,602	112,235
Provisions	117,351	76,697
Total liabilities	**64,442,618**	**65,336,633**

EQUITY	31.03.2018	31.12.2017
Share capital	84,238	84,238
Supplementary capital	5,127,086	5,127,086
Other reserve capital	909,629	909,629
Revaluation reserve	148,793	141,917
Retained earnings	76,591	298,389
retained profit	(12,674)	-
net profit for the period	89,265	298,389
Total equity	**6,346,337**	**6,561,259**
Total liabilities and equity	**70,788,955**	**71,897,892**

Interim condensed separate statement of changes in equity

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings		Total
					Retained profit	Net profit for the period	
Balance as at 1 January 2018 (data approved)	**84,238**	**5,127,086**	**909,629**	**141,917**	**-**	**298,389**	**6,561,259**
Change related to the implementation of IFRS 9	-	-	-	-	(311,063)	-	(311,063)
Balance as at 1 January 2018 (data restated)	**84,238**	**5,127,086**	**909,629**	**141,917**	**(311,063)**	**298,389**	**6,250,196**
Total comprehensive income for the period	**-**	**-**	**-**	**6,876**	**-**	**89,265**	**96,141**
Net profit for the period	-	-	-	-	-	89,265	89,265
Other comprehensive income for the period	-	-	-	6,876	-	-	6,876
Distribution of retained earnings	**-**	**-**	**-**	**-**	**298,389**	**(298,389)**	**-**
Distribution of retained earnings intended for supplementary capital	-	-	-	-	298,389	(298,389)	-
Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance as at 31 March 2018	**84,238**	**5,127,086**	**909,629**	**148,793**	**(12,674)**	**89,265**	**6,346,337**

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings	Total
					Net profit for the period	
Balance as at 1 January 2017	**84,238**	**5,127,899**	**860,241**	**(552)**	**49,388**	**6,121,214**
Total comprehensive income for the period	**-**	**-**	**-**	**142,469**	**298,389**	**440,858**
Net profit for the period	-	-	-	-	298,389	298,389
Other comprehensive income for the period	-	-	-	142,469	-	142,469
Distribution of retained earnings	**-**	**-**	**49,388**	**-**	**(49,388)**	**-**
Distribution of net profit	-	-	49,388	-	(49,388)	-
Other	**-**	**(813)**	**-**	**-**	**-**	**(813)**
Balance as at 31 December 2017	**84,238**	**5,127,086**	**909,629**	**141,917**	**298,389**	**6,561,259**

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings		Total
					Retained profit	Net profit for the period	
Balance as at 1 January 2017	**84,238**	**5,127,899**	**860,241**	**(552)**	**-**	**49,388**	**6,121,214**
Total comprehensive income for the period	-	-	-	74,294	-	55,874	130,168
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**55,874**	**55,874**
Other comprehensive income for the period	-	-	-	74,294	-	-	74,294
Distribution of retained earnings	**-**	**-**	**-**	**-**	**49,388**	**(49,388)**	**-**
Distribution of net profit	-	-	-	-	49,388	(49,388)	-
Balance as at 31 March 2017	**84,238**	**5,127,899**	**860,241**	**73,742**	**49,388**	**55,874**	**6,251,382**

Interim condensed separate statement of cash flows

CASH FLOWS FROM OPERATING ACTIVITIES:	1Q 2018 from 01.01.2018 to 31.03.2018	1Q 2017 from 01.01.2017 to 31.03.2017
Net profit (loss)	**89,265**	**55,874**
ADJUSTMENTS FOR:	**(535,878)**	**(352,746)**
Income tax expenses	36,961	38,789
Depreciation and amortization	40,821	47,577
Dividend income	(25)	(20,568)
Interest income	(640,104)	(641,742)
Interest expense	195,202	179,394
Change in provisions	40,462	(16,130)
Change in amounts due from banks	(14,683)	8,602
Change in derivative financial instruments (assets)	44,945	(95,428)
Change in loans and advances to customers measured at amortised cost	3,322,092	(1,060,390)
Change in loans and advances to customers measured at fair value through profit or loss	(2,750,954)	-
Change in amounts due to banks	916,593	(107,911)
Change in derivative financial instruments (liabilities)	(26,614)	73,580
Change in amounts due to customers	(1,154,354)	891,789
Change in other assets and current tax assets	(121,610)	22,091
Change in other liabilities and deferred income tax liabilities	(312,253)	(138,468)
Other adjustments	(326,632)	(15,249)
Interest received	416,207	640,835
Interest paid	(201,932)	(159,517)
Net cash flows from operating activities	**(446,613)**	**(296,872)**

CASH FLOWS FROM INVESTING ACTIVITIES:	1Q 2018 from 01.01.2018 to 31.03.2018	1Q 2017 from 01.01.2017 to 31.03.2017
INVESTING ACTIVITIES INFLOWS	**11,478,984**	**8,869,363**
Sale of financial assets	11,475,163	8,841,694
Sale of intangible assets and property, plant and equipment	3,796	7,101
Dividends received and other inflows from investing activities	25	20,568
INVESTING ACTIVITIES OUTFLOWS	**(11,374,633)**	**(7,232,829)**
Purchase of securities	(11,350,011)	(7,208,079)
Purchase of intangible assets and property, plant and equipment	(24,622)	(24,750)
Net cash flows from investing activities	**104,351**	**1,636,534**
CASH FLOWS FROM FINANCING ACTIVITIES:		
FINANCING ACTIVITIES INFLOWS	**-**	**-**
Long-term loans received	-	-
Increase in subordinated loans	-	-
Financing activities outflows	**(384,087)**	**(1,451,915)**
Repayment of long-term loans and advances received	(99,087)	(1,449,377)
Redemption of debt securities	(285,000)	(2,538)
Net cash flows from financing activities	**(384,087)**	**(1,451,915)**
TOTAL NET CASH	**(726,349)**	**(112,253)**
Cash and cash equivalents at the beginning of the period	**3,442,671**	**2,452,735**
Cash and cash equivalents at the end of the period, including:	**2,716,322**	**2,340,482**
effect of exchange rate fluctuations on cash and cash equivalents	(1,266)	(22,297)
restricted cash and cash equivalents	867	2,798

EXPLANATORY NOTES TO THE INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

1 ACCOUNTING PRINCIPLES APPLIED FOR THE PURPOSE OF PREPARATION OF THE INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

The interim condensed separate financial statements for the first quarter ended 31 March 2018 were prepared in accordance with the requirements of International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"), as adopted by the European Union as well as in accordance with other applicable regulations.

The interim condensed separate financial statements do not include all information and disclosures required for the annual financial statements, and therefore should be read in conjunction with the Interim condensed consolidated financial statements for the first quarter of 2018 and with the Separate financial statements of the Bank BGŻ BNP Paribas S.A. for the year ended 31 December 2017, which was approved by the Management Board of the Bank on 12 March 2018.

The accounting principles and methods of performing accounting estimates adopted in the preparation of the interim condensed separate financial statements of the Bank are consistent with the accounting principles adopted for the Group's interim condensed consolidated financial statements, which are described in sections 3 and 7.

Implementation of IFRS 9

The table below summarizes the impact of IFRS 9 on the change in the classification and measurement of the Bank's financial assets and liabilities as at 1 January 2018

FINANCIAL ASSETS IN ACCORDANCE WITH IAS 39	CLASSIFICATION IN ACCORDANCE WITH IAS 39	CLASSIFICATION IN ACCORDANCE WITH IFRS 9	BALANCE SHEET AMOUNT IN ACCORDANCE WITH IAS 39	BALANCE SHEET AMOUNT IN ACCORDANCE WITH IFRS 9
Cash and balances at Central Bank	Loans and receivables	Amortised cost	998,035	998,021
Amounts due from banks	Loans and receivables	Amortised cost	2,515,457	2,518,790
Derivative financial instruments	Fair value through profit or loss	Fair value through profit or loss	474,421	474,421
Differences from hedge accounting regarding the fair value of hedged items	Hedging instruments	Hedging instruments	32,730	32,730
Loans and advances to customers	Loans and receivables	Amortised cost	52,195,203	48,372,474
Loans and advances to customers	Loans and receivables	Fair value through profit or loss	-	2,910,768
Financial assets available for sale	Available for sale	Amortised cost	-	7,470,511
Financial assets available for sale	Available for sale	Fair value through profit or loss	-	104,983
Financial assets available for sale	Available for sale	Fair value through comprehensive income	13,921,889	6,834,230
Deferred tax assets			468,617	601,415
Other assets			439,881	431,762
FINANCIAL LIABILITIES IN ACCORDANCE WITH IAS 39				
Provisions	Amortised cost	Amortised cost	76,697	114,890
Revaluation reserve	Fair value through other comprehensive income	Amortised cost	141,917	115,341

The impact of the new standard on the financial position and own funds of the Bank recognized as at 1 January 2018 (opening balance sheet), is as follows:

Item	Measurement category – IAS 39	Measurement category – IFRS 9	Balance sheet amount in accordance with IAS 39	Impact of IFRS 9* implementation Classification and measurement	Impact of IFRS 9* implementation Impairment	Balance sheet amount in accordance with IFRS 9
ASSETS						
Loans and advances to customers	Amortised cost	Amortised cost	52,195,203	(3,407,354)	(415,375)	48,372,474
Loans and advances to customers	Amortised cost	Fair value through profit or loss	-	2,891,806	18,962	2,910,768
Financial assets available for sale	Fair value through other comprehensive income	Fair value through other comprehensive income	13,921,889	(7,087,640)	(19)	6,834,230
Financial assets available for sale	Fair value through other comprehensive income	Amortised cost	-	7,498,570	(1,483)	7,497,087
Financial assets available for sale	Fair value through other comprehensive income	Fair value through profit or loss	-	104,618	365	104,983
Other assets	Amortised cost	Amortised cost	439,881	-	(8,119)	431,762
LIABILITIES						
Provisions	Amortised cost	Amortised cost	76,697	-	38,193	114,890
					(443,823)	

* excluding the impact of deferred tax

The total value of the impact of IFRS 9 implementation in the amount of PLN 443,862 thousand and the effect of deferred tax resulting from the implementation of IFRS 9 in the form of an increase in net deferred tax asset in the amount of PLN 132,799 thousand decreased the balance of retained earnings and revaluation reserve in the amount of PLN 311,063 thousand as at 1 January 2018.

	Allowance in accordance with IAS 39	Change resulting from reclassification	Change resulting from revaluation	Allowance in accordance with IFRS 9
Impairment allowances				
Impairment allowance on funds at Central Bank	-	-	(14)	(14)
Impairment allowance on amounts due from banks	(4,477)	-	3,333	(1,144)
Impairment allowance on amounts due from customers	(2,771,900)	-	(739,229)	(3,511,129)
Impairment allowance on securities measured at amortised cost	(11,792)	-	-	(11,792)
Provision for financial liabilities and guarantees granted	**(35,419)**	-	(38,193)	(73,612)
Total impairment allowances	**(2,823,588)**	**-**	**(774,103)**	**(3,597,691)**

in PLN '000	Fair value at closing balance	Profit/loss due to the change of fair value, which would be recognized in profit or loss / / revaluation reserve in the reporting period, if the financial asset / financial liability was not reclassified	Effective interest rate as at the moment of reclassification	Interest income / interest expense recognized in the reporting period
From measured at fair value through other comprehensive income to measured at amortised cost	7,032,343	26,576	n/a	n/a
From measured at fair value through profit or loss to measured at amortised cost	-	-	-	-
From measured at fair value through profit or loss to measured at fair value through other comprehensive income	-	-	-	-
FINANCIAL LIABILITIES	-	-	-	-
From measured at fair value through profit or loss to measured at amortised cost	-	-	-	-

Impact of IFRS 9 on capital adequacy

On 12 December 2017, the European Parliament and the EU Council adopted the Regulation No. 2017/2395 amending the Regulation No. 575/2013 regarding transitional arrangements to mitigate the impact of implementing IFRS 9 on equity and the solutions regarding the fact of treating some exposures to public sector institutions, which are denominated in the national currency of any Member State, as large exposures. This Regulation entered into force on the day following its publication in the Official Journal of the European Union and has been applicable since 1 January 2018. The European Parliament and the Council (EU) considered that the application of IFRS 9 could lead to a sudden increase in allowances for expected credit losses, and hence, the decrease in Tier 1 capital.

The Bank, after analysing the requirements of Regulation No. 2017/2395, decided to apply the transitional provisions provided for in this Regulation, which means that the full impact of the implementation of IFRS 9 will not be taken into account for the purpose of assessing capital adequacy of the Bank.

As a result of adjusting the calculation of regulatory capital requirements, which include transitional arrangements to mitigate the impact of IFRS 9 implementation, as set out in the Regulation of the European Parliament and the Council (EU) No. 2017/2395 of 12 December 2017, the impact on Tier 1 ratio and on the total capital ratio of the Bank will be adjusted by 95% of the balance of retained earnings and revaluation capital.

The provisions of IFRS 9 are not unambiguous and are subject to interpretations by both entities implementing the standard, as well as by the regulator or audit firms, and the position of all interested parties is not uniform in all aspects. The market practice of applying the standard's provisions is still under development and may change due to the ongoing discussions.

2 RELATED PARTY TRANSACTIONS

Bank BGŻ BNP Paribas S.A. operates within the BNP Paribas S.A. Group. Bank BGŻ BNP Paribas S.A. is a parent company in the Capital Group of BGŻ BNP Paribas S.A.

As at 31 March 2018 the Group comprised Bank BGŻ BNP Paribas S.A. as the parent and its subsidiaries:

1. Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o. ("Actus"), with its registered office at Kasprzaka 10/16 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000023062. The Bank holds 100% interest in the share capital of the company.

2. Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A. ("TFI"), with its registered office at Twarda 18 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register, under number KRS 0000031121. The Bank holds 100% of the company's shares.

3. BNP Paribas Leasing Services Sp. z o.o. ("Leasing", formerly: Fortis Lease Polska Sp. z o.o. in liquidation), with its registered office at Suwak 3 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000098813. The Bank holds 100% of the company's shares.

4. BNP Paribas Group Service Center S.A. ("GSC", formerly: Laser Services Polska S.A.), with its registered office at Suwak 3 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000022784. The Bank holds 100% of the company's shares.

5. BGŻ Poland ABS1 DAC ("SPV") based in Ireland, 3RD Floor Kilmore House, Park Lane, Spencer Dock, Dublin. This is a special purpose company, with which the Bank performed a securitization transaction concerning a part of the loan portfolio. The Group does not have any capital involvement in this company. The company is controlled by Bank BGŻ BNP Paribas S.A. only in terms of IFRS 10.

All transactions between the Bank and its related parties were entered into as part of its daily operations and included mainly loans, deposits, transactions in derivative instruments as well as income and expenses related to advisory and financial intermediation services.

Transactions with shareholders of BGŻ BNP Paribas S.A. and related parties

31.03.2018	BNP Paribas S.A.	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Subsidiaries	Total
ASSETS	**358,535**	**97,254**	**161,943**	**48**	**7,767**	**625,547**
Receivables on current accounts, loans and deposits	97,620	95,265	160,932	4	-	**353,821**
Derivative financial instruments	218,551	186	-	-	-	**218,737**
Hedging instruments	41,913	1,803				**43,716**
Other assets	451	-	1,011	44	7,767	**9,273**
LIABILITIES	**3,024,292**	**14,740**	**2,523,722**	**4,213**	**38,522**	**5,605,489**
Loans and advances received	1,222,295	-	1,810,360	-	-	**3,032,655**
Current accounts and deposits	204,496	14,723	459,094	4,213	34,894	**717,420**
Subordinated liabilities	1,403,426	-	253,054	-	-	**1,656,480**
Derivative financial instruments	180,789	4	-	-	-	**180,793**
Hedged instruments	13,036	-	-	-	-	**13,036**
Other liabilities	250	13	1,214	-	3,628	**5,105**
CONTINGENT LIABILITIES						
Financial commitments granted	-	-	96,890	56	30,045	**126,991**
Guarantees granted	37,890	54,859	418,184	-	335	**511,268**
Commitments received	47,458	70,522	444,135	-	-	**562,115**
Derivative financial instruments (nominal value)	30,314,556	108,707	-	-	-	**30,423,263**
Derivative instruments (nominal value)	5,567,608	29,460	-	-	-	**5,597,068**
3 months ended 31.03.2018						
STATEMENT OF PROFIT OR LOSS	**(6,323)**	**247**	**(9,189)**	**(14)**	**3,577**	**(11,702)**
Interest income	3,277	271	338	-	4	**3,890**
Interest expense	(7,954)	(81)	(5,235)	(14)	(57)	**(13,341)**
Fee and commission income	-	54	388	-	6,405	**6,847**
Fee and commission expense	(30)	-	(13)	-	-	**(43)**
Dividend income	-	-	-	-	-	**-**
Net trading income	-	3	-	-	-	**3**
Other operating income	-	-	-	-	-	**-**
Other operating expenses	(1,616)	-	(4,667)	-	(2,775)	**(9,058)**

31.12.2017	BNP Paribas S.A.	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Subsidiaries	Total
ASSETS	**1,730,525**	**32,927**	**913,668**	**38**	**8,068**	**2,685,226**
Receivables on current accounts, loans and deposits	1,466,676	16,861	902,976	3	-	**2,386,516**
Derivative financial instruments	263,483	16,066	-	-	-	**279,549**
Hedging instruments						
Other assets	366	-	10,692	35	8,068	**19,161**
LIABILITIES	**2,901,637**	**33,249**	**2,465,476**	**4,113**	**41,725**	**5,446,200**
Loans and advances received	1,324,886	33,080	456,847	-	-	**1,814,813**
Current accounts and deposits	-	-	1,752,397	4,113	38,099	**1,794,609**
Subordinated liabilities	1,398,737	-	250,822	-	-	**1,649,559**
Derivative financial instruments	177,919	169	-	-	-	**178,088**
Other liabilities	95	-	5,410	-	3,626	**9,131**
CONTINGENT LIABILITIES						
Financial commitments granted	197	18	134	44	30,044	**30,437**
Guarantees granted	-	-	-	-	155	**155**
Commitments received	459	78	341	-	-	**878**
Derivative financial instruments (nominal value)	71,725	313	55	-	-	**72,093**
12 months ended 31.12.2017						
STATEMENT OF PROFIT OR LOSS	**13,655**	**(2,232)**	**(17,288)**	**(7)**	**47,245**	**41,373**
Interest income	335	882	1,289	-	8	**2,514**
Interest expense	(39,158)	(2,100)	(28,593)	(7)	(304)	**(70,162)**
Fee and commission income	-	356	6,865	-	15,083	**22,304**
Fee and commission expense	(510)	(28)	(455)	-	-	**(993)**
Dividend income			33,462			**33,462**
Net trading income	86,611	(1,342)	-	-	-	**85,269**
Other operating income	-	-	17,356	-	42,070	**59,426**
Other operating expenses	(33,623)	-	(47,212)	-	(9,612)	**(90,447)**

Remuneration of the Management Board and Supervisory Board

Management Board	31.03.2018	31.12.2017
Short-term employee benefits	4,936	14,563
Long-term benefits	2,115	5,907
Benefits due to termination of employment	-	3,698
Post-employment benefits	-	3,101
Share-based payments	1,138	1,279
TOTAL	**8,189**	**28,548**

Supervisory Board	31.03.2018	31.12.2017
Short-term employee benefits	519	2 011
Long-term benefits	-	-
Benefits due to termination of employment	-	-
Share-based payments	-	-
TOTAL	**519**	**2 011**

3 SEPARATE CAPITAL ADEQUACY RATIO

	31.03.2018	31.12.2017
Total own funds	7,738,388	7,699,319
Total risk exposure	55,024,952	55,307,981
Total capital ratio	14.06%	13.92%
Tier 1 capital ratio	11.06%	10.95%

4 SEASONAL OR CYCLICAL NATURE OF BUSINESS

There are no significant seasonal or cyclical phenomena in the Bank's operations.

5 ISSUE AND REDEMPTION OF SECURITIES

Issue and redemption of securities are described in section 33 of the Interim consolidated financial statements for the first quarter of 2018.

6 DIVIDENDS PAID

In 2017, no dividend was paid out in the Bank.

7 DISTRIBUTION OF RETAINED EARNINGS

In accordance with the draft resolutions submitted by the Bank on 20 April 2018 for the Ordinary General Meeting of the Bank convened for 18 May 2018, it is planned that the Bank's profit after tax (net financial result) for the year 2017 in the amount of PLN 298,389,438.93 (two hundred and ninety-eight million, three hundred and eighty-nine thousand, four hundred and thirty-eight zlotys and ninety-three grosz) was transferred in full to reserve capital.

8 CONTINGENT LIABILITIES

The following table presents the value of liabilities granted and received by the Bank.

	31.03.2018	31.12.2017
CONTINGENT COMMITMENTS GRANTED	**19,659,361**	**19,449,876**
financial commitments	15,034,161	15,110,019
guarantees	4,625,200	4,339,857
CONTINGENT COMMITMENTS RECEIVED	**11,809,941**	**12,009,299**
financial commitments	10,786,501	10,871,719
guarantees	1,023,440	1,137,580

9 SUBSEQUENT EVENTS

Subsequent events are described in Note 52 of the Interim consolidated financial statements for the first quarter of 2018.

SINGATURES OF MEMBERS OF THE MANAGEMENT BOARD OF BANK BGŻ BNP PARIBAS S.A.

16.05.2018	Przemysław Gdański President of the Management Board	signature
16.05.2018	Jean-Charles Aranda Member of the Management Board	signature
16.05.2018	Philippe Paul Bézieau Vice-President of the Management Board	signature
16.05.2018	Blagoy Bochev Vice-President of the Management Board	signature
16.05.2018	Przemysław Furlepa Vice-President of the Management Board	signature
16.05.2018	Wojciech Kembłowski Vice-President of the Management Board	signature
16.05.2018	Jaromir Pelczarski Vice-President of the Management Board	signature
16.05.2018	Jerzy Śledziewski Vice-President of the Management Board	signature
16.05.2018	Katarzyna Romaszewska-Rosiak Managing Director of the Financial Accounting Division	signature

Warsaw, 16 May 2018