2016

SEPARATE FINANCIAL STATEMENTS OF BANK BGŻ BNP PARIBAS S.A.

for the year ended 31 December 2016

BGŻ BNP PARIBAS

The bank for a changing world

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SELECTED FINANCIAL DATA

Selected separate financial data	in PLN '000		in EUR '000	
STATEMENT OF PROFIT OR LOSS	**31.12.2016 (YTD)**	31.12.2015 (YTD)	**31.12.2016 (YTD)**	31.12.2015 (YTD)
Net interest income	**1 762 532**	1 405 762	**402 800**	335 921
Net fee and commission income	**441 633**	407 241	**100 929**	97 314
Profit before income tax	**134 349**	25 276	**30 703**	6 040
Profit after income tax	**49 388**	8 263	**11 287**	1 975
Total comprehensive income for the period	**(148 771)**	(50 615)	**(33 999)**	(12 095)
Total net cash flows	**(800 138)**	1 071 892	**(182 859)**	256 139
INDICATORS	**31.12.2016**	31.12.2015	**31.12.2016**	31.12.2015
Number of shares (items)	**84 238 318**	84 238 318	**84 238 318**	**84 238 318**
Earnings per share	**0.59**	0.11	**0.13**	0.03
BALANCE SHEET	**31.12.2016**	31.12.2015	**31.12.2016**	31.12.2015
Total assets	**70 381 933**	63 009 129	**15 909 117**	14 785 669
Amounts due to customers	**55 297 324**	46 620 848	**12 499 395**	10 940 009
Total liabilities	**64 260 719**	56 845 951	**14 525 479**	13 339 423
Share capital	**84 238**	84 238	**19 041**	19 767
Total equity	**6 121 214**	6 163 178	**1 383 638**	1 446 246
CAPITAL ADEQUACY RATIO	**31.12.2016**	31.12.2015	**31.12.2016**	31.12.2015
Total equity	**7 634 483**	6 597 941	**1 725 697**	1 548 267
Total risk exposure	**51 098 527**	47 868 505	**11 550 300**	11 232 783
Total capital ratio	**14.94%**	13.78%		
Tier 1 capital ratio	**11.49%**	12.12%		

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:

- as at 31.12.2016: EUR 1 = PLN 4,4240,
- as at 31.12.2015: EUR 1 = PLN 4.2615

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 1.01.2016 to 31.12.2016: EUR 1 = PLN 4.3757
- for the period from 1.01.2015 to 31.12.2015: EUR 1 = PLN 4.1848

SEPARATE FINANCIAL STATEMENTS

Separate statement of profit or loss

	Note	12 months ended 31.12.2016	12 months ended 31.12.2015
Interest income	5	2 489 870	2 044 110
Interest expense	5	(727 338)	(638 348)
Net interest income		**1 762 532**	**1 405 762**
Fee and commission income	6	549 178	473 833
Fee and commission expense	6	(107 545)	(66 592)
Net fee and commission income		**441 633**	**407 241**
Dividend income	7	14 561	6 837
Net trading income	8	253 845	184 346
Result on investing activities	9	28 761	47 390
Result on hedge accounting	21	(77)	-
Other operating income	10	107 021	56 862
Other operating expense	11	(116 028)	(91 053)
Net impairment losses on financial assets and contingent liabilities	12	(385 930)	(304 220)
General administrative expenses	13,14	(1 589 377)	(1 540 803)
Depreciation and amortization	15	(196 716)	(147 086)
Operating result		**320 225**	**25 276**
Tax on financial institutions		(185 876)	-
Profit before income tax		**134 349**	**25 276**
Income tax expense	16	(84 961)	(17 013)
Net profit for the period		**49 388**	**8 263**
attributable to equity holders of the Bank		49 388	8 263
EARNINGS PER SHARE (IN PLN PER ONE SHARE)	17		
Basic		0.59	0.11
Diluted		0.59	0.11

Separate statement of other comprehensive income

	12 months ended 31.12.2016	12 months ended 31.12.2015
Net profit for the period	**49 388**	**8 263**
OTHER COMPREHENSIVE INCOME		
ITEMS THAT ARE OR MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS	**(202 628)**	**(64 025)**
Net change in valuation of available for sale financial assets	(250 249)	(79 043)
Deferred income tax	47 621	15 018
ITEMS THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS	**4 469**	**5 147**
Actuary valuation of employee benefits	4 874	6 355
Deferred income tax	(405)	(1 208)
OTHER COMPREHENSIVE INCOME (NET OF TAX)	**(198 159)**	**(58 878)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**(148 771)**	**(50 615)**
attributable to equity holders of the Bank	(148 771)	(50 615)

Separate statement of financial position

ASSETS	Note	31.12.2016	31.12.2015
Cash and balances at Central Bank	18	1 302 847	2 826 407
Loans and advances to banks	19	1 225 912	544 012
Derivative financial instruments	20	324 005	368 138
Hedging instruments	21	18 671	2 711
Loans and advances to customers	22	53 179 717	49 831 458
Available for sale financial assets	24	12 497 233	7 762 677
Investments in subsidiaries	25	70 828	248 848
Intangible assets	26	244 571	250 691
Property, plant and equipment	29	545 480	528 230
Deferred tax assets	35	522 392	428 931
Other assets	28	450 277	217 026
Total assets		**70 381 933**	**63 009 129**

LIABILITIES	Note	31.12.2016	31.12.2015
Amounts due to banks	29	5 291 459	7 617 946
Hedged items	21	(4 080)	1 605
Derivative financial instruments	20	271 757	351 539
Amounts due to customers	30	55 297 324	46 620 848
Debt securities issued	31	397 909	468 933
Subordinated liabilities	32	1 768 458	847 568
Other liabilities	33	1 116 905	756 161
Current tax liabilities		4 593	37 547
Provisions	34	116 394	143 804
Total liabilities		**64 260 719**	**56 845 951**

EQUITY	Note	31.12.2016	31.12.2015
Share capital	42	84 238	84 238
Supplementary capital	43	5 127 899	5 092 196
Other reserve capital	43	860 241	780 874
Revaluation reserve	43	(552)	197 607
Retained earnings		49 388	8 263
retained profit		-	-
net profit for the period		49 388	8 263
Total equity		6 121 214	**6 163 178**
Total liabilities and equity		**70 381 933**	**63 009 129**

Separate statement of changes in equity

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings Net profit for the period	Total
Balance as at 1 January 2016	**84 238**	**5 092 196**	**780 874**	**197 607**	**8 263**	**6 163 178**
Total comprehensive income for the period	**-**	**-**	**-**	**(198 159)**	**49 388**	**(148 771)**
Net profit for the period	-	-	-	-	49 388	49 388
Other comprehensive income for the period	-	-	-	(198 159)	-	(198 159)
Appropriation of retained earnings	**-**	**-**	**8 263**	**-**	**(8 263)**	**-**
Appropriation of retained earnings	-	-	8 263	-	(8 263)	-
Merger	**-**	**35 703**	**71 104**	**-**	**-**	**106 807**
Equity arising from merger	-	35 703	71 104	-	-	106 807
Balance as at 31 December 2016	**84 238**	**5 127 899**	**860 241**	**(552)**	**49 388**	**6 121 214**

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings Net profit for the period	Total
Balance as at 1 January 2015	**56 139**	**3 430 785**	**271 858**	**255 363**	**137 730**	**4 151 875**
Total comprehensive income for the period	**-**	**-**	**-**	**(58 878)**	**8 263**	**(50 615)**
Net profit for the period	-	-	-	-	8 263	8 263
Other comprehensive income for the period	-	-	-	(58 878)	-	(58 878)
Appropriation of retained earnings	**-**	**7 730**	**130 000**	**-**	**(137 730)**	**-**
Appropriation of retained earnings	-	7 730	130 000	-	(137 730)	-
Merger	**28 099**	**1 653 681**	**379 016**	**1 122**	**-**	**2 061 918**
Issued shares of H series	28 099	-	-	-	-	28 099
Equity arising from merger	-	1 653 681	379 016	1 122	-	2 033 819
Balance as at 31 December 2015	**84 238**	**5 092 196**	**780 874**	**197 607**	**8 263**	**6 163 178**

Separate statement of cash flows

CASH FLOWS FROM OPERATING ACTIVITIES:	Note	12 months ended 31.12.2016	12 months ended 31.12.2015
Net profit (loss)		**49 388**	**8 263**
ADJUSTMENTS FOR:		**5 760 878**	**3 630 129**
Income tax expense		84 961	17 013
Depreciation and amortization		196 716	147 086
Dividend income		(14 561)	(6 837)
Interest income		(2 489 870)	(2 044 110)
Interest expense		727 338	638 348
Change in provisions		(22 536)	82 175
Change in loans and advances to banks		41 507	(110 409)
Change in reverse repo transactions		-	100 662
Change in securities held for trading		-	198 528
Change in derivative financial instruments (assets)		44 133	52 014
Change in loans and advances to customers		(3 449 802)	(20 149 641)
Change in amounts due to banks		(406 694)	8 215 726
Change in repo transactions		-	(45 357)
Change in derivative financial instruments (liabilities)		(79 782)	(97 369)
Change in amounts due to customers		8 957 722	14 170 554
Change in other assets and current tax assets		(280 360)	(397 955)
Change in other liabilities and deferred tax liabilities		327 790	458 347
Other adjustments	47	245 777	1 144 580
Interest received		2 578 128	1 948 075
Interest paid		(699 589)	(691 301)
Net cash from operating activities		**5 810 266**	**3 638 392**

CASH FLOWS FROM INVESTING ACTIVITIES:	Note	12 months ended 31.12.2016	12 months ended 31.12.2015
INVESTING ACTIVITIES INFLOWS		**20 897 637**	**117 802 650**
Sale of available for sale financial assets	24	20 837 443	117 774 963
Sale of intangible assets and property, plant and equipment		45 633	20 850
Dividends received and other inflows from investing activities		14 561	6 837
INVESTING ACTIVITIES OUTFLOWS		**(26 091 686)**	**(117 627 976)**
Purchase of available for sale financial assets		(25 808 067)	(117 217 026)
Purchase of intangible assets and property, plant and equipment		(244 819)	(199 950)
Purchase of shares in subsidiaries		(38 800)	(211 000)
Net cash from investing activities		**(5 194 049)**	**174 674**
CASH FLOWS FROM FINANCING ACTIVITIES:			
FINANCING ACTIVITIES INFLOWS		**2 205 919**	**6 200 738**
Long-term loans received		1 323 519	6 200 738
Increase in subordinated loans		882 400	-
Financing activities outflows		**(3 622 274)**	**(8 941 912)**
Repayment of long-term loans and advances		(3 550 278)	(8 647 137)
Redemption of debt securities		(71 996)	(294 775)
Net cash from financing activities		**(1 416 355)**	**(2 741 174)**
TOTAL NET CASH		**(800 138)**	**1 071 892**
Cash and cash equivalents at the beginning of the period		**3 252 873**	**2 180 981**
Cash and cash equivalents at the end of the period, of which:	**46**	**2 452 735**	**3 252 873**
effect of exchange rate fluctuations on cash and cash equivalents held		8 887	12 165
of restricted use		8 550	6 699

EXPLANATORY INFORMATION TO THE SEPARATE FINANCIAL STATEMENTS

1. GENERAL INFORMATION ABOUT THE BANK

Bank BGŻ BNP Paribas S.A. is the parent 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 ul. Kasprzaka 10/16 in Warsaw. The Bank is registered in Poland, with 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.

Since 27 May 2011, pursuant to a decision of the Management Board of the Warsaw Stock Exchange (WSE) Bank's shares have been listed on WSE and classified as finance - banking sector.

In 2016, the average headcount of the Bank was 7 977.73 FTEs compared to 7 587.67 FTEs in 2015.

The Bank's objects include:

- accepting deposits payable at request or on a defined deadline and maintaining relevant deposit accounts;
- maintaining other bank accounts;
- granting cash loans and advances;
- granting and confirming bank guarantees; opening and confirming letters of credit;
- issuing bank securities;
- carrying out cash transactions;
- transactions on checks, treasury bills and warrants;
- issuing cash cards and performing cash card transactions;
- forwards and futures;
- purchasing and selling debts;
- holding deposits of securities and providing strongbox services;
- purchasing and selling foreign currencies and securities;
- granting and confirming sureties;
- performing commissioned operations related to the issue of securities;
- agency in cash transfers and foreign currency transactions;
- issuing e-money;
- assuming and purchasing shares and rights attached to shares, shares of another legal entity or units, certificates and investment certificates of investment funds;
- assuming liabilities related to the issue of securities;
- trading in securities;
- exchanging debt to debtor's assets on terms agreed with the debtor;
- acquiring and disposing of real estate;
- providing financial advisory services;
- carrying out brokerage operations (broker business);
- performing activities not classified as brokerage, involving:
- accepting and transferring sell and buy orders regarding financial instruments not traded on regulated markets or through multilateral trading facilities and those issued by the State Treasury or National Bank of Poland;
- performing sell and buy orders regarding financial instruments not traded on regulated markets or through multilateral trading facilities on account client's account;
- selling and buying financial instruments not traded on regulated markets or through multilateral trading facilities and those issued by the State Treasury or National Bank of Poland on own account;

- investment advisory services regarding financial instruments issued by the State Treasury or National Bank of Poland, or other financial instruments not traded on regulated markets or through multilateral trading facilities;
- acquisition as defined by regulations regarding organization and operation of pension funds;
- acting as depositary as defined by regulations regarding organization and operation of pension funds;
- safekeeping of investment fund's assets;
- operating deposit of securities;
- providing settlement and advisory services regarding financial market instruments;
- providing custody and factoring services;
- providing convoy services for transport of cash/valuables;
- providing insurance agency services within the scope allowed by the Insurance Agency Act;
- finance lease;
- trading in fiscal stamps and numismatic items;
- providing certification services as defined by regulations concerning e-signature, except for issue of qualified certificates used by banks in transactions they are parties to.

Composition of the Management Board of Bank BGŻ BNPP as at 31 December 2016:

Full name	Office held in the Management Board of the Bank
Tomasz Bogus	President of the Management Board
Daniel Astraud	Vice-President of the Management Board
François Benaroya	Vice-President of the Management Board
Philippe Paul Bézieau	Vice-President of the Management Board
Blagoy Bochev	Vice-President of the Management Board
Jan Bujak	Vice-President of the Management Board
Wojciech Kembłowski	Vice-President of the Management Board
Magdalena Legęć	Vice-President of the Management Board
Jaromir Pelczarski	Vice-President of the Management Board
Jerzy Śledziewski	Vice-President of the Management Board
Bartosz Urbaniak	Member of the Management Board

Changes in the Management Board in 2016:

- On 21 April 2016, Mr. Jean-Philippe Stephane Rodes submitted his resignation from the position of Vice-President and Member of the Management Board of the Bank with effect from 31 July 2016. On 16 June 2016 Mr. Jean-Philippe Stephane Rodes submitted a representation, changing the effective date of his resignation from the position of President of the Management Board of the Bank to 18 July 2016.
- During a meeting on 21 April 2016, the Supervisory Board of the Bank appointed Mr. Jerzy Śledziewski Vice-President of the Management Board effective from 1 August 2016, until the end of the existing three-year joint office of the members of the Management Board.
- On 16 June 2016 Mr. Michel Thebault submitted a statement of resignation from the position of Vice-President of the Management Board of the Bank effective from 30 June 2016.
- During a meeting on 16 June 2016, the Supervisory Board of the Bank appointed Mr. Philippe Paul Bézieau Vice-President of the Management Board effective from 1 July 2016, until the end of the existing three-year joint office of the members of the Management Board.

Composition of the Supervisory Board of Bank BGŻ BNPP as at 31 December 2016:

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
Stefaan Decraene	Member of the Supervisory Board
Jacques d'Estais	Member of the Supervisory Board
Alain Van Groenendael	Member of the Supervisory Board
Thomas Mennicken	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

The composition of the Supervisory Board of Bank BGŻ BNP Paribas S.A. did not change in 2016.

On 30 June 2016, the General Meeting of the Bank determined the number of the Supervisory Board members of the new office term for ten people and re-appointed the former members for the new five-year office term.

The Supervisory Board of the new office term constituted at the meeting of 21 July 2016.

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

As at 31 December 2016, 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 ul. Kasprzaka 10/16 in Warsaw. The company is registered with 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 ul. Bielańska 12 in Warsaw. The company is registered with 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 ul. Suwak 3 in Warsaw. The company is registered with 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. BGŻ BNP Paribas Faktoring Sp. z o.o. ("Faktoring") with its registered office at ul. Suwak 3 in Warsaw. The company is registered with the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000225155. The Bank holds 100% of the company's shares.
5. BNP Paribas Group Service Center S.A. ("GSC", formerly: Laser Services Polska S.A.), with its registered office at ul. Suwak 3 in Warsaw.3. The company is registered with 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.

Approval of the financial statements

These separate financial statements have been prepared as at 31 December 2016 and approved for publication by the Management Board of the Bank on 14 March 2017.

Consolidated financial statements of BGŻ BNP PARIBAS S.A. Capital Group been prepared as at 31 December 2016 have been approved for publication by the Management Board of the Bank on 14 March 2017.

Data included in the above financial statements concern the financial year ended 31 December 2016 with comparative data concerning the financial year ended 31 December 2015.

2. ACCOUNTING PRINCIPLES APPLIED FOR PURPOSES OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS

2.1. Basis for preparation of the separate financial statements

These separate financial statements have been based on the following measurement principles:

- at fair value for financial assets available for sale, assets and liabilities classified as measured at fair value through profit or loss and investment property;
- at amortized cost for other financial assets, to include loans, advances and other financial liabilities;
- at historical cost for non-financial assets and liabilities.

2.2. Going concern

These separate financial statements have been prepared on the assumption that the Bank will continue as a going concern in the foreseeable future, i.e. within at least 12 months of the date of end of the reporting period, in substantially the same scope.

2.3. Statement of compliance with IFRS

These separate financial statements have been prepared in conformity with International Financial Reporting Standards as endorsed by the European Union (“IFRS EU”).

These separate financial statements have been prepared in conformity with the requirements set out in all International Accounting Standards (“IAS”) and International Financial Reporting Standards endorsed by the European Union (“IFRS EU”), as well as the related interpretations, except the standards and interpretations listed below, which are awaiting endorsement by the European Union or have already been endorsed by the European Union but entered or will enter into force after the end of the reporting period.

In the period included in these separate financial statements, the Bank did not early apply standards and interpretations endorsed by the EU, which will enter into force after the balance sheet date.

2.3.1. Amendments to the existing standards which have been applied for the first time to the Group's financial statements for 2016:

- **IFRS 14 "Regulatory Deferral Accounts"** (applicable to annual periods beginning on or after 1 January 2016);
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** – Investment Entities: Applying the Consolidation Exception (applicable to annual periods beginning on or after 1 January 2016);
- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations (applicable to annual periods beginning on or after 1 January 2016);
- **Amendments to IAS 1 "Presentation of Financial Statements"** – Disclosure Initiative (applicable to annual periods beginning on or after 1 January 2016);
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** – Clarification of Acceptable Methods of Depreciation and Amortization (applicable to annual periods beginning on or after 1 January 2016);
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"**: Bearer Plants (applicable to annual periods beginning on or after 1 January 2016);
- **Amendments to IAS 27 "Separate Financial Statements"** – Equity Method in Separate Financial Statements (applicable to annual periods beginning on or after 1 January 2016);

- **Amendments to standards "IFRS Improvements (2012-2014)"** – amendments to standards resulting from the annual improvements process (IFRS 5, IFRS 7, IAS 19 and IAS 34), primarily with a view to removing inconsistencies and clarifying wording (applicable to annual periods beginning on or after 1 January 2016).
- **Revised IAS 19 Employee Benefits** – Defined Benefit Plans: Employee Contributions, endorsed by the EU on 17 December 2014 (applicable to annual periods beginning on or after 1 February 2015);
- **Amendments to standards "IFRS Improvements (2010-2012)"** – amendments to standards resulting from the annual improvements process (IFRS2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38), primarily with a view to removing inconsistencies and clarifying wording - endorsed in the EU on 17 December 2014 (applicable to annual periods beginning on or after 1 February 2015).

The above standards and amendments to the existing standards have not significantly affected the financial statements for 2016.

2.3.2. New standards and amendments to the existing standards published by IASB but not yet effective:

- **IFRS 9 "Financial instruments"** (applicable to annual periods beginning on or after 1 January 2018);
- **IFRS 15 "Revenue from Contracts with Customers"** with subsequent amendments (applicable to annual periods beginning on or after 1 January 2018);

The above standards and amendments to the existing standards will not significantly affected the financial statements for 2016.

2.3.3. New standards and amendments to the existing ones, issued by IASB but not yet endorsed by the EU

- **IFRS 16 "Leases"** (applicable to annual periods beginning on or after 1 January 2019);
- **Amendments to IFRS 2 "Share-based Payment"** – Classification and Measurement of Share-based Payment Transactions (applicable to annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 4 "Insurance Contracts" –** Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (applicable to annual periods beginning on or after 1 January 2018 or at the time of adoption of IFRS 9 "Financial Instruments" for the first time);
- **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 Associate or Joint Venture, with subsequent amendments (the effective date has been postponed until the moment of completing research regarding the equity method);
- **Amendments to IAS 7 "Statement of Cash Flows"** – Disclosure Initiative (applicable to annual periods beginning on or after 1 January 2017);
- **Amendments to IAS 12 "Income Taxes"** – Recognition of Deferred Tax Assets for Unrealized Losses (applicable to annual periods beginning on or after 1 January 2017).
- **IFRS 14 "Regulatory Deferral Accounts"** (applicable to annual periods beginning on or after 1 January 2016), the European Commission has decided to postpone the procedure of endorsing the draft version of the Standard until the issue of its final version;
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** Clarifications to IFRS 15 "Revenue from Contracts with Customers" (applicable to annual periods beginning on or after 1 January 2018);
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

2.3.4. Implementation of IFRS 9

IFRS 9 "Financial Instruments"

International Financial Reporting Standard 9 Financial Instruments (henceforth: IFRS 9) shall become effective and be applied by the Bank as of 1 January 2018.
The Bank has not early applied IFRS 9 and shall apply its requirements retrospectively to annual periods beginning after 1 January 2018.
Differences between the carrying amount of assets and liabilities arising from application of IFRS 9 shall be recognized under prior year profit.
Implementation of IFRS 9 shall affect the accounting principles of the Bank mostly with regard to classification and measurement of financial assets, as well as recognition and calculation of their impairment. The Standard will affect classification and measurement of financial liabilities. Its effects on hedge accounting principles have not been estimated yet.

Additionally, in relation to changes arising from accounting implementation of IFRS 9 and lack of current information regarding planned changes in tax regulations, the Bank believes there is substantial uncertainty regarding tax regulations, which will have to be adjusted to the new standard and which may affect the deferred tax asset in the Bank, derived from impairment-related costs.

Financial assets

The Bank shall classify its financial assets as measured at amortized cost or at fair value depending on:

- the adopted business model of financial asset management and
- the resultant characteristics of contractual cash flows on financial assets.

Business models

The Bank shall classify its financial assets to three business models based on the purpose of maintaining a given financial instrument:

Model 1: Obtaining contractual cash flows (assuming a positive outcome of the contractual cash flow test)
Under Model 1, the key business objective is to collect contractual cash flows on a given group of financial assets until their maturity date. Asset sales are permitted in this class, but they should not constitute a part of the portfolio management strategy. Under Model 1, specific types of sales are permitted, such as sale arising from an increase in credit risk.

Model 2: Collecting contractual cash flows and sales of financial assets.
Under Model 2, both collecting contractual cash flows and sales of assets constitute integral elements of the portfolio business objective. Compared to Model 1, Model 2 assumes more frequent and bigger scale sales, of non-incidental nature, resulting from a planned strategy. Exemplary business objectives for Model 2 may include current management of liquidity needs or matching maturities of financial assets and liabilities.

Model 3: Other assets not classified under Model 1 or 2, such as sales of financial assets
If specific asset groups have not been acquired under Model 1 or 2, they should be classified to Model 3. This model will usually refer to strategies that assume collecting cash flows from sales of financial assets or to portfolios managed based on their fair value.

Testing contractual cash flows

For the purpose of classification and measurement of assets, the Bank verifies whether cash flows generated by a given instrument include solely payments of principal and interest on the principal amount outstanding, as defined in IFRS 9.
A financial asset is measured at amortized cost if two of the following conditions are met:

- The asset is maintained by the Bank in accordance with the business model assuming collection of contractual cash flows;
- Contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Summary of key changes introduced by IFRS 9 compared to IAS 39

- “Held to maturity” and “available for sale” classes of financial assets have been eliminated.
- A new asset class called “measured at fair value through other comprehensive income” has been introduced. It is intended for debt instruments with characteristics of contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, at the same time being maintained under a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- A new class, “measured at fair value through other comprehensive income”, has been introduced for equity investments not held for trading.

Financial liabilities

Classification of financial liabilities of the Bank has remained mostly unchanged. Financial liabilities continue to be measured at amortized cost or at fair value through profit or loss. The criterion underlying classification of financial liabilities as measured at fair value through profit or loss or using the fair value option has remained unchanged.

Effects of IFRS 9 on the financial statements of the Bank with regard to classification and measurement

Based on project works performed so far with regard to implementation of IFRS 9, Model 1 seems to be the prevailing business model in the Bank. Majority of debt instruments classified in accordance with IAS 39 as loans and borrowings shall be classified as measured at amortized cost in accordance with IFRS 9. Exceptions will include instruments that have not passed the test of contractual cash flows due to multipliers embedded in their interest calculation formulas or due to contractual terms giving the Bank the discretionary power to change fixed interest rates. Such instruments shall be measured at fair value through profit or loss. The rule applies in particular to preferential loans (co-financed by Agency for Restructuring and Modernization of Agriculture, ARMA) and debt on credit cards. Some debt instruments classified in accordance with IAS 39 as available for sale (simple corporate bonds) shall be classified as assets measured at amortized cost.
The Bank will not use the opportunity to classify equity instruments as “measured at fair value through other comprehensive income”.
The Bank does not believe that IFRS 9 shall materially affect its financial statements in terms of financial liabilities.
Changes in classification and measurement of financial instruments may affect the Bank’s equity as of the date of adopting the new Standard.

Changes in calculation of impairment losses on financial assets

Impairment requirements of IFRS 9 are based on the expected credit loss model, which replaces the incurred loss model adopted by IAS 39. Key changes in the accounting policy of the Bank regarding impairment of financial assets are listed below.
The Bank shall apply a three-stage approach to the measurement of expected credit losses on debt instruments measured at amortized costs or at fair value through other comprehensive income. Following credit quality changes observed since the initial recognition, financial assets shall go through the three stages as presented below:

i) Stage 1: Impairment loss arising from expected credit losses within 12-month period

If credit risk has not materially increased since the initial recognition, and no credit impairment has been observed since its origination, the Bank recognizes an expected credit loss related to the probability of default within the next 12 months.

*ii) Stage 2: Lifetime expected credit loss -
no impairment of financial assets observed*

For exposures whose credit risk has significantly increased, but no financial asset impairment has been observed, a lifetime expected credit loss is recognized.

iii) *Stage 3. Lifetime expected credit loss - impairment of financial assets*

Financial assets are classified as impaired instruments, if there is objective indication of impairment following an event (events) that occurred after the initial recognition of a given asset (“impairment recognition indications”). Lifetime expected credit losses are recognized for financial assets with impairment observed, while interest income is recognized on the net carrying amount of such financial instruments (less impairment) using the effective interest rate.

As at the end of each reporting period, the Bank assesses whether a significant increase in credit risk has occurred after the initial recognition of financial assets, comparing the risk of default on credit repayment during the expected financing period as at the end of the reporting period and as at the initial recognition date.

The Bank assesses whether the credit risk has significantly increased (individual and group assessment). In order to calculate impairment on the group level, financial assets are divided into homogenous product groups based on shared credit risk characteristics, including instrument type, credit risk rating, initial recognition date, time-to-maturity, industry, geographical location of the debtor and other material factors.

The expected credit loss is measured as the current value of all cash flow shortages over the lifetime of a financial asset, weighted with probability, and discounted using the effective interest rate. A shortage of cash flows is the difference between all contractual cash flows due to the Bank and all cash flows the Bank expects to receive. The value of the expected credit loss is recognized in profit or loss under impairment losses.

The Bank considers historical information on credit losses and adjusts it to the current observable data. Further, the Bank applies rational and justified projections of future economic situation, to include own experience-based judgments, in order to estimate the expected credit losses. IFRS 9 introduces macroeconomic factors to the calculation of impairment losses on financial assets, to include unemployment, interest rates, GDP, inflation, commercial property prices, forex rates, stock exchange indexes, and pay indicators. Further, IFRS 9 requires evaluation of both current and projected direction of economic cycles. Including projections to the calculation of impairment losses on financial assets increases the level of judgment regarding the extent to which the above macroeconomic factor affect expected credit losses. The methodology and assumptions, including all projections of future economic standing, are monitored on a regular basis.

If in subsequent periods credit quality of financial assets improves and the former conclusions regarding a substantial increase in credit risk after initial recognition are reversed, impairment losses on these financial assets are recalculated from lifetime expected credit losses to expected credit losses for next 12 months (transition from Stage 2 to Stage 1).

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

Summarizing: impairment losses calculated in accordance with IFRS 9 shall result in early recognition of credit losses compared to the requirements of IAS 39.

Changes in fair value measurement

Under IFRS 9, all financial assets included in IAS 39 are classified into two groups: measured at amortized cost and measured at fair value.

IFRS 9 requires banks to evaluate characteristics of their contractual cash flows in order to identify whether they constitute “solely payments of principal and interest on the principal amount outstanding”. The Bank has carried out relevant tests that allowed identifying financial assets to which the effective interest rate method cannot be applied. For such exposures, fair value measurement will be performed, not applied at present.

The Bank has prepared a methodology of fair value measurement of assets not measured with the use of effective interest rate. The methodology is based on assumptions commonly used when measuring financial instruments. This applies in particular to discounting expected cash flows that include both repayment of principal and interest on the principal amount outstanding, using current market interest rate curves, liquidity premium and credit margin. For exposures not classified to Stage 1 (pursuant to guidance included in IFRS 9), the measurement includes both contractual payments compliant with the credit repayment timeline and expected cash flows to be received by the Bank in the case of default, along with relevant probabilities.

Measurement of items for which no repayment timeline exists involves determining the fair value of the expected exposure within its expected lifetime horizon. Also in this case, probability of client’s insolvency is included and the recovery amount expected in such cases.

For securities, the instrument portfolio value is determined upon client’s default assumption. The nominal value of securities adjusted by the probability of default and the expected recovery level is the starting point of the calculation.

By the end of 2016, the Bank carried out test recalculation of asset value based on the fair value measurement method, allowing evaluation of adequacy of the adopted methodology. More recalculations are planned for 2017.

2.4. Recognition of jointly controlled operations

Business combinations under common control do not fall within the scope of IFRS regulations. In the absence of detailed IFRS regulations in this regard, in line with the guidelines laid down in IAS 8 Accounting Policies, Changes in

Accounting Estimates and Errors, Bank BGŻ BNP Paribas S.A. adopted an accounting policy generally applied to any business combinations under common control within the Bank's Group, whereby such transactions are recognized at book value.

In accordance with the adopted accounting principles, the acquirer recognizes the assets, liabilities and equity of the acquiree at their present book value adjusted only for purposes of bringing the accounting principles of the acquiree into line with those of the acquirer. Goodwill and negative goodwill are not recognized.

The difference between the book value of the acquired net assets and the fair value of the payment is recognized in the Bank's equity. As a method based on book values is used, the comparative data is not restated.

If the business combination under common control involves acquisition of minority interests, the Bank recognizes it separately.

2.5. Changes to accounting principles (policy) and to presentation of financial data

The Bank has not changed any accounting principles (policy) in these separate financial statements.

2.6. Measurement of items denominated in foreign currencies

Functional and presentation currency

Items included in the financial statements of the Bank are measured at the currency of its basic business environment in which it operates (the "functional currency"). The separate financial statements are presented in PLN'000, being both the functional and presentation currency of the Bank.

Transactions and balances

Transactions denominated in foreign currencies are translated into the Bank's functional currency at the exchange rate as at the transaction date.

As at the end of the reporting period, monetary assets and liabilities denominated in currencies other than the Polish zloty are translated into PLN by reference to the average exchange rate effective as at the end of the reporting period and determined for the currency by the National Bank of Poland. Exchange differences from translation are recognized in net trading income or, in cases specified in the accounting principles (policy), capitalized in the value of assets. Non-monetary assets and liabilities recognized at historical cost in a foreign currency are recognized at the historical exchange rate effective as at the transaction date. Non-monetary assets and liabilities recognized at fair value in a foreign currency are translated at the exchange rate applicable as at the date of fair value measurement.

Exchange rates of key currencies applied when preparing these financial statements, effective as at 31 December 2016 and 31 December 2015:

	31.12.2016	31.12.2015
EUR 1	4.4240	4.2615
USD 1	4.1793	3.9011
GBP 1	5.1445	5.7862
CHF 1	4.1173	3.9394

2.7. Interest income and expenses

All interest income and expenses related to financial instruments measured at amortized cost using the effective interest rate and interest income on financial assets held for trading and available for sale are recognized in the statement of profit or loss.

The effective interest method is a method of calculating the amortized gross value of financial assets or liabilities and allocating interest income or expenses to relevant periods. The effective interest rate is the rate for which discounted future payments or proceeds are equal to the current net carrying amount of a given financial asset or liability. When calculating the effective interest rate, the Bank estimates cash flows including all contractual terms of a given financial instrument (e.g. early repayment option) excluding, though, possible future losses arising from default. The calculation takes into account all payments due and received and cash flows paid to or received by the Bank under a given contract, excluding any possible future credit losses.

Once an impairment loss is recognized for a financial asset or a group of similar assets, interest income is calculated with the use of the interest rate effective as at the date of the observed impairment loss, with regard to the newly determined value of a given asset, calculated as a difference between the gross value of exposure and the impairment loss (net investment value).

Once an impairment loss is recognized for a financial asset or a group of similar assets, interest income is calculated with the use of the interest rate effective as at the date of the observed impairment loss, with regard to the newly determined value of a given asset, calculated as a difference between the gross value of exposure and the impairment loss (net investment value).

Reporting period costs related to liabilities from interest on customer accounts and liabilities from issue of securities are recognized in the statement of profit or loss using the effective interest method.

2.8. Net fee and commission income

Fees and commissions, which are not accounted for using the effective interest method but in accordance with the straight-line method or recognized on a one-off basis, are recognized in “Net fee and commission income”.

Income settled over time with straight line method includes commissions on overdraft facilities, credit cards, revolving loans and commitments (guarantees and credit facilities).

Commission income recognized in the statement of profit or loss upon service performance includes fees for maintenance of current accounts, fees on settlement transactions, broker commissions and commissions for distribution of units.

Fees regarding Bank’s commitments to grant a loan or credit facility (commissions on promises issued) are deferred and settled upon occurrence of financial assets using the effective interest or straight-line method.

Net fee and commission income includes also consideration obtained for offering third-party insurance products.

Recognition of bancassurance income and expenses

Cross-selling of a bancassurance product and a financial instrument occurs in particular if at least one of the following conditions is met: the offered financial instrument is always accompanied by the bancassurance product, or the bancassurance product is offered only accompanied by the financial instrument, i.e. the Bank does not offer any bancassurance products with identical legal form, terms and economic contents without the accompanying financial instrument.

Recognition of bancassurance income for cross-selling transactions

For cross-selling transactions including bancassurance products and financial instruments, proceeds from sales of the bancassurance products constitute an integral part of the fee for the offered financial instruments.

Fee for bancassurance products offered in cross-selling transactions with financial instruments measured at amortized cost is accounted for using the effective interest method and recognized in interest income for one-off premium or on a monthly basis for a monthly premium.

Fee for the agency services, whose value is determined based on their economic contents, is recognized in commission income upon sale or renewal of a bancassurance product.

Recognition of bancassurance costs for cross-selling transactions

Costs directly related to sale of a bancassurance product are settled in accordance with the matching principle as an element of amortized cost of a financial instrument if the total income related to the sale of the product is settled with the effective interest method or, respectively, proportionally to the classification of the income as recognized within amortized cost calculation and that recognized on a one-off basis or over time as the fee for the agency services, if such classification has been introduced.

Recognition of income and expenses for transactions not classified as cross-selling

If a financial instrument and a bancassurance product are sold in two separate transactions, the Bank’s fee for the sale of the bancassurance product is recognized separately from the fee for the financial instrument.

Fee for the sale of bancassurance products that do not require the Bank to provide any post-sale services is recognized as income as at the effective/renewal date of the relevant insurance policy. The related income is recognized under commission income.

Fee for services provided by the Bank over the life of a bancassurance product is deferred and recognized as income based on the percentage of completion of the provided services. Application of the percentage of completion method as at the balance sheet date is limited to cases when a result of a service transaction can be reliably estimated. If the Bank is unable to precisely determine the number of activities performed within a given time range or a level of returns, income from services or activities performed in relation to a bancassurance product offered by the Bank is recognized on a straight-line basis over the life cycle of the product.

2.9. Dividend income

Dividend income is recognized in the statement of profit or loss once the Bank's right to dividends has been determined.

2.10. Net trading income

Net trading income includes all gains and losses resulting from change in the fair value of financial assets and liabilities classified as measured at fair value through profit or loss, as well as the related dividends, interest income and interest costs on derivatives.

The item includes also gains and losses on translation of assets and liabilities denominated in foreign currencies (revaluation).

2.11. Result on investment activities

Income and expenses generated by financial assets classified as available for sale or held to maturity, except for interest, are presented in result on investment activities.

2.12. Other operating income and expenses

Operating revenue and expenses include items that are not directly related to the core operating activities of the entity.

They include mainly: revenue and expenses arising on sale and liquidation of non-current assets, revaluation of investment property, damages received and paid, revenue and expenses arising from other services unrelated to the core business of the Bank.

2.13. Income tax expense

Charge on gross financial profit/loss includes current tax payable and debit/credit arising from a value change of the deferred tax asset/liability.

Current tax liabilities and receivables for the current and prior periods are measured at projected amounts payable to tax authorities (reimbursable) using tax rates and regulations valid in law or in fact as at the end of the reporting period.

Deferred income tax

Deferred tax liability is recognized in the full amount in line with the balance sheet method, on taxable temporary differences between tax value and carrying amount of assets and liabilities. Deferred tax assets are recognized with respect to all deductible temporary differences as well as unused tax reliefs and unused tax losses brought forward up to the probable amount of taxable income that will allow the Bank to use the aforementioned difference, assets and losses. Deferred tax is determined using tax rates (and regulations) binding in law or in fact as at the end of the reporting period, which are expected to apply at the moment of realization of deferred tax asset and settlement of deferred tax liability.

If temporary differences result from recognizing an asset or liability upon a transaction not classified as business combination, which at the moment of concluding did not affect taxable or accounting profit, deferred tax is not recognized. Further, deferred tax liability is recognized for taxable temporary differences resulting from investments in subsidiaries or associates and interests in joint ventures – except for situations when the reversal dates of the temporary differences are controlled by the entity and when it is likely that the temporary differences will not be reversed in the foreseeable future; deferred tax asset is recognized for deductible temporary differences on investments in subsidiaries or associates and interests in joint ventures only to extent in which the above differences are likely to reverse in the foreseeable future and a taxable income may be generated to allow deduction of these temporary deductible differences.

The carrying amount of the deferred tax asset is verified as at the end of each reporting period and is reduced as appropriate, provided that it is no longer probable that the taxable income will be sufficient for the realization of the deferred tax asset in part or in whole. An undisclosed deferred tax asset is remeasured as at the end of the reporting period and recognized up to the amount reflecting probable taxable income which will facilitate recovery of the asset. The Bank nets off the deferred tax asset and liability only when it holds an enforceable legal title to net off receivables with liabilities for current tax and the deferred tax relates to the same taxpayer and the same tax authority.

Income tax regarding items included directly in equity is recognized in equity and in the statement of comprehensive income.

In 2016 and 2015 the current income tax and deferred tax liability were calculated using the 19 percent tax rate.

2.14. Classification and measurement of financial assets and liabilities

The Bank classifies its financial assets to the following categories: financial assets measured at fair value through profit or loss (FVTPL), loans and receivables, investments held to maturity (HTM) and financial assets available for sale (AFS).

2.14.1. Initial recognition and derecognition of financial assets and liabilities in statement of financial position

Transactions of purchasing and selling FVTPL, HTM and AFS financial assets, as well as transactions on derivatives are recognized as at the transaction settlement date. Loans are recognized once funds are released to the debtor. Financial assets are initially recognized at fair value increased by transaction costs, except for FVTPL financial assets.

Classification of financial assets upon initial recognition depends on the purpose of purchasing and characteristics of a given asset.

If the price paid for an asset on an inactive market is different from the fair value observed for other similar transactions regarding the same asset on an active market, or value estimated based on observable inputs, the deferred gain or loss from initial recognition is assessed individually and:

- accounted for in line with the straight line method during the contract period or
- deferred until the value of a given instrument may be determined based on observable market input or
- settled by payments.

An asset is derecognized from the statement of financial position when the Bank has lost control of contractual rights contained in a financial instrument; usually, this happens when the instrument is sold or when all cash flows assigned to it are transferred to an independent third party.

2.14.2. Financial assets and liabilities measured at fair value through profit or loss (FVTPL)

The class includes two sub-classes:

- Financial assets or liabilities held for trading (including derivatives) and
- Financial assets or liabilities classified as FVTPL upon initial recognition.

Financial assets and liabilities are recognized as “designated as FVTPL upon initial recognition” once the following criteria have been met: (i) such classification eliminates or significantly reduces inconsistency of treatment when both measurement and principles of recognizing gains or losses are subject to separate regulations; or (ii) when these assets belong to a group of financial assets managed and evaluated in accordance with their fair value in line with documented risk management strategy; or (iii) when financial assets include embedded derivatives that should be recognized separately. As at 31 December 2016 and 31 December 2015, as well as in the years then ended, respectively, no financial assets were classified as measured at fair value through profit or loss upon initial recognition.

A financial asset “held for trading” is classified to “financial assets and liabilities measured at fair value through profit or loss” if the key objective of purchasing it has been to resell it in near future or if it is included in this class by the Management Board upon meeting certain conditions. Derivatives are also classified as “held for trading”.

At the end of the reporting period, financial assets and liabilities measured at fair value through profit or loss are measured at fair value from the transaction date. Gains and losses arising from fair value changes of FVTPL financial assets and liabilities are recognized in the statement of profit or loss under net trading income in the period of their occurrence. Interest along with the purchased discount or premium are charged over time to net interest income using the effective interest method.

When a financial asset or financial liability is recognized initially, the Bank measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs, if material.

Following initial recognition, the fair value of a financial asset or liability is determined based on active market quotings of instruments, to include recent transaction prices. If a given financial asset (or unquoted security) has no active market, the Bank determines its fair value using measurement methods that include the use of recent transactions concluded on arms' length terms, reference to other basically identical instruments, analysis of discounted cash flows, option measurement models and other approaches commonly used by market participants.

All derivatives with positive fair value are presented in the financial statements as assets, while those with negative fair value are presented as liabilities.

Fair value of derivatives determined based on measurement methods includes credit risk. Changes in the fair value arising from changes in credit risk level related to derivatives are recognized in the statement of profit or loss.

Certain embedded derivatives, such as options embedded in investment deposits, are considered as separate derivatives, if the related risks and their characteristics are not closely related to the nature and risks of the underlying contract and if the underlying contract is not measured at fair value through profit or loss. Such embedded derivatives are measured at fair value, with fair value changes recognized in the statement of profit or loss.

Assessment whether a contract includes an embedded derivative is made upon signing the agreement. Re-assessment is made only when modifications of the underlying contract significantly affect the resultant cash flows or when accounting standards have changed.

2.14.3. Loans and receivables

Loans and receivables are financial assets not classified as derivatives, with determined or determinable payments, not listed in an active market. This class of financial assets includes "Loans and advances granted to customers" and "Receivables from banks".

They occur when the Bank issues cash directly to a debtor, not planning to trade the resultant receivables immediately or in near future, and these receivables are not classified as "financial assets held for trading", "financial assets held for sale", or "financial assets measured at fair value through profit or loss".

Following initial recognition, loans and receivables are recognized at adjusted cost including impairment (amortized cost). Any differences between their fair value upon initial recognition (less transaction costs), usually corresponding to the transferred amount (less transaction costs), and the redemption value are recognized in the statement of profit or loss for the term of the related agreements using the effective interest method.

2.14.4. Financial assets held to maturity

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. These assets do not include:

- assets measured at fair value through profit or loss on initial recognition;
- assets available for sale;
- assets meeting the definition of loans and receivables.

Should the Bank sell assets held to maturity the value of which cannot be deemed immaterial all assets are reclassified from this class to "available for sale" class.

Investments held to maturity are recognized at adjusted (amortized) cost using the effective interest method.

2.14.5. Available for sale financial assets

Financial assets available for sale include non-derivative financial assets designated as available for sale or not included in any other asset class. Financial assets available for sale are recognized at fair value without deducing transaction costs and including their market value as at the end of the reporting period. Financial assets available for sale are measured at acquisition cost less impairment if they are not traded on an active market and their fair value cannot be reliability estimated using alternative methods. Positive and negative differences between the fair value (if there is a market price determined in an active market or if the fair value may be determined in a different reliable manner) and the cost, less deferred tax, are charged to other comprehensive income. If a given asset is impaired, any surplus on fair value remeasurement accounted for before reduces “Revaluation reserve”. If the amount of the surpluses is insufficient to absorb the impairment, the difference is recognized in the statement of profit or loss in “Net impairment losses on financial assets and contingent liabilities”.

For interest-bearing assets, interest calculated with the effective interest method is recognized in the statement of profit or loss under interest income. Dividends on equity instruments available for sale are recognized in the statement of profit or loss under result on investment activities when the entity’s right to receive dividend is established.

2.14.6. Offset of financial instruments

Financial assets and liabilities are netted off and presented in the statement of financial position at net amount, if a valid and exercisable netting-off right occurs and the Bank intends to settle a financial asset and a financial liability net or simultaneously.

2.14.7. Repo and sell buy back agreements

Securities sold under repo and sell buy back transactions are not excluded from the statement of financial position. Liabilities to counterparties are recognized as financial liabilities under "Liabilities arising from securities sold under repo and sell buy back transactions". Securities purchased under reverse repo and buy sell back transactions are recognized under “Receivables arising from securities purchased under reverse repo and buy sell back transactions”. The difference between the sale and repurchase price is treated as interest and calculated using the effective interest method over the agreement term.

2.14.8. Investments in subsidiaries and associates

Investments in subsidiaries and associates are measured at cost less impairment allowance in the separate financial statements.

2.15. Impairment of financial assets

2.15.1. Financial assets carried at amortized cost

As at each end of the reporting period, the Bank evaluates whether there is any indication of impairment of a financial asset or a group of financial assets. Impairment of a financial asset or a group of financial assets and any resulting losses occur when objective indications of impairment arise from event(s) following initial recognition of these assets (“impairment indications”) and when such an event (events) impacts future cash flows related to the asset or asset group that can be reliably estimated. Objective evidence of impairment of a financial asset or a group of assets includes information obtained by the Bank about the following events that result in impairment:

a) default under timely payment of the principal, interest or penalty interest exceeding 90 days;
b) facilities granted to a client by the Bank for economic or legal reasons, resulting from the client’s financial difficulties, which would not be granted otherwise;[1]
c) significant financial problems of the customer[2];
d) the Bank terminating a credit facility agreement;
e) a bankruptcy petition filed or the customer declared bankrupt;
f) a statement that reorganization proceedings have been instigated filed by the customer;
g) instigating enforcement proceedings against a client;
h) significant deterioration of rating or scoring analysis;
i) disappearance of an active market of a given credit exposure due to financial problems;
j) counterparty questioning the credit exposure at court;
k) unknown residence and undisclosed assets of a counterparty.

[1] including debt restructuring entailing economic losses for the Bank
[2] for instance determined based on negative assessment of the client’s financial condition (financial statements or other documents) or resulting from termination of employment, loss of income, increased debts, unpaid debt with other institutions.

The list of indications included in points *a* to *k* provides a basis to examine objective impairment indications for each financial asset. Relevant employees of the Bank (credit inspectors and account managers) performing regular evaluation and classification of credit exposure are responsible for correct and full identification of impairment indications. The governing principle is to treat each event that changes the value of future cash flows generated by a given credit exposure compared to contractual terms or latest evaluation as an indication of impairment of the financial asset. Pursuant to IAS 39.59, when identifying objective impairment indications, future events (i.e. events that occur after the reporting date as at which the impairment is calculated) are not considered regardless of probability of their occurrence.

Individually significant financial assets (ISFA) include:

a) exposures with the total of off-balance sheet exposure, balance sheet capital and interest pending on a given account higher than PLN 1 million as at the end of the reporting period for which the impairment is calculated (for foreign currency exposures, PLN equivalents are analyzed with the use of the interest rate as at the end of the reporting period);
b) restructured exposures with the total of off-balance sheet exposure, balance sheet capital and interest pending on a given account higher than PLN 100 thousand (for foreign currency exposures, PLN equivalents are analyzed with the use of the interest rate as at the end of the reporting period);
c) exposures considered individually significant as at the end of the previous reporting period, with impairment indication observed both at the end of the current and previous reporting period; which means that an alternative approach, based on the threshold amount criterion, may be applied only when no impairment has been recognized for a given credit exposure;
d) debt securities (issued by the State Treasury, public sector entities and business entities) classified as held to maturity;
e) credit exposures related to banks and non-banking entities in the financial sector;
f) credit exposures related to central administrative bodies.

The Bank first evaluates whether objective impairment evidence exists for individual significant financial assets or for groups of individually insignificant assets. If the analysis shows that there is no objective indication that an individually evaluated financial asset may be impaired, irrespective of whether it is significant or not, the Bank includes the asset in the group of financial assets with similar credit risk characteristics and collectively tests them for impairment. Financial assets with impairment allowance recognized based on an individual evaluation (first or subsequent) are not included in the collective impairment tests.

If there is objective evidence of impairment of loans and receivables or investments held to maturity, carried at amortized cost, the amount of the loss is calculated as the difference between the carrying amount of a given asset and the present value of the estimated future cash flows discounted at the effective interest rate valid as at the date of impairment recognition for a given financial asset. The carrying amount of an asset is reduced through the revaluation account and the amount of the loss is charged to the statement of profit or loss.

For the purpose of collective impairment testing, financial assets are grouped according to their credit risk characteristics. These characteristics affect the value of future cash flows estimated for certain asset groups, as they indicate debtors' ability to repay their entire liability in accordance with contractual terms regarding the evaluated assets.

Future cash flows generated by a group of assets collectively tested for impairment are estimated based on contractual cash flows and historical experience regarding losses incurred on assets with similar risk characteristics. If necessary, historical experience regarding losses is adjusted by data derived from current observation in order to include facts and circumstances which did not occur during the period included in the historical experience and to exclude facts and circumstances occurring then but not in the current period.

The Bank reviews the methodology and assumptions adopted to estimate future cash flows on a regular basis to reduce differences between estimated and actual loss value. Additionally, the Bank carries out regular backtesting of risks parameters used to estimate impairment on a collective basis.

Bad debts are fully written off to impairment allowances on loans. Should an amount previously written off be recovered, the amount of allowance on financial assets and the provision for contingent liabilities are reduced appropriately in the statement of profit or loss.

If, in the subsequent period, the value of impairment loss decreases as a result of an event that occurs after the impairment allowance recognition date (e.g. improvement of a debtor's creditworthiness), then the previously recognized impairment allowance is reversed by a relevant adjustment to the impairment account. The amount reversed is recognized in the statement of profit or loss.

2.15.2. Forborne receivables

If forbearance granted does not significantly alter key terms and conditions or future projected cash flows of an existing financial asset, the projected future cash flows generated by the altered financial asset subject to the forbearance are included in the measurement of the existing financial asset based on the expected performance period and amounts discounted by the original effective interest rate for the existing financial asset.

If forbearance granted significantly alters key terms and conditions or future projected cash flows compared to the projected terms and conditions future cash flows generated by an existing financial asset, the existing asset is derecognized from the balance sheet and a new one is recognized instead at fair value as at the initial recognition date, while the difference between the existing and new asset is charged to the statement of profit or loss. The recognition does not depend on a change / absence of change in the legal transaction form and is based on its economic contents.

2.15.3. Available for sale financial assets

As at each end of the reporting period, the Bank evaluates whether there is any indication of impairment of a financial asset or a group of financial assets. For capital instruments classified as available for sale, impairment testing includes significant or prolonged reduction in the value of securities below their initial value. If such indications occur with regard to available for sale financial assets, the total loss, determined as a difference between the cost and current fair value, less impairment of a given asset previously recognized in the statement of profit or loss, is reclassified from equity to the statement of profit or loss. Impairment losses on equity instruments recognized in the statement of profit or loss are not reversed in the statement of profit or loss. If in the subsequent period the fair value of an available for sale debt instrument increases and the increase can be objectively linked to an event that occurred after the impairment allowance had been recognized in the statement of profit or loss, the impairment allowance is reversed through the statement of profit or loss.

2.16. Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the following values: carrying amount or fair value, less costs to sell.

Non-current assets and groups of assets are classified as held for sale, if their carrying amount will be recovered as a result of sale. This condition is regarded as met only when the sale is highly probable and the asset (or the disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

A discontinued operation is a component of the Bank that either has been disposed of, or is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations, (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or (c) is a subsidiary acquired exclusively with a view to resale.

Non-current assets held for sale include non-current assets seized for debt, meeting the requirements of IFRS 5 as described above.

2.17. Investment property

Investment property includes property treated as a source of revenue from lease and/or maintained due to a potential value increase.

Investment property is recognized in assets when and only when:

- obtaining economic benefits from this property is probable; and
- its cost can be reliably measured.

Upon initial recognition, investment properties are measured at cost including transaction expenses.

The Bank adopted the principles of measuring investment properties at fair value as at subsequent balance sheet dates.

Gains resulting from changes in fair value of investment property are recognized in the statement of profit or loss as other operating revenue in the period in which the change has occurred, while losses are charged to other operating expenses in the period in which the change has occurred.

Real estate and land seized for debt are reported as investment property, unless they meet the criteria allowing their classification as non-current assets held for sale.

2.18. Intangible assets

Intangible assets acquired in a separate transaction are initially measured at acquisition or manufacturing cost.

The Bank determines whether the useful life of intangible assets is limited or unlimited. Intangible assets with limited useful life are amortized over their useful life and tested for impairment each time when an indication of impairment occurs, at least once a year. The period and method of amortization for intangible assets with limited useful life are verified at the end of each financial year. Changes in the expected useful life or the manner of consuming economic benefits arising from a given asset are recognized through a change in the amortization period or method, respectively, and treated as estimated value changes. Amortization charges on intangible assets with a limited useful life are recognized in the statement of profit or loss under "amortization".

Except for R&D works, internally generated intangible assets are not recognized, and expenditures on their generation are charged to the statement of profit or loss for the year in which they have been incurred.

Intangible assets with unlimited useful life and those not used every year are annually tested for impairment individually or on the level of cash generating unit. Other intangible assets are subject to annual impairment tests.

Purchased software licenses are capitalized up to the amount incurred for the purchase of given software and its preparation for use. Capitalized costs are written off over an estimated useful life of the software. Software development or maintenance costs are charged to expenses when incurred. Expenditure directly related to the production of identifiable and unique computer programs controlled by the Bank, which will probably bring economic benefits exceeding the expenditure within a period exceeding one year, is classified to intangible assets. Direct costs include personnel expenses related to software development and a corresponding portion of general expenses. Costs related to software development, included in the initial value of assets, are amortized over the estimated useful life of these assets.

Amortization of intangible assets is calculated using the straight-line method in order to spread out the initial asset value or its amount revalued over the useful life, different for each intangible asset group:

- licenses 14.0 – 50.0%
- copyrights 20.0 – 50.0%

The useful lives of intangible assets are verified at the end of each reporting period and adjusted if necessary.

Amortized intangible assets are tested for impairment always when events or circumstances indicate that their carrying amount may be irrecoverable. In such cases, the carrying amount is immediately reduced to the recoverable amount if the former exceeds the estimated level of the latter. The recoverable amount is equal to the fair value less costs to sell or the value in use, whichever is higher.

Gain or loss from disposal of intangible assets is determined by comparison of sales proceeds with their carrying amount and recognized in the statement of profit or loss under other operating revenue.

2.19. Property, plant and equipment

Property, plant and equipment are recognized at cost less depreciation charges and impairment allowance. The initial amount of fixed assets includes their cost increased by all costs directly related to their purchase and adaptation for use. The cost includes also cost of replacement of parts of plant and machinery when incurred, if the recognition criteria are met. Costs incurred after the date of commissioning, such as costs of maintenance and repair, are charged to profit or loss when incurred.

Upon acquisition, property, plant and equipment items are divided into components of material value to which separate useful life may be assigned. Costs of overhauls are also a component.

Land is not depreciated. Depreciation of property, plant and equipment is calculated using the straight-line method in order to spread out the initial asset value or its revalued amount less residual value over the useful life, different for each asset group:

- buildings and leasehold improvements 1.5 – 10.0%
- machines and equipment 10.0 – 20.0%
- computer sets 20.0%

The residual value and useful lives of property, plant and equipment are verified at the end of each reporting period and adjusted if necessary.

Depreciated property, plant and equipment are tested for impairment at least annually, always when events or circumstances indicate that their carrying amount may be irrecoverable. In such cases, the carrying amount is immediately reduced to the recoverable amount if the former exceeds the estimated level of the latter. The recoverable amount is equal to the fair value less costs to sell or the value in use, whichever is higher.

If the recoverable amount is lower than the current carrying amount of an asset, an impairment allowance is charged to the statement of profit or loss.

Gain or loss from disposal of property, plant and equipment is determined by comparison of sales proceeds with their carrying amount and recognized in the statement of profit or loss under other operating revenue or expenses.

2.20. Hedge accounting

Hedge accounting includes the effects of netting in the fair value of the hedged item and the hedging instrument that impact the statement of profit or loss. Pursuant to the adopted accounting principles, the Bank designates certain derivatives as hedges of fair value and future cash flows of certain assets, provided the criteria determined in IAS 39 are met. Hedge accounting is used to account for hedging relationships if all of the following conditions are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Bank's risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Bank will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;
- The hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship;
- For cash flow hedges, a forecast transaction that will be hedged must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss;
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;
- The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Fair value hedges

Changes in the fair value measurement of financial instruments designated as hedged items are charged to the statement of profit or loss in the portion arising from the risk subject to hedge. The remaining portion of the change in the carrying amount is booked in accordance with general principles applicable to the entire class of financial instruments.

Changes in the fair value measurement of derivatives designated as hedging instruments under hedge accounting are in whole recognized in the statement of profit or loss under the same item as results of changes in the value of the hedged items.

2.21. Financial liabilities measured at amortized cost

Following initial recognition, financial instruments other than liabilities measured at fair value through profit or loss are measured at amortized cost using effective interest rate. If a cash flow schedule cannot be determined for a given financial liability and therefore the effective interest rate cannot be reliably estimated, such a liability is measured at amount due.

2.22. Provisions

Provisions are created when the Bank is subject to an obligation (legal or constructive) resulting from past events and it is probable that the fulfillment of such obligation will create a liability. If the Bank expects reimbursement of the expenditure required to settle the provision (for example, through insurance contracts), the reimbursement is recognized as a separate asset, but only when it is virtually certain that reimbursement will be received. The costs relating to the provision are disclosed in the statement of profit or loss less any reimbursement amount. If the impact of time value of money is material, the provision is determined by discounting projected future cash flows to the present value with a gross discount rate that reflects current market assessment of time value of money and a possible risk pertaining to a liability. An increase in provision over time is recognized as interest expense.

A provision for restructuring costs is recognized when general provision recognition criteria are met, as well as detailed ones regarding the occurrence of an obligation to recognize a provision for restructuring costs determined in IAS 37. In particular, the constructive obligation to carry out a restructuring procedure occurs only when the Group has a detailed, formal restructuring plan and has raised justified expectations of parties involved in the plan that the restructuring would be performed in the form of initiating its implementation or announcing its key elements to these parties.

A detailed restructuring plan determines at least the operations, or their part, involved, the key locations to be included, the place of employment, positions and approximate number of employees to be compensated in exchange for termination of their employment, the amount of outlays to be incurred and the plan implementation deadline.

A restructuring provision includes only direct outlays arising from the restructuring, which a) are an indispensable effect of the restructuring procedure and b) at the same time are not related to current operations of the entity. A restructuring provision does not include future operating expenses.

2.23. Finance leases

Bank as a lessor

Assets under lease agreements that transfer substantially all risks and rewards of ownership of the assets onto the lessee are derecognized from the balance sheet. Instead, an amount receivable, equal to the current value of minimum lease payments, is recognized. Lease payments are split between financial revenue and decrease in the balance of lease receivables in a manner allowing obtaining a fixed return rate on the outstanding amount receivable.

Payments arising from leases that do not satisfy the conditions allowing classification as finance leases are recognized as revenue in the statement of profit or loss in accordance to the straight line method over the lease period.

Bank as a lessee

Assets under lease agreements that transfer substantially all risks and rewards of ownership of the assets onto the Bank are recognized as fixed assets; at the same time, liabilities are recognized in the amount equal to the current value of minimum lease payments determined as at the lease commencement date. Lease payments are split between costs of lease payments and decrease in the balance of lease liabilities in order to obtain a fixed interest rate on the outstanding liability. Finance lease costs are recognized directly in the statement of profit or loss.

Fixed assets used under finance leases are depreciated in the same manner as own fixed assets. If the transfer of ownership of the right-of-use asset is uncertain, though, fixed assets used based on finance leases are depreciated over the expected useful life or the lease term, whichever is shorter.

Payments arising from leases that do not satisfy the conditions allowing classification as finance leases are recognized as expenses in the statement of profit or loss in accordance to the straight line method over the lease period.

2.24. Operating leases

Assets under lease agreements in which the Bank is a lessor are recognized in its balance sheet since substantially all risks and rewards arising from ownership have not been transferred to the lessee.

Assets under lease agreements in which the Bank is a lessee are not recognized in its balance sheet.

Total payments arising from operating leases are recognized as revenue or expenses in the statement of profit or loss in accordance to the straight line method over the lease period.

It is determined whether an arrangement contains a lease upon conclusion, based on the essence of the agreement, which requires assessment whether:

- fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset);
- the arrangement conveys a right to use the asset.

Operating lease involves transfer of investment property for use for a defined period. A lease is classified as an operating lease, if it does not involve transfer of substantially all risks and rewards arising from the asset to the lessee.

So far, the Bank has concluded operating lease agreements. All lease payments made under operating leases are charged to expenses based on the straight-line method over the term of the lease agreement. Should a lease be terminated before its contractual term, contractual penalty payments required by the lessor increase the costs in the period in which the lease has been terminated.

2.25. Financial guarantees

Following the initial recognition, financial guarantees are measured at the higher of the following two amounts:

- amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, where the value of provisions for contingent liabilities arising from guarantees granted refers to the estimated value of future losses equal to the expected current value of future losses due to unpaid receivables resulting from the performance of the guarantee;
- initial value reduced, respectively, by revenue recognized in accordance with IAS 18 Revenue.

2.26. Employee benefits

The Bank creates a provision for future liabilities due to retirement, disability and death benefits, unused annual holiday and for retention programs. Provisions for retirement, disability and death benefits are created using the actuarial method, as described in Note 34 hereof.

Employees of the Bank are entitled to the following benefits:

2.26.1. Retirement, disability and death benefits

Retirement benefits classified as post-employment defined benefit plans are available upon retirement (for pensioners or disability pensioners). The calculated term of employment includes all previously completed periods of employment based on an employment contract.

2.26.2. Liabilities due to unused annual leave

Provisions for unused annual leave are calculated as the product of the average daily pay and the number of outstanding leave days as at the end of the reporting period. Provisions for the unused annual leave are presented in the separate financial statements under “Other liabilities”.

2.26.3. Benefits arising from the variable compensation program

The Bank has implemented the variable compensation program addressed to individuals occupying managerial positions that substantially affect the Bank’s risk profile in line with guidance included in Resolution No. 258/2011 of Polish Financial Supervision Authority.

Performance evaluation of individuals included in the program underlies the calculation of the variable compensation.

Benefits provided under the program have two forms:

- Cash payments accounted for in accordance with IAS 19 Employee Benefits and
- phantom stock entitling to cash payments whose final amount depends on the price of shares of Bank BGŻ BNP Paribas S.A. settled in accordance with IFRS 2 Share-based Payment.

The cash portion is paid:

- in the current portion – directly after completing a year in service subject to performance evaluation;
- in the deferred portion – after the deferral period.

With regard to the first form of benefits, during the deferral period, the variable compensation is verified in accordance with the adopted program assumptions.

The cash payments under the program are recognized in line with the projected unit credit method and settled over the vesting period (i.e. both in the evaluation period understood as the year in service to which the benefit pertains and in the period of deferring relevant portions of the benefit). The benefit value is recognized as a liability to employees in correspondence with the statement of profit or loss.

For benefits granted in the form of phantom shares, the annual share retention term applies to both the portion granted following the annual performance evaluation and to the deferred portion on terms similar to the cash compensation (i.e. one-year, two-year and three-year periods). During the retention period, employees granted with the benefit cannot exercise rights arising from the phantom shares.

The fair value of the phantom shares, determined in line with the adopted principles (i.e. based on estimates including the reduction factor) is allocated over the vesting period. The benefit value is recognized as a liability to employees in correspondence with the statement of profit or loss.

2.26.4. Liabilities arising from the retention programs

Retention programs have been implemented in the Bank to reduce the risk of losing key employees. A provision for long-term liabilities arising from these retention programs is calculated using the actuarial method.

2.27. Share capital

2.27.1. Cost of issue of shares

Costs directly related to the issue of new shares less income tax reduce stock issue proceeds recognized in equity.

2.27.2. Treasury shares

If the Bank purchases its own shares, the amount paid reduces equity as treasury shares until their cancellation. Should these shares be sold or re-allocated, the payment received is recognized in equity.

2.28. Supplementary capital

Supplementary capital is created from annual appropriations of profit or from other funds.

Supplementary capital is designated to absorb balance sheet losses incurred by the Bank or for other purposes, to include dividend payment to shareholders. The use of the supplementary capital is decided upon by the General Shareholders' Meeting of the Bank.

2.29. Other reserve capital

An unidentified risk reserve may be established in the Bank, using general risk provision in whole or in part. The reserve may be used solely to absorb balance sheet losses incurred by the Bank.

Other reserve capitals include capital arising from revaluation of financial assets available for sale.

2.30. General banking risk reserve created from net profit

The general banking risk reserve has been created from profit after tax pursuant to the Banking Law of 29 August 1997. The reserve may be distributed only upon shareholders' consent expressed in the course of General Shareholders' Meeting. It is presented in the separate financial statements under "Other reserves".

2.31. Custody operations

Bank BGŻ BNP Paribas S.A. carries out custody operations including maintaining securities accounts of its customers.

Assets managed under the custody services are not included in these financial statements as they do not meet the definition of Bank's assets.

2.32. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include items that mature within three months of their acquisition date, including cash in hand and non-restricted cash at the Central Bank (current account), statutory reserve account and receivables from other banks (including nostro accounts).

3. ESTIMATES

The Bank 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 loans and advances

In accordance with IFRS, the Bank's financial assets measured at amortized cost and available for sale financial assets which are not measured at fair value are tested for impairment. Financial assets are tested so as to verify whether any objective indications of their impairment exist.

As regards business entities with integrated accounts, the Bank has compiled a list of indications if impairment, such as considerable financial difficulties of the customer, substantial deterioration of the customer's rating or delinquency exceeding 90 days (or 30 days for restructured exposures).

As regards individuals and micro enterprises with simplified accounts, delinquency by more than 90 days (or more than 30 days for exposures with forbearance granted to obligors) is the key indication of impairment. Other indications include debt restructuring or a suspicion of fraud.

For exposures with objective indications of impairment identified, individual or collective (group) tests are performed by the Bank. Individual tests are performed for assets considered by the Bank to be individually significant.

Impairment tests 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 for impairment. The individual test 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 material 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) tests

The following assets are tested collectively:

- classified as individually insignificant;
- classified as individually significant, for which an objective indication of impairment has not been identified.

The Bank recognizes a collective impairment allowance for exposures with identified objective indication of impairment. The value of the impairment allowance depends on the type of the credit exposure, delinquency period and collateral value (for selected portfolios). IBNR (incurred but not reported loss) is recognized for exposures for which an objective indication of impairment has not been identified. The amount of the IBNR loss depends on the probability of default (PD), loss given default (LGD), credit conversion factor (CCF) and the loss identification period (LIP).

The amount of collective impairment allowances, both for exposures which are individually insignificant with an objective indication of impairment identified and exposures which are individually significant and insignificant without an objective indication of impairment identified, 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, for purposes of IBNR estimates, exposure delinquency classes which do not exceed 90 days 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 impairment allowances on financial assets as objectively and adequately as possible.

The PD parameters are updated twice a 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 monthly migration of credit exposures. LGD, CCF and LIP are reviewed and updated annually. As regards CCF, the Bank's analysis focuses on the percentage of off-balance sheet liabilities converted into on-balance sheet exposures during the loss identification period (LIP). LIP parameters are determined based on analyses of the period between the occurrence of an event driving the impairment allowance in relation to the obligor and the date when the impairment status is actually assigned to the debtor. The length of LIP depends on the characteristics of the product as well as effectiveness and frequency of the credit exposure monitoring process carried out by the Bank. 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.

When classifying exposures into those with objective indications of impairment identified and those without objective indications of impairment identified, the Bank takes into account a quarantine period, where a credit exposure with an objective indication of impairment identified may be again classified as an exposure without an objective indication of impairment identified 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.

Impairment allowances on financial assets estimated using statistical models in a collective impairment test are back-tested on a regular basis. The parameters used for purposes of estimating impairment allowances and the statistical models are covered by the model management process, which involves laying down the principles of their development, approval, monitoring and validation as well as model back-testing. The models and parameters are validated and impairment allowances/provisions determined using the collective method are back-tested at least on an annual basis. Additionally, the process of estimating impairment allowances is subject to periodic functional control and verified independently by the Bank's internal audit.

b) 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 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.

c) Securities

Securities with no liquid market 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.

d) Impairment of non-current assets

At the end of each reporting period, the Group verifies whether there is any objective indication of impairment of its non-current assets. If such indications have been identified, the Group estimates the recoverable amount. Determination of the value in use of a non-current asset requires the Bank to make assumptions as to the estimated amounts, dates of future cash flows that may be generated by the Group on the non-current 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, as a rule, are also based on estimates.

e) 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.

4. BUSINESS COMBINATIONS

Merger of Bank BGŻ BNP S.A. and Sygma Bank Polska S.A.

On 31 May 2016, the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register recorded the merger through acquisition of Bank BGŻ BNP Paribas S.A., with its registered office in Warsaw with Sygma Bank Polska S.A., with its registered office in Warsaw.

The merger was aimed at a more effective use of the potential of the combined companies and direct and indirect economic and financial synergies, including broadening of the product offering of Bank BGŻ BNP Paribas S.A. on the Polish *consumer finance* market, which will have a positive effect on the income generated by the Bank.

Pursuant to Art. 494.1 of the Code of Commercial Companies, as a result of the merger, on 31 May 2016, Bank BGŻ BNP Paribas S.A. – the acquirer assumed all the rights and obligations of Sygma Bank Polska S.A. – the acquiree. Pursuant to Art. 494.1 of the Code of Commercial Companies, Sygma Bank Polska S.A. was dissolved without any liquidation proceedings on the date of its deletion from the register.

The net assets of Sygma Bank Polska S.A. were taken up for cash amounting to PLN 200 million.

The merger of Bank BGŻ BNP Paribas S.A. and Sygma Bank Polska S.A. was a business combination under common control because on the date of the merger both companies were subsidiaries of BNP Paribas, with the registered office in Paris.

As a consequence of the accounting for the merger of Bank BGŻ BNP Paribas S.A. with Sygma Bank Polska S.A., on the date of the merger, i.e. 31 May 2016, Bank BGŻ BNP Paribas S.A. recognized the assets of Sygma Bank Polska S.A. with a total value PLN 306 806 thousand in its financial statements. The difference between the amounts of the asset and liabilities in the separate financial statements of the parent after the legal merger and the book value of the investment in the subsidiary before the merger was recognized under Equity.

Net assets of Sygma Bank Polska S.A. on 31 May 2016:

ASSETS	31.05.2016 unaudited
Cash and balances at Central Bank	37
Loans and advances to banks	244 363
Loans and advances to customers	1 530 414
Intangible assets	2 569
Property, plant and equipment	9 036
Deferred tax assets	36 550
Other assets	23 650
Total assets	**1 846 619**
LIABILITIES	
Amounts due to banks	1 390 460
Amounts due to customers	5 742
Subordinated liabilities	70 480
Current tax liabilities	4 775
Other liabilities	46 067
Provisions	22 199
Total liabilities	**1 539 723**
Total equity	**306 896**
Total liabilities and equity	**1 846 619**

The revenues and expenses of the acquiree have been recognized in the separate financial statements of Bank BGŻ BNP Paribas S.A. since the merger date.

BGŻ BNP Paribas S.A. Sygma Bank was consolidated using the full consolidation method in the consolidated financial statements of the BGŻ BNP Paribas S.A. Capital Group since the acquisition of 100% shares in Sygma Bank by Bank BGŻ BNP Paribas S.A. Revenue and expenses of Sygma Bank have been recognized in the consolidated financial statements since 1 January 2016.

Accounting principles applied to the transaction

Business combinations under common control of a parent and a subsidiary, where the existing parent company is the entity which continues the business activity, are accounted for using the method whereby the acquired assets and assumed liabilities are recognized in the financial statements of the acquirer at their book value disclosed in the consolidated financial statements of the parent as at the business combination date. The difference between the amounts of the asset and liabilities in the separate financial statements of the parent after the legal merger and the book value of the investment in the subsidiary before the merger is recognized in consolidated equity.

The acquired assets and assumed liabilities are included in the balance sheet of the combined entity at their carrying amounts after bringing their measurement methods to uniformity and following the relevant eliminations.

The business combination is accounted for without any adjustments of comparative data, i.e. the revenues and expenses of the acquiree are recognized in the profit or loss of the combined entity from the business combination date.

5. NET INTEREST INCOME

	12 months ended 31.12.2016	12 months ended 31.12.2015
INTEREST INCOME		
Loans and advances to banks	29 355	24 543
Loans and advances to customers in current accounts	367 980	326 144
Loans and advances to customers, in this:	1 753 099	1 462 022
corporate	411 674	391 606
households	1 255 058	1 018 738
budget entities	5 101	5 772
other entities	81 266	45 906
Hedging instruments	78 754	15 197
Reverse repo transactions	-	7 559
Debt securities, in this:	260 682	208 645
held for trading	-	1 956
available for sale	260 682	206 689
	2 489 870	**2 044 110**
INTEREST EXPENSE		
Amounts due to banks	(74 120)	(57 187)
Debt securities issued	(12 781)	(16 938)
Amounts due to customers, in this:	(560 641)	(544 324)
corporate	(160 345)	(108 768)
households	(313 348)	(340 834)
budget entities	(18 288)	(14 211)
other entities	(68 660)	(80 511)
Hedged items	(79 796)	(12 206)
Repo transactions	-	(7 693)
	(727 338)	**(638 348)**
Net interest income	**1 762 532**	**1 405 762**

In 2016 the total interest income calculated using effective interest rate with regard to financial assets not measured at fair value through profit or loss was PLN 2 411 116 thousand (PLN 2 026 957 thousand for the 12 months ended 31 December 2015) while interest expenses calculated using effective interest rate with regard to financial liabilities not measured at fair value through profit or loss was PLN 647 542 thousand (PLN 626 142 thousand for the 12 months ended 31 December 2015).

Interest income includes interest on financial assets with identified impairment evaluated separately and collectively. The interest amount recognized in the interest income for 2016 was PLN 209 110 thousand vs. PLN 117 511 thousand for 2015.

6. NET FEE AND COMMISSION INCOME

	12 months ended 31.12.2016	12 months ended 31.12.2015
FEE INCOME		
loans and advances	169 521	141 513
settlements	70 280	47 059
account maintenance	110 132	112 100
guarantees	27 957	21 876
brokerage operations	19 945	24 992
payment cards	76 791	70 127
insurance activity	26 940	26 159
asset management	2 391	260
other	45 221	29 747
	549 178	**473 833**
FEE EXPENSES		
loans and advances received	(1 702)	(3 443)
payment cards	(54 407)	(46 294)
insurance activity	(7 751)	(1 593)
related to partners’ network	(9 632)	(5 054)
other	(34 053)	(10 208)
	(107 545)	**(66 592)**
Net fee and commission income	**441 633**	**407 241**

Net commission income for 2016 includes PLN 19 945 thousand generated from custody operations vs. PLN 24 992 thousand for 2015.

Net commission income includes income from commissions related to assets and liabilities not measured at fair value with the measurement effects charged to profit or loss; for 2016 in the amount of PLN 306 563 thousand and for 2015 in the amount of PLN 279 772 thousand, as well as commission expenses for 2016 of PLN 9 453 thousand and for 2015 of PLN 5 036 thousand.

7. DIVIDEND INCOME

	12 months ended 31.12.2016	12 months ended 31.12.2015
Available for sale securities	5 802	4 394
Shares in subsidiaries	8 759	2 443
Total dividend income	**14 561**	**6 837**

8. NET TRADING INCOME

	12 months ended 31.12.2016	12 months ended 31.12.2015
Debt instruments	-	204
Derivative instruments and result on foreign exchange transactions	253 845	184 142
Net trading income	**253 845**	**184 346**

9. RESULT ON INVESTMENT ACTIVITIES

During the year, the Bank has not reclassified any financial assets measured at amortized cost to financial assets measured at fair value.

	12 months ended 31.12.2016	12 months ended 31.12.2015
Available for sale financial assets*	45 677	47 390
Impairment allowances on shares in a subsidiary**	(16 916)	-
Total	**28 761**	**47 390**

*On 21 June 2016 the Bank settled the acquisition of Visa Europe Limited by Visa Inc. As a result, the Bank BGŻ BNP Paribas Capital Group received:

- cash of EUR 6 945 thousand (PLN 30 518 thousand translated at the rate of 4.3945 of 20 June 2016),
- 2 521 C-series preference shares in Visa Inc.

Furthermore, the settlement included a deferred cash payment of EUR 1.12 billion payable to all parties to the transaction; Bank BGŻ BNP Paribas' share in the aforesaid amount is 0.0535214433%. The deferred cash payment payable to the Group can be adjusted within three years form the transaction date should events described in the agreement occur.

Bank BGŻ BNP Paribas' total earnings from the aforesaid transaction amounted to PLN 41 817 thousand and they were recognized in the profit and loss account under Result on investment activities.

**Impairment allowances on shares in BFN Actus Sp. z o.o. The details have been presented in Note 25.

10. OTHER OPERATING INCOME

	12 months ended 31.12.2016	12 months ended 31.12.2015
Sale or liquidation of property, plant and equipment and intangible assets	10 045	1 952
Sale of goods and services	12 439	5 389
Release of provisions for litigation and claims and other liabilities	16 350	2 949
Recovery of debt collection costs	7 820	4 921
Recovery of overdue debts, redeemed receivables, non-collectible debts and payment of receivables that were excluded from the separate statement of financial position	7 295	9 742
Income from leasing operations	24 726	13 452
Other	28 346	18 457
Total other operating income	**107 021**	**56 862**

11. OTHER OPERATING EXPENSES

	12 months ended 31.12.2016	12 months ended 31.12.2015
Loss on sale or liquidation of property, plant and equipment and intangible assets	(28 596)	(20 149)
Impairment allowances on other receivables	(690)	(711)
Provisions for restructuring of assets, litigation and claim and other liabilities	(8 812)	(18 075)
Debt collection	(26 374)	(15 917)
Donations made	(3 561)	(2 243)
Costs of leasing operations	(23 104)	(12 816)
Costs of claims, damages and fines	(11 450)	(6 610)
Other operating expenses	(13 441)	(14 532)
Total other operating expenses	**(116 028)**	**(91 053)**

12. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND CONTINGENT LIABILITIES

	12 months ended 31.12.2016	12 months ended 31.12.2015
Loans and advances to banks	(1 090)	(937)
Loans and advances to customers*	(388 732)	(321 139)
Contingent commitments granted	3 892	17 856
Total net impairment losses on financial assets and contingent liabilities	**(385 930)**	**(3040)**

*Including also impact of credit portfolio sale is (described in note 22) and release of impairment allowance on receivables due to bonds of BFN Actus Sp. z o.o.(detailed description presented in Note 25).

13. GENERAL ADMINISTRATIVE EXPENSES

	12 months ended 31.12.2016	12 months ended 31.12.2015
Employment-related expenses (Note 14)	(850 632)	(724 007)
Marketing	(88 142)	(93 417)
IT and telecom costs	(136 060)	(126 267)
Rental expenses	(175 560)	(145 526)
Other non-personnel expenses	(171 877)	(200 573)
Business travels	(8 923)	(4 870)
ATM and cash handling costs	(3 544)	(3 639)
Costs of outsourcing services related to leasing operations	(23 497)	(11 119)
Bank Guarantee Fund fee	(126 624)	(97 987)
Statutory payment from entities included in the guarantee system*	-	(90 214)
Polish Financial Supervision Authority fee	(4 518)	(5 016)
Payment to the Borrower Support Fund**	-	(38 168)
Total general administrative expenses	**(1 589 377)**	**(1 540 803)**

*Statutory contribution to be used for payment of guaranteed funds for depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie in accordance with the resolution of the Management Board of the Bank Guarantee Fund.
**Contribution to the Borrowers' Support Fund in line with the decision of the Board of the Borrowers' Support Fund.

14. COSTS OF EMPLOYEE BENEFITS

	12 months ended 31.12.2016	12 months ended 31.12.2015
Payroll expenses	(666 966)	(561 903)
Payroll charges	(102 255)	(77 094)
Employee benefits	(23 879)	(7 517)
Costs of restructuring provision	(26 000)	(48 488)
Costs of provision for future liabilities arising from unused annual leave and retirement benefits	(9 498)	(3 673)
Appropriations to Social Benefits Fund	(8 539)	(5 781)
Other	(13 495)	(19 551)
Total costs of employee benefits	**(850 632)**	**(724 007)**

15. DEPRECIATION AND AMORTIZATION

	12 months ended 31.12.2016	12 months ended 31.12.2015
Property, plant and equipment	(79 717)	(67 593)
Intangible assets	(116 999)	(79 493)
Total amortization and depreciation	**(196 716)**	**(147 086)**

16. INCOME TAX EXPENSE

	12 months ended 31.12.2016	12 months ended 31.12.2015
Current income tax	(94 670)	(44 958)
Deferred income tax	9 709	27 945
Total income taxes	**(84 961)**	**(17 013)**
Profit before income tax	134 349	25 276
Statutory tax rate	19%	19%
Income taxes on gross profit	**(25 526)**	**(4 802)**
Receivables write-off	(11 705)	(1 250)
Non-tax-deductible overheads/income	(524)	(847)
PFRON	(1 184)	(1 026)
Prudential fee to the Bank Guarantee Fund	(7 342)	(3 894)
Purchased debts write-offs	-	(115)
Impairment allowance on receivables	(3 418)	(293)
Tax on financial institutions	(35 321)	-
Other differences	59	(4 786)
Total income tax charge on gross profit	**(84 961)**	**(17 013)**

17. EARNINGS PER SHARE

BASIC:	12 months ended 31.12.2016	12 months ended 31.12.2015
Attributable to equity holders of the Bank	49 388	8 263
Weighted average number of ordinary shares (items)	84 238 318	75 077 094
Basic earnings per share (in PLN per share)	0.59	0.11
Diluted earnings per share (in PLN per share)	0.59	0.11

Diluted earnings are equal to the basic earnings per share, since factors that cause dilution are absent.

Basic earnings per share are calculated as a quotient of the earnings attributable to the Bank's equity holders and the weighted average number of ordinary shares during the year, except for ordinary shares acquired by the Bank and recognized as treasury shares.

18. CASH AND BALANCES AT CENTRAL BANK

	31.12.2016	31.12.2015
Cash and other balances	1 062 599	1 128 326
Consolidated account with the National Bank of Poland	240 248	1 698 081
Total cash and balances at Central Bank	**1 302 847**	**2 826 407**

During the day, the Bank may use cash on statutory reserve accounts for current cash settlements based on an order placed at the National Bank of Poland. It has to ensure, though, that the average monthly balance matches the declared reserve amount.

The funds on the statutory reserve account bear interest equal to 0.9 of the rediscount rate charged on bills of exchange. As at 31 December 2016 interest on statutory reserve accounts was 1.35% (1.35% as at 31 December 2015).

The balance of cash in hand and at Central Bank includes the statutory reserve maintained with the National Bank of Poland. The reserve to be maintained in December 2016 (as declared) was PLN 1 866 604 thousand (PLN 1 553 934 thousand in December 2015).

The Bank has to maintain the average monthly balance of cash above the declared statutory reserve level.

19. LOANS AND ADVANCES TO BANKS

	31.12.2016	31.12.2015
Current accounts	233 655	155 338
Interbank placements	913 963	268 316
Loans and advances	40 089	119 967
Other receivables	40 258	1 447
Total loans and advances to banks (gross)	**1 227 965**	**545 068**
Impairment allowances on loans and advances to banks	(2 053)	(1 056)
Total loans and advances to banks (net)	**1 225 912**	**544 012**

Change in the balance of receivables from banks:

	12 months ended 31.12.2016	12 months ended 31.12.2015
Impairment allowances on loans and advances at the beginning of the period	**(1 056)**	**(487)**
Impairment charges	(3 686)	(1 438)
Release of impairment charges	2 596	500
Provision acquired as a result of merger	-	(79)
Write-off	-	352
Other changes	93	96
Impairment allowances on loans and advances at the end of the period	**(2 053)**	**(1 056)**

Loans and advances to banks evaluated on a separate and collective basis

31.12.2016	Impaired exposures evaluated separately	Evaluated collectively	Total
Current accounts	-	233 655	233 655
Interbank placements	-	913 963	913 963
Loans and advances	-	40 089	40 089
Other receivables	-	40 258	40 258
Total loans and advances to banks (gross)	**-**	**1 227 965**	**1 227 965**
31.12.2015			
Current accounts	-	155 338	155 338
Interbank placements	-	268 316	268 316
Loans and advances	-	119 967	119 967
Other receivables	-	1 447	1 447
Total loans and advances to banks (gross)	**-**	**545 068**	**545 068**

Impairment losses on loans and advances to banks evaluated on a separate and collective basis

	31.12.2016	31.12.2015
Evaluated separately	-	-
Evaluated collectively	(2 053)	(1 056)
Total impairment	**(2 053)**	**(1 056)**

Gross loans and advances to banks by maturity

	31.12.2016	31.12.2015
Up to 1 month	1 124 205	413 622
From 1 month to 3 months	6 096	6 593
From 3 months to 1 year	14 041	20 940
From 1 year to 5 years	23 028	32 723
Over 5 years	34 551	71 006
Overdue loans	26 044	184
Total loans and advances to banks by maturity	**1 227 965**	**545 068**

20. DERIVATIVE FINANCIAL INSTRUMENTS

Fair value of derivatives held is presented below:

		Fair value	
31.12.2016	Nominal value	Assets	Liabilities
TRADING DERIVATIVES (HELD FOR TRADING)			
CURRENCY DERIVATIVES:			
Foreign Exchange Forward (FX Forward + NDF)	5 742 464	37 841	25 516
Currency Swap (FX Swap)	11 940 472	49 927	26 147
Currency Interest Rate Swaps (CIRS)	1 844 744	4 958	5 487
OTC currency options	1 954 720	8 252	8 486
Total currency derivatives:	**21 482 400**	**100 978**	**65 636**
INTEREST RATE DERIVATIVES:			
interest rate swap	23 118 463	204 282	188 685
Forward Rate Agreements (FRA)	13 700 000	2 166	1 489
OTC interest rate options	3 026 815	12 552	12 508
Total interest rate derivatives:	**39 845 278**	**219 000**	**202 682**
OTHER DERIVATIVES			
OTC options	335 880	3 116	3 129
OTC commodity swaps	67 744	384	310
Currency Spot (FX Spot)	1 037 793	527	-
other options	8 500	-	-
Total other derivatives:	**1 449 917**	**4 027**	**3 439**
TOTAL TRADING DERIVATIVES:	**62 777 595**	**324 005**	**271 757**
of which: valued using model-based method	*62 777 595*	*324 005*	*271 757*

31.12.2015	Nominal value	Fair value Assets	Fair value Liabilities
TRADING DERIVATIVES (HELD FOR TRADING)			
CURRENCY DERIVATIVES:			
Foreign Exchange Forward (FX Forward + NDF)	5 800 073	27 138	26 164
Currency Swap (FX Swap)	4 850 365	25 838	17 174
Currency Interest Rate Swaps (CIRS)	879 953	5 090	(3)
OTC currency options	2 832 716	10 459	8 515
Total currency derivatives:	**14 363 107**	**68 525**	**51 850**
INTEREST RATE DERIVATIVES:			
interest rate swap	43 438 255	279 770	281 084
Currency Interest Rate Swap (CIRS)	1 037	262	-
Forward Rate Agreements (FRA)	25 300 000	3 469	5 003
OTC interest rate options	1 230 627	5 783	5 180
other	24 003	-	169
Total interest rate derivatives:	**69 993 922**	**289 284**	**291 436**
OTHER DERIVATIVES			
OTC options	384 577	4 751	2 904
OTC commodity swaps	188 789	5 566	5 188
Currency Spot (FX Spot)	842 933	12	161
other options	6 500	-	-
Total other derivatives:	**1 422 799**	**10 329**	**8 253**
TOTAL TRADING DERIVATIVES:	**85 779 828**	**368 138**	**351 539**
of which: valued using model-based method	*85 779 828*	*368 138*	*351 539*

Fair value of derivatives by maturity

31.12.2016	Fair value of asset						Fair value of liability					
	Total	<=1 month	>1 month <=3 months	>3 months <=12 months	>1 year <=5 years	>5 years	Total	<=1 month	>1 month <=3 months	>3 months <=12 months	>1 year <=5 years	>5 years
TRADING DERIVATIVES (HELD FOR TRADING)												
CURRENCY DERIVATIVES:												
Foreign Exchange Forward (FX Forward + NDF)	**37 841**	5 953	6 880	16 366	8 642	-	**25 516**	8 398	7 396	7 677	2 045	-
Currency Swap (FX Swap)	**49 927**	19 104	19 822	11 001	-	-	**26 147**	10 745	8 599	5 716	1 087	-
Currency Interest Rate Swaps (CIRS)	**4 958**	-	-	1 135	3 823	-	**5 487**	1 560	1 468	686	1 773	-
OTC currency options	**8 252**	354	3 303	3 805	790	-	**8 486**	358	3 503	3 833	792	-
Total currency derivatives:	**100 978**	**25 411**	**30 005**	**32 307**	**13 255**	**-**	**65 636**	**21 061**	**20 966**	**17 912**	**5 697**	**-**
INTEREST RATE DERIVATIVES:												
interest rate swap	**204 282**	1	5 115	23 782	111 665	63 719	**188 685**	-	-	20 023	111 338	57 324
Forward Rate Agreements (FRA)	**2 166**	-	-	1 960	206	-	**1 489**	-	9	1 480	-	-
OTC interest rate options	**12 552**	-	253	30	11 778	491	**12 508**	-	253	46	11 721	488
Total interest rate derivatives:	**219 000**	**1**	**5 368**	**25 772**	**123 649**	**64 210**	**202 682**	**-**	**262**	**21 549**	**123 059**	**57 812**
OTHER DERIVATIVES												
OTC options	**3 116**	-	146	6	2 964	-	**3 129**	-	147	6	2 976	-
OTC commodity swaps	**384**	-	316	68	-	-	**310**	-	275	35	-	-
Currency Spot (FX Spot)	**527**	527	-	-	-	-	**-**	-	-	-	-	-
Total other derivatives:	**4 027**	**527**	**462**	**74**	**2 964**	**-**	**3 439**	**-**	**422**	**41**	**2 976**	**-**
TOTAL TRADING DERIVATIVES:	**324 005**	**25 939**	**35 835**	**58 153**	**139 868**	**64 210**	**271 757**	**21 061**	**21 650**	**39 502**	**131 732**	**57 812**

31.12.2015	Fair value of asset Total	<=1 month	>1 month <=3 months	>3 months <=12 months	>1 year <=5 years	>5 years	Fair value of liability Total	<=1 month	>1 month <=3 months	>3 months <=12 months	>1 year <=5 years	>5 years
TRADING DERIVATIVES (HELD FOR TRADING)												
CURRENCY DERIVATIVES:												
Foreign Exchange Forward (FX Forward + NDF)	**27 138**	3 952	6 836	14 018	2 332	-	**26 164**	4 569	6 920	12 377	2 298	-
Currency Swap (FX Swap)	**25 838**	7 476	8 137	10 225	-	-	**17 174**	3 707	8 760	4 707	-	-
Currency Interest Rate Swaps (CIRS)	**5 090**	-	-	21	5 069	-	**(3)**	-	-	29	(32)	-
OTC currency options	**10 459**	(40)	4 089	4 354	2 056	-	**8 515**	381	4 242	3 865	27	-
Total currency derivatives:	**68 525**	**11 388**	**19 062**	**28 618**	**9 457**	**-**	**51 850**	**8 657**	**19 922**	**20 978**	**2 293**	**-**
INTEREST RATE DERIVATIVES:												
interest rate swap	**279 770**	370	25 006	46 697	89 716	117 981	**281 084**	8 577	5 776	54 381	96 341	116 009
Currency Interest Rate Swap (CIRS)	**262**	-	-	-	262	-	**-**	-	-	-	-	-
Forward Rate Agreements (FRA)	**3 469**	-	-	3 298	171	-	**5 003**	-	-	4 875	128	-
OTC interest rate options	**5 783**	10	-	1 341	4 288	144	**5 180**	(1)	-	1 211	3 826	144
other	**-**	-	-	-	-	-	**169**	169	-	-	-	-
Total interest rate derivatives:	**289 284**	**380**	**25 006**	**51 336**	**94 437**	**118 125**	**291 436**	**8 745**	**5 776**	**60 467**	**100 295**	**116 153**
OTHER DERIVATIVES												
OTC options	**4 751**	4	519	1 311	2 917	-	**2 904**	-	740	2 012	152	-
OTC commodity swaps	**5 566**	745	2 113	2 708	-	-	**5 188**	862	1 970	2 356	-	-
Currency Spot (FX Spot)	**12**	12	-	-	-	-	**161**	161	-	-	-	-
Total other derivatives:	**10 329**	**761**	**2 632**	**4 019**	**2 917**	**-**	**8 253**	**1 023**	**2 710**	**4 368**	**152**	**-**
TOTAL TRADING DERIVATIVES	**368 138**	**12 529**	**46 700**	**83 973**	**106 811**	**118 125**	**351 539**	**18 425**	**28 408**	**85 813**	**102 740**	**116 153**

Maturity:
- for NDF, FX forward, FX swap, currency options and indexes, IRS, CIRS calculated as a difference in days between the transaction maturity date and the balance sheet date
- for Fx spot, FRA, securities to be issued/received calculated as a difference in days between the transaction currency date and the balance sheet date

21. HEDGE ACCOUNTING

As at 31 December 2016, the Bank used fair value hedges.

Hedging relationship	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 EUR current accounts are the hedged items.
Hedging instruments	Standard IRS transactions, i.e. plain vanilla IRS in the euro, where the Bank receives a fixed interest rate and pays a floating rate based on EURIBOR 3M, are the hedging instruments.
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 the IRS transaction and the hedged items is recognized in Interest income.

		Fair value	
EUR IRS	Nominal value	Assets	Liabilities
31.12.2016	4 019 360	18 671	-
31.12.2015	4 714 504	2 711	-

Amounts recognized in statement of profit or loss in relation to fair value hedges:

	31.12.2016	31.12.2015
Net interest income on hedging derivatives	78 754	15 197
Net interest income on hedging derivatives	(79 796)	(12 206)
Change in fair value of hedging transactions recognized in the Result on hedge accounting	(77)	-
including: change in fair value of hedging transactions	*(5 851)*	*(4 582)*
change in fair value of hedged items	*5 774*	*4 582*

The table below presents hedging derivative instruments by nominal value as at 31 December 2016, broken down by residual maturity:

	31.12.2016							
	Fair value		Nominal value					
Hedging derivatives	positive	negative	Up to 1 month	1 - 3 months	3 months - 1 year	1-5 years	> 5 years	Total
Interest rate contracts								
Swap (IRS)	18 671	-	17 696	-	1 971 200	1 875 624	154 840	4 019 360
Total hedging derivatives	**18 671**	**-**	**17 696**	**-**	**1 971 200**	**1 875 624**	**154 840**	**4 019 360**

	31.12.2015							
	Fair value		Nominal value					
Hedging derivatives	positive	negative	Up to 1 month	1 - 3 months	3 months - 1 year	1-5 years	> 5 years	Total
Interest rate contracts								
Swap (IRS)	2 711	-	17 046	-	1 500 000	3 184 673	12 785	4 714 504
Total hedging derivatives	**2 711**	**-**	**17 046**	**-**	**1 500 000**	**3 184 673**	**12 785**	**4 714 504**

22. LOANS AND ADVANCES TO CUSTOMERS

	31.12.2016	31.12.2015
CURRENT ACCOUNTS:	**8 114 481**	**7 944 884**
corporate	4 188 362	3 906 021
households:	3 918 198	3 967 365
individual customers	183 507	207 899
individual entrepreneurs	428 561	497 868
farmers	3 306 130	3 261 598
budget entities	475	526
other entities	7 446	70 972
NON-CURRENT LOANS AND ADVANCES:	**48 062 151**	**44 623 766**
corporate	13 340 120	13 274 824
investment loans	7 198 133	6 154 067
revolving loans	3 557 759	3 778 853
other	2 584 228	3 341 904
households:	31 476 050	28 542 903
individual customers, in this:	21 885 691	19 322 358
real estate	15 005 546	14 722 641
individual entrepreneurs	2 251 724	2 349 830
farmers	7 338 635	6 870 715
budget entities	185 097	180 339
other entities	384 543	387 008
Lease receivables	2 676 341	2 238 692
Total gross loans and advances	**56 176 632**	**52 568 650**
Impairment allowances (negative value)	(2 996 915)	(2 737 192)
Total net loans and advances	**53 179 717**	**49 831 458**

Impairment allowances on loans and advances to customers

	31.12.2016	31.12.2015
CURRENT ACCOUNTS:	**(433 071)**	**(427 738)**
corporate	(292 401)	(286 390)
households:	(140 033)	(140 770)
individual customers	(21 068)	(24 384)
individual entrepreneurs	(66 233)	(74 438)
farmers	(52 732)	(41 948)
budget entities	-	-
other entities	(637)	(578)
NON-CURRENT LOANS AND ADVANCES:	**(2 563 844)**	**(2 309 454)**
corporate	(939 039)	(1 022 778)
investment loans	(284 646)	(231 727)
revolving loans	(481 415)	(443 234)
other	(172 978)	(347 817)
households:	(1 525 360)	(1 191 467)
individual customers, in this:	(1 084 337)	(768 212)
real estate	(364 406)	(347 082)
individual entrepreneurs	(235 033)	(240 600)
farmers	(205 990)	(182 655)
budget entities	(215)	(219)
other entities	(3 933)	(4 027)
Lease receivables	(95 297)	(90 963)
Total impairment allowances	**(2 996 915)**	**(2 737 192)**

Gross loans and advances to customers evaluated separately and collectively

31.12.2016	Impaired exposures evaluated separately	Evaluated collectively	TOTAL
CURRENT ACCOUNTS:	**331 154**	**7 783 327**	**8 114 481**
corporate	286 968	3 901 394	4 188 362
households:	42 910	3 875 288	3 918 198
individual customers	5 153	178 354	183 507
individual entrepreneurs	12 125	416 436	428 561
farmers	25 632	3 280 498	3 306 130
budget entities	-	475	475
other entities	1 276	6 170	7 446
NON-CURRENT LOANS AND ADVANCES:	**1 866 120**	**46 196 031**	**48 062 151**
corporate	1 498 600	11 841 520	13 340 120
households:	364 045	31 112 005	31 476 050
individual customers	66 944	21 818 747	21 885 691
individual entrepreneurs	96 989	2 154 735	2 251 724
farmers	200 112	7 138 523	7 338 635
budget entities	-	185 097	185 097
other entities	3 475	381 068	384 543
Lease receivables	-	2 676 341	2 676 341
Total gross loans and advances	**2 197 274**	**53 979 358**	**56 176 632**
31.12.2015			
CURRENT ACCOUNTS:	**308 711**	**7 636 173**	**7 944 884**
corporate	262 108	3 643 913	3 906 021
households:	46 603	3 920 762	3 967 365
individual customers	12 857	195 042	207 899
individual entrepreneurs	12 543	485 325	497 868
farmers	21 203	3 240 395	3 261 598
budget entities	-	526	526
other entities	-	70 972	70 972
NON-CURRENT LOANS AND ADVANCES:	**1 799 068**	**42 824 698**	**44 623 766**
corporate	1 324 603	11 950 221	13 274 824
households:	344 592	28 198 311	28 542 903
individual customers	56 268	19 266 090	19 322 358
individual entrepreneurs	116 431	2 233 399	2 349 830
farmers	171 893	6 698 822	6 870 715
budget entities	51	180 288	180 339
other entities	1 960	385 048	387 008
Lease receivables	127 862	2 110 830	2 238 692
Total gross loans and advances	**2 107 779**	**50 460 871**	**52 568 650**

Impairment allowances on loans and advances to customers evaluated separately and collectively

31.12.2016	Impaired exposures evaluated separately	Evaluated collectively	TOTAL
CURRENT ACCOUNTS:	**(220 519)**	**(212 552)**	**(433 071)**
corporate	(201 208)	(91 193)	(292 401)
households:	(19 298)	(120 735)	(140 033)
individual customers	(4 153)	(16 915)	(21 068)
individual entrepreneurs	(6 382)	(59 851)	(66 233)
farmers	(8 763)	(43 969)	(52 732)
budget entities	-	-	-
other entities	(13)	(624)	(637)
NON-CURRENT LOANS AND ADVANCES:	**(973 588)**	**(1 590 256)**	**(2 563 844)**
corporate	(793 858)	(145 181)	(939 039)
households:	(178 019)	(1 347 341)	(1 525 360)
individual customers	(32 194)	(1 052 143)	(1 084 337)
individual entrepreneurs	(55 321)	(179 712)	(235 033)
farmers	(90 504)	(115 486)	(205 990)
budget entities	-	(215)	(215)
other entities	(1 711)	(2 222)	(3 933)
Lease receivables	-	(95 297)	(95 297)
Total impairment allowances	**(1 194 107)**	**(1 802 808)**	**(2 996 915)**
31.12.2015			
CURRENT ACCOUNTS:	**(216 358)**	**(211 380)**	**(427 738)**
corporate	(191 352)	(95 038)	(286 390)
households:	(25 006)	(115 764)	(140 770)
individual customers	(10 273)	(14 111)	(24 384)
individual entrepreneurs	(7 738)	(66 700)	(74 438)
farmers	(6 995)	(34 953)	(41 948)
budget entities	-	-	-
other entities	-	(578)	(578)
NON-CURRENT LOANS AND ADVANCES:	**(1 047 441)**	**(1 262 013)**	**(2 309 454)**
corporate	(804 384)	(218 394)	(1 022 778)
households:	(158 307)	(1 033 160)	(1 191 467)
individual customers	(27 646)	(740 566)	(768 212)
individual entrepreneurs	(64 458)	(176 142)	(240 600)
farmers	(66 203)	(116 452)	(182 655)
budget entities	(44)	(175)	(219)
other entities	(1 961)	(2 066)	(4 027)
Lease receivables	(82 745)	(8 218)	(90 963)
Total impairment allowances	**(1 263 799)**	**(1 473 393)**	**(2 737 192)**

*Impairment allowances on loans and advances excluding impairment and evaluated on a collective basis including impairment.

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

	12 months ended 31.12.2016	12 months ended 31.12.2015
Opening balance of impairment allowances	**(2 737 192)**	**(1 441 522)**
Impairment allowances - opening balance*	(1 956 503)	(2 013 317)
Release of impairment charges*	1 567 771	1 682 864
Write-off	417 302	130 099
Impairment acquired as a result of merger	(249 701)	(1 084 241)
Other changes (including exchange differences)	(38 592)	(11 075)
Closing balance of impairment allowances	**(2 996 915)**	**(2 737 192)**

* Recognition and release of impairment allowances on loans and advances presented as revenue owing to functional limitations of the system. The presentation above does not have any effect on the Bank's profit or loss.

Gross loans and advances by maturity

	31.12.2016	31.12.2015
Up to 1 month	9 218 307	3 319 219
From 1 month to 3 months	445 539	1 086 252
From 3 months to 1 year	2 352 722	4 588 005
From 1 year to 5 years	11 096 863	14 063 193
Over 5 years	27 890 260	23 277 227
Overdue loans	5 172 941	6 234 754
Total loans and advances by maturity	**56 176 632**	**52 568 650**

The Bank's credit risk exposure related to loans and advances to customers by indications of impairment

IMPAIRED EXPOSURES	31.12.2016	31.12.2015
Gross exposure	4 482 959	3 923 333
Impairment allowance	(2 684 697)	(2 439 198)
Net exposure	**1 798 262**	**1 484 135**
EXPOSURES WITHOUT INDICATIONS OF IMPAIRMENT		
Gross exposure	51 693 673	48 645 317
IBNR provision	(312 218)	(297 994)
Net exposure	**51 381 455**	**48 347 323**

Home loans to individual customers – by currency (in PLN '000)

Loans by currency	31.12.2016	31.12.2015
CHF	6 733 995	6 924 155
EUR	76 696	82 704
PLN	8 190 068	7 710 797
USD	4 787	4 985
Total	**15 005 546**	**14 722 641**

CHF loan portfolio value

	31.12.2016		31.12.2015	
(Gross) loan portfolio, including:	Total portfolio	including CHF exposures	Total portfolio	including CHF exposures
CURRENT ACCOUNTS:	**8 114 481**	**4**	**7 944 884**	**-**
corporate	4 188 362	-	3 906 021	-
households:	3 918 198	4	3 967 365	-
individual customers	183 507	4	207 899	-
individual entrepreneurs	428 561	-	497 868	-
farmers	3 306 130	-	3 261 598	-
budget entities	475	-	526	-
other entities	7 446	-	70 972	-
NON-CURRENT LOANS AND ADVANCES:	**48 062 151**	**7 090 253**	**44 623 766**	**7 310 324**
corporate	13 340 120	89 739	13 274 824	116 457
investment loans	7 198 133	20 551	6 154 067	27 867
revolving loans	3 557 759	53 984	3 778 853	11 761
other	2 584 228	15 204	3 341 904	76 829
households:	31 476 050	6 901 923	28 542 903	7 104 798
individual customers, in this:	21 885 691	6 837 907	19 322 358	7 030 204
real estate	15 005 546	6 733 995	14 722 641	6 924 155
individual entrepreneurs	2 251 724	53 782	2 349 830	63 593
farmers	7 338 635	10 234	6 870 715	11 001
budget entities	185 097	-	180 339	-
other entities	384 543	2 593	387 008	2 811
Lease receivables	2 676 341	95 998	2 238 692	86 258
Total gross loans and advances	**56 176 632**	**7 090 257**	**52 568 650**	**7 310 324**

Impairment allowances on CHF loans

(Gross) loan portfolio, including:	31.12.2016 Total portfolio	31.12.2016 including CHF exposures	31.12.2015 Total portfolio	31.12.2015 including CHF exposures
CURRENT ACCOUNTS:	**(433 071)**	**-**	**(427 738)**	**-**
corporate	(292 401)	-	(286 390)	-
households:	(140 033)	-	(140 770)	-
individual customers	(21 068)	-	(24 384)	-
individual entrepreneurs	(66 233)	-	(74 438)	-
farmers	(52 732)	-	(41 948)	-
budget entities	-	-	-	-
other entities	(637)	-	(578)	-
NON-CURRENT LOANS AND ADVANCES:	**(2 563 844)**	**(306 212)**	**(2 309 454)**	**(258 775)**
corporate:	(939 039)	(12 553)	(1 022 778)	(16 734)
investment loans	(284 646)	(797)	(231 727)	(98)
revolving loans	(481 415)	(8 145)	(443 234)	(668)
other	(172 978)	(3 611)	(347 817)	(15 968)
households:	(1 525 360)	(279 004)	(1 191 467)	(239 929)
individual customers, in this:	(1 084 337)	(267 181)	(768 212)	(230 132)
real estate	(364 406)	(254 577)	(347 082)	(217 322)
individual entrepreneurs	(235 033)	(9 985)	(240 600)	(8 438)
farmers	(205 990)	(1 838)	(182 655)	(1 359)
budget entities	(215)	-	(219)	-
other entities	(3 933)	-	(4 027)	(6)
Lease receivables	(95 297)	(14 655)	(90 963)	(2 106)
Total gross loans and advances	**(2 996 915)**	**(306 212)**	**(2 737 192)**	**(258 775)**

In 2016, the Bank entered into an agreement for sale of its loan portfolio. The receivables sold under the agreement, the major part of which had been covered with impairment allowances or derecognized in whole, totaled PLN 545 133 thousand (principal, interest and other accompanying receivables). The contractual portfolio sale price was PLN 75 604 thousand. The net effect of the portfolio sale on the profit generated by the Bank was PLN 53 160 thousand and it was presented as recognition and derecognition of impairment losses on loans and advances.

23. FINANCE LEASE RECEIVABLES

Finance lease receivables

	31.12.2016	31.12.2015
Gross finance lease receivables	2 884 165	2 446 870
Unrealized financial income	(207 824)	(208 178)
Present value of minimum lease payments	**2 676 341**	**2 238 692**
Impairment allowances	(95 297)	(90 963)
Total finance lease receivables	**2 581 044**	**2 147 729**

Gross finance lease receivables by maturity

	31.12.2016	31.12.2015
Up to 1 year	832 116	648 468
From 1 year to 5 years	1 609 498	1 297 577
Over 5 years	442 551	500 825
Total gross finance lease receivables	**2 884 165**	**2 446 870**

Present value of minimum lease payments

	31.12.2016	31.12.2015
Up to 1 year	758 310	581 186
From 1 year to 5 years	1 493 660	1 182 456
Over 5 years	424 371	475 050
Present value of minimum lease payments	**2 676 341**	**2 238 692**

24. AVAILABLE FOR SALE FINANCIAL ASSETS

	31.12.2016	31.12.2015
Debt securities available for sale:	12 448 691	7 713 183
issued by central banks – NBP bills	999 959	-
issued by governments – T-bonds	11 373 673	7 605 912
issued by local governments – bonds	70 072	95 144
issued by local governments – municipal bonds	4 987	12 127
Debt securities available for sale: (stock and shares)	47 603	48 592
Share units	939	902
Total available for sale financial assets	**12 497 233**	**7 762 677**
of which:		
measured using the market quotation method	*11 373 691*	*7 606 835*
measured using model-based method	*1 123 542*	*155 842*

Change in the balance of available for sale financial assets:

	12 months ended 31.12.2016	12 months ended 31.12.2015
Balance as at 1 January	**7 762 677**	**7 084 017**
Purchase of securities	25 808 067	117 217 026
Redemption of securities	(20 301 871)	(115 393 606)
Sales of securities	(535 572)	(2 381 357)
Change in fair value measurement	(249 368)	(80 802)
Change in interest receivable due to forex differences, discounts and premiums	13 027	79 389
Financial assets acquired as a result of merger	273	1 238 010
As at 31 December at carrying amount	**12 497 233**	**7 762 677**

In accordance with the Banking Guarantee Fund Act of 14 December 1994, as at 31 December 2016 Bank BGŻ BNP Paribas S.A. held treasury bonds recognized in the statement of financial position in the amount of PLN 274 449 thousand (with the face value of PLN 285 000 thousand), securing the protection of guaranteed funds under BGF, which were deposited on a separate account at the National Bank of Poland (in 2015, in the amount of PLN 265 425 thousand, with the face value of PLN 275 000 thousand).

Gross available for sale financial assets by maturity

	31.12.2016	31.12.2015
Without determined maturity	48 542	49 494
Up to 1 month	999 959	-
From 1 month to 3 months	-	-
From 3 months to 1 year	1 964 058	208 790
From 1 year to 5 years	5 281 466	5 473 229
Over 5 years	4 203 208	2 031 164
Total available for sale financial assets	**12 497 233**	**7 762 677**

25. INVESTMENTS IN SUBSIDIARIES

	31.12.2016	31.12.2015
In financial sector entities	21 067	221 067
In non-financial sector entities	49 761	27 781
Total investments	**70 828**	**248 848**

Shares in subsidiaries as at 31 December 2016 and 31 December 2015

Entity's name	Cost of shares	Carrying amount	Interest held by the Bank in the entity's equity
31.12.2016			
Bankowy Fundusz Nieruchomościowy ACTUS Sp. z o.o.	57 187	38 761	100%
BNP Paribas Group Service Center S.A.	11 000	11 000	100%
Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A.	18 196	13 398	100%
BGŻ BNP Paribas Factoring Sp. z o.o.	7 653	7 653	100%
BNP Paribas Leasing Services Sp. z o.o.	94 800	16	100%
Total	**188 836**	**70 828**	**-**
31.12.2015			
Bankowy Fundusz Nieruchomościowy ACTUS Sp. z o.o.	18 291	16 781	100%
Sygma Bank Polska S.A.	200 000	200 000	100%
Laser Services Polska S.A.	11 000	11 000	100%
Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A.	18 196	13 398	100%
BGŻ BNP Paribas Factoring Sp. z o.o.	7 653	7 653	100%
Fortis Lease Polska Sp. z o.o. in liquidation	94 800	16	100%
Total	**349 940**	**248 848**	**-**

On 1 December 2015, Bank BGŻ BNP Paribas S.A. concluded an agreement on the purchase of shares in Sygma Bank Polska S.A. from BNP Paribas Personal Finance Societe Anonyme ("BNP Paribas PF") with the registered office in Paris.

Pursuant to the agreement, the Bank acquired from BNP Paribas PF 1 000 ordinary registered shares in Sygma Bank Polska, constituting 100% interest in the share capital of Sygma Bank Polska and 100% of votes at its general shareholders' meeting, for PLN 200 million.

At the same time, on 1 December 2015, the Bank and BNP Paribas PF concluded an agreement on the purchase of shares, pursuant to which the Bank acquired 273 438 ordinary registered shares in Laser Services Polska S.A. ("LSP") constituting 100% interest in the share capital of LSP and 100% votes at its general shareholders' meeting, for PLN 11 million.

On 31 May 2016 Bank BGŻ BNP Paribas S.A. was merged with Sygma Bank Polska S.A. The details of the transaction were presented in Note 4.

In 2016 the Bank increased the share capital of BFN Actus Sp. z o.o. from PLN 1 510 000.00 to PLN 11 260 000.00 by way of issuing 19 500 new shares with the par value of PLN 500.00 each. The Bank took up all new shares and made a cash contribution of PLN 38 800 000.00 (thirty eight million eight hundred thousand). Thanks to the transaction the company obtained cash for repayment of bond liabilities. In November 2016 Actus repaid the total liability to the Bank due to bonds of PLN 38 575 601.48.

Therefore, the Bank released an impairment allowance on receivables due to bonds of PLN 16 916 thousand and at the same time it recognized an impairment allowance on shares in the company in the same amount. The transactions discussed above do not have any effect on the Bank's profit or loss.

Moreover, in 2016 the Bank made capital injections to the company totaling to PLN 95 620.00 intended to finance the current operations of the Company.

26. INTANGIBLE ASSETS

	31.12.2016	31.12.2015
Licenses	195 709	213 223
Other intangible assets	4 397	5 466
Expenditure on intangible assets	44 465	32 002
Total intangible assets	**244 571**	**250 691**

12 months ended 31.12.2016	Licenses	Other intangible assets	Expenditure on intangible assets	Total
GROSS BOOK VALUE				
As at 1 January	**688 379**	**13 867**	**32 559**	**734 805**
Increases:	*141 214*	*1 712*	*120 574*	*263 500*
reclassification from expenditure	95 021	877	-	95 898
purchase	13 604	106	120 574	134 284
acquisition as a result of merger	32 589	729	-	33 318
Decreases:	*(99 808)*	*(108)*	*(106 974)*	*(206 890)*
reclassification from expenditure	-	-	(88 693)	(88 693)
sale, liquidation, donation, shortage	(99 808)	(108)	(14 534)	(114 450)
other	-	-	(3 747)	(3 747)
As at 31 December	**729 785**	**15 471**	**46 159**	**791 415**
ACCUMULATED DEPRECIATION (-)				
As at 1 January	**475 156**	**8 401**	**-**	**483 557**
Balance changes:	*58 920*	*2 673*	-	*61 593*
depreciation for the financial year	109 088	2 055	-	111 143
sale, liquidation, donation, shortage	(80 211)	(99)	-	(80 310)
acquisition as a result of merger	30 043	717	-	30 760
As at 31 December	**534 076**	**11 074**	**-**	**545 150**
IMPAIRMENT ALLOWANCES (-)				
As at 1 January	**-**	**-**	**557**	**557**
Balance changes:	-	-	*1 137*	*1 137*
impairment allowance update	-	-	1 137	1 137
As at 31 December	**-**	**-**	**1 694**	**1 694**
NET BOOK VALUE				
As at 1 January	**213 223**	**5 466**	**32 002**	**250 691**
As at 31 December	**195 709**	**4 397**	**44 465**	**244 571**

12 months ended 31.12.2015	Licenses	Other intangible assets	Expenditure on intangible assets	Total
GROSS BOOK VALUE				
As at 1 January	**465 485**	**4 515**	**27 836**	**497 836**
Increases:	*249 268*	*9 391*	*68 674*	*327 333*
reclassification from expenditure	48 154	284	-	48 438
reclassification from fixed assets	520	-	-	520
purchase	53 698	441	52 744	106 883
acquisition as a result of merger	146 896	8 666	15 930	171 492
Decreases:	*(26 374)*	*(39)*	*(63 951)*	*(90 364)*
reclassification from expenditure	-	-	(48 438)	(48 438)
sale, liquidation, donation, shortage	(26 374)	(39)	-	(26 413)
other	-	-	(15 513)	(15 513)
As at 31 December	**688 379**	**13 867**	**32 559**	**734 805**
ACCUMULATED DEPRECIATION (-)				
As at 1 January	**328 613**	**3 916**	**-**	**332 529**
Balance changes:	*146 543*	*4 485*	-	*151 028*
depreciation for the financial year	77 937	1 346	-	79 283
sale, liquidation, donation, shortage	(26 356)	(27)	-	(26 383)
acquisition as a result of merger	95 055	3 166	-	98 221
other	(93)	-	-	(93)
As at 31 December	**475 156**	**8 401**	**-**	**483 557**
IMPAIRMENT ALLOWANCES (-)				
As at 1 January	**-**	**-**	**-**	**-**
Balance changes:	-	-	*557*	*557*
impairment allowance update	-	-	2 163	2 163
acquisition as a result of merger	-	-	2	2
other	-	-	(1 608)	(1 608)
As at 31 December	**-**	**-**	**557**	**557**
NET BOOK VALUE				
As at 1 January	**136 872**	**599**	**27 836**	**165 307**
As at 31 December	**213 223**	**5 466**	**32 002**	**250 691**

The Bank identifies impairment indications for intangible assets not commissioned yet, i.e. under development, on an ongoing basis.

As at 31 December 2016 and 31 December 2015, the Bank had no material contractual liabilities related to acquisition of intangible assets.

27. PROPERTY, PLANT AND EQUIPMENT

	31.12.2016	31.12.2015
Non-current assets, in this:	527 487	486 487
land and buildings	242 891	252 157
leasehold improvements	98 788	101 251
IT equipment	130 093	80 701
office equipment	30 090	47 944
equipment and vehicles	25 625	4 434
Fixed assets under construction	17 993	41 743
Total property, plant and equipment	**545 480**	**528 230**

12 months ended 31.12.2016	Land and buildings	Property, plant and equipment	Fixed assets under construction	Total
GROSS BOOK VALUE				
As at 1 January	**438 412**	**948 863**	**41 743**	**1 429 018**
Increases:	*5 583*	*161 979*	*77 910*	*245 472*
reclassification from fixed assets under construction	5 583	83 864	-	89 447
purchase	-	32 625	77 910	110 535
acquisition as a result of merger	-	41 743	-	41 743
other	-	3 747	-	3 747
Decreases:	*(3 570)*	*(108 604)*	*(101 660)*	*(213 834*
reclassification from fixed assets under construction	-	-	(96 651)	(96 651)
reclassification from fixed assets	-	-	-	-
sale, liquidation, donation, shortage, theft	(3 570)	(108 604)	(5 009)	(117 183)
other	-	-	-	-
As at 31 December	**440 425**	**1 002 238**	**17 993**	**1 460 656**
ACCUMULATED DEPRECIATION (-)				
As at 1 January	**184 190**	**714 025**	**-**	**898 215**
Balance changes:	*9 108*	*3 347*	-	*12 455*
depreciation for the financial year	10 655	69 491	-	80 146
sale, liquidation, donation, shortage	(1 547)	(98 716)	-	(100 263)
acquisition as a result of merger	-	32 572	-	32 572
other	-	-	-	-
As at 31 December	**193 298**	**717 372**	**-**	**910 670**
IMPAIRMENT ALLOWANCES (-)				
As at 1 January	**2 065**	**508**	**-**	**2 573**
Balance changes:	*1 933*	-	-	*1 933*
impairment allowance update	1 809	-	-	1 809
acquisition as a result of merger	124	-	-	124
As at 31 December	**3 998**	**508**	**-**	**4 506**
NET BOOK VALUE				
As at 1 January	**252 157**	**234 330**	**41 743**	**528 230**
As at 31 December	**243 129**	**284 358**	**17 993**	**545 480**

12 months ended 31.12.2015	Land and buildings	Property, plant and equipment	Fixed assets under construction	Total
GROSS BOOK VALUE				
As at 1 January	**428 093**	**532 346**	**6 592**	**967 031**
Increases:	*13 162*	*474 990*	*55 887*	*544 039*
reclassification from fixed assets under construction	2 125	16 531	-	18 656
purchase	-	39 766	53 300	93 066
acquisition as a result of merger	10 639	412 995	2 587	426 221
other	398	5 698	-	6 096
Decreases:	*(2 843)*	*(58 473)*	*(20 736)*	*(82 052)*
reclassification from fixed assets under construction	-	-	(18 656)	(18 656)
reclassification from fixed assets	-	-	(520)	(520)
sale, liquidation, donation, shortage, theft	(2 843)	(58 473)	(77)	(61 393)
other	-	-	(1 483)	(1 483)
As at 31 December	**438 412**	**948 863**	**41 743**	**1 429 018**
ACCUMULATED DEPRECIATION (-)				
As at 1 January	**171 047**	**381 985**	**-**	**553 032**
Balance changes:	*13 143*	*332 040*	-	*345 183*
depreciation for the financial year	10 474	57 328	-	67 802
sale, liquidation, donation, shortage	(695)	(50 432)	-	(51 127)
acquisition as a result of merger	3 364	324 814	-	328 178
other	-	330	-	330
As at 31 December	**184 190**	**714 025**	**-**	**898 215**
IMPAIRMENT ALLOWANCES (-)				
As at 1 January	**2 667**	**269**	**-**	**2 936**
Balance changes:	*(602)*	*239*	-	*(363)*
impairment allowance update	-	(539)	-	(539)
acquisition as a result of merger	-	778	-	778
sale	(602)	-	-	(602)
As at 31 December	**2 065**	**508**	**-**	**2 573**
NET BOOK VALUE				
As at 1 January	**254 379**	**150 092**	**6 592**	**411 063**
As at 31 December	**252 157**	**234 330**	**41 743**	**528 230**

As at 31 December 2016 and 31 December 2015, the Bank had no material contractual liabilities related to acquisition of property, plant and equipment.

28. OTHER ASSETS

OTHER ASSETS:	31.12.2016	31.12.2015
other debtors	215 808	58 867
interbank and intersystem settlements	17 240	500
prepaid expenses	44 351	27 810
accrued income	62 091	27 100
card settlements	9 780	12 615
tax and other regulatory receivables	124 688	108 490
insurance liabilities	4 391	861
other lease liabilities	22 936	20 667
other	4 151	8 908
Total other assets (gross)	**505 436**	**265 818**
Impairment allowances on other receivables other debtors	(55 159)	(48 792)
Total other assets (net)	**450 277**	**217 026**

29. AMOUNTS DUE TO BANKS

	31.12.2016	31.12.2015
Current accounts	199 904	120 629
Interbank placements	127 507	1 459 256
Loans and advances received	4 940 395	6 018 861
Other liabilities	23 653	19 200
Total amounts due to banks	**5 291 459**	**7 617 946**

Amounts due to banks by maturity

	31.12.2016	31.12.2015
Up to 1 month	607 144	1 979 948
From 1 month to 3 months	1 111 419	120 233
From 3 months to 1 year	820 388	903 475
From 1 year to 5 years	1 021 033	2 602 684
Over 5 years	1 731 475	2 011 606
Total amounts due to banks	**5 291 459**	**7 617 946**

30. AMOUNTS DUE TO CUSTOMERS

	31.12.2016	31.12.2015
OTHER FINANCIAL INSTITUTIONS:	**4 137 191**	**4 946 641**
Current accounts	265 461	622 755
Term deposits	1 847 759	2 039 939
Loans and advances received	2 023 662	2 240 934
Other liabilities, in this:	309	43 013
due to cash collateral	266	43 002
other	43	11
INDIVIDUAL CUSTOMERS:	**27 523 104**	**24 072 838**
Current accounts	14 725 418	13 398 459
Term deposits	12 680 228	10 595 406
Other liabilities, in this:	117 458	78 973
due to cash collateral	45 511	36 017
other	71 947	42 956
CORPORATE CUSTOMERS:	**22 819 005**	**16 905 932**
Current accounts	12 090 445	9 936 819
Term deposits	10 451 327	6 735 359
Other liabilities, in this:	277 233	233 754
due to cash collateral	245 867	208 568
other	31 366	25 186
INCLUDING FARMERS:	**1 630 880**	**1 309 339**
Current accounts	1 423 807	1 133 901
Term deposits	198 073	171 893
Other liabilities, in this:	9 000	3 545
due to cash collateral	3 521	3 500
other	5 479	45
PUBLIC SECTOR CUSTOMERS:	**818 024**	**695 437**
Current accounts	585 195	502 878
Term deposits	229 848	192 425
Other liabilities, in this:	2 981	134
due to cash collateral	23	134
other	2 958	-
Total amounts due to customers	**55 297 324**	**46 620 848**

Amounts due to customers by maturity

	31.12.2016	31.12.2015
Up to 1 month	31 437 481	33 838 920
From 1 month to 3 months	14 759 663	4 514 838
From 3 months to 1 year	6 361 112	4 985 764
From 1 year to 5 years	748 220	1 051 986
Over 5 years	1 990 848	2 229 340
Total amounts due to customers	**55 297 324**	**46 620 848**

31. DEBT SECURITIES ISSUED

Changes in the balance of debt securities issued

	12 months ended 31.12.2016	12 months ended 31.12.2015
Opening balance	**468 933**	**762 142**
Issuance of certificates of deposit	-	-
Redemption of certificates of deposit	(71 996)	(294 775)
Changes in discount from certificates of deposit, interests, commission and other fees on certificates of deposit amortized using EIR, foreign currency exchange differences	972	1 566
Balance of debt securities issued at the end of the period	**397 909**	**468 933**

In 2008, the Bank entered into several agreements with three financing banks, concerning the issue of bearer materialized bank securities (Certificates of Deposit) denominated in PLN.

The Bank, as the issuer of debt securities, signed a Dealer Agreement and an Underwriting Agreement for purposes of the Debt Securities Issue Program ("Program") with Bank Handlowy w Warszawie S.A., Bank Pekao S.A., BRE Bank S.A. (at present mBank S.A.) and ING Bank Śląski S.A., acting as the Program Dealers. The scope of the Program includes multiple issues of Certificates of Deposit ("CDs") and the Bank's Bonds ("bonds") denominated in PLN, with the total par value of no more than PLN 3 500 million. The Bank will issue zero-coupon and coupon CDs for a maximum term of 5 years as well as zero-coupon and coupon bonds for a maximum term of 10 years. The aforesaid agreements were signed for an indefinite term.

The Debt Securities Issue Program is aimed at financing the day-to-day lending operations of the Bank.

The agreements renew and extend the scope of the previous Debt Securities Issue Program of 14 March 2008, to include bonds.

As at 31 December 2016, the par value of certificates of deposit issued was PLN 394 000 thousand as compared to PLN 465 000 thousand as at 31 December 2015.

32. SUBORDINATED LIABILITIES

As at 31 December 2016, the carrying amount of subordinated liabilities was PLN 1 768 458 thousand as compared to PLN 847 568 thousand as at 31 December 2015.

Change in the balance of subordinated liabilities	12 months ended 31.12.2016	12 months ended 31.12.2015
Opening balance	**847 568**	**320 951**
Loan acquired as a result of merger	-	474 016
Loans taken out	882 400	-
Change in the balance of interest	2 029	(1 779)
Exchange differences	36 461	54 380
Closing balance	**1 768 458**	**847 568**

33. OTHER LIABILITIES

	31.12.2016	31.12.2015
Interbank and intersystem settlements	345 720	165 646
Other creditors	140 042	57 478
Card settlements	42 922	37 790
Provisions for non-personnel expenses	138 469	125 709
Provisions for other employees-related liabilities	130 484	101 883
Provision for unused holidays	29 503	28 459
Deferred income	79 194	39 563
Trust account liabilities	63 098	8 429
Other regulatory liabilities	103 639	105 499
Insurance liabilities	17 566	6 664
Other lease liabilities	16 233	15 521
Other	10 035	63 520
Total other liabilities	**1 116 905**	**756 161**

34. PROVISIONS

	31.12.2016	31.12.2015
Provision for restructuring	29 523	50 452
Provision for retirement benefits and similar obligations	13 237	25 461
Provision for guarantees, suretyships and undrawn credit facilities	42 659	42 407
Provisions for litigation and claims	26 687	19 703
Other provisions	4 288	5 781
Total provisions	**116 394**	**143 804**

Provisions for restructuring	12 months ended 31.12.2016	12 months ended 31.12.2015
Opening balance	**50 452**	**-**
Provisions charges	26 000	56 294
Provisions utilization	(58 009)	(54 877)
Provisions release	(2 080)	(49)
Provision acquired as a result of merger	12 574	49 084
Other changes	586	-
Closing balance	**29 523**	**50 452**

Provision for retirement benefits and similar obligations	12 months ended 31.12.2016	12 months ended 31.12.2015
Opening balance	**25 461**	**26 859**
Provisions charges	4 280	1 838
Provisions release	(17 747)	(7 007)
Provision acquired as a result of merger	1 243	3 771
Closing balance	**13 237**	**25 461**

Provisions for guarantees, suretyships and undrawn credit facilities	12 months ended 31.12.2016	12 months ended 31.12.2015
Opening balance	**42 407**	**23 200**
Provisions charges	53 981	50 386
Provisions release	(52 358)	(68 242)
Provision acquired as a result of merger	3 915	36 759
Other changes	(5 286)	304
Closing balance	**42 659**	**42 407**

Provisions for litigation and claims	12 months ended 31.12.2016	12 months ended 31.12.2015
Opening balance	**19 703**	**16 457**
Provisions charges	11 408	9 734
Provisions utilization	(4 945)	(10 080)
Provisions release	(1 772)	(1 011)
Provision acquired as a result of merger	1 257	4 599
Other changes	1 036	4
Closing balance	**26 687**	**19 703**

Other provisions	12 months ended 31.12.2016	12 months ended 31.12.2015
Opening balance	**5 781**	**1 596**
Provisions charges	717	2 135
Provisions release	(4 030)	(748)
Provision acquired as a result of merger	3 210	2 798
Other changes	(1 390)	-
Closing balance	**4 288**	**5 781**

1. As at 31 December 2016, the total value in dispute of legal cases amounted to PLN 489 228 thousand, including:

   - value in dispute in cases on action for payment (i.e. except adverse claims and proceedings on invalidity of legal actions) amounted to PLN 137 318 thousand,

   - value in dispute against the Bank on invalidity of legal actions amounted to PLN 31 472 thousand,

   - value in dispute where the Bank is plaintiff amounted to PLN 320 438 thousand.

   Bank BGŻ BNP Paribas S.A. is not a party to any proceedings before courts, arbitration or public administration bodies, the value of which would account for at least 10% of the Bank's equity.

2. 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.

   Corporate claims against the Bank (interchange fee)

   By 31 December 2016 the Bank received 24 calls for settlement from companies using payment cards. The total amount of these claims was PLN 985.68 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 December 2016, the Bank was a defendant in eleven (11) court cases (including one where the complaining party comprised 79 persons) regarding annulment of mortgage loan agreements denominated in CHF in the form of a statement that the Bank had granted a PLN loan without the denomination in foreign currency or claiming damages for the Bank's abuse of its rights, to include principles of community life and misinforming customers or disallowing enforcement of the writ of execution. The total amount claimed is PLN 28.49 million. It should also be emphasized that in two similar cases against the Bank, which have recently been closed, the petitions filed by the customers have been dismissed by courts with the force of law.

3. In its decision of 31 July 2012, the President of UOKiK regarded the Bank's use of a certain standard form contract for individual retirement account maintenance as a practice infringing the group interests of consumers, concluding at the same time that it had been discontinued as of 10 August 2011. The President of UOKiK imposed a fine of PLN 1 374 thousand on the Bank. On 21 August 2012, the Bank filed an appeal against the decision to the District Court in Warsaw and requested that the contractual penalties imposed by the Court be revoked. In the court judgment of 28 October 2014, the Bank's appeal was dismissed in whole. The Bank prepared an appeal and sent it to the court. On 16 February 2016, the Court of Appeals in Warsaw changed the decision whereby the penalty was reduced by half, i.e. from PLN 1 373 970 to PLN 686 985. The remaining scope of the appeal was dismissed. The Bank has carried out the court order.
4. The Bank recognizes provisions for retirement, disability and death benefits ("benefits") in accordance with IAS 19. The provision for benefits is calculated using the projected unit credit method by an independent actuary as the present value of the Bank's future liabilities to employees based on the number of employees and their remuneration as at the valuation date. The said provisions are calculated based on numerous assumptions concerning both macroeconomic conditions and employee turnover, the risk of mortality and other. The estimated amount of the benefits which the Bank undertakes to pay under the Compensation Policy in place at the Bank serves as the basis for calculation of the provision. The estimated amount of the benefits is a product of:
   - the estimated benefit assessment basis, in accordance with the Collective Labor Agreement;
   - the estimated rise in the benefit assessment basis between the valuation date and the payment date;
   - a percentage ratio depending on the length of service (in accordance with the Compensation Policy);
   - the degree to which the vesting conditions have been satisfied, determined separately for each employee and proportional to his/her length of service with the Bank.

   The amount determined in line with the aforementioned methodology is discounted for actuarial purposes as at the end of the year. In compliance with the requirements of IAS 19, the financial discount rate for calculation of the present value of liabilities arising from employee benefits is determined by reference to market rates of return on treasury bonds whose currency and maturity correspond to the currency and estimated maturity of the liabilities arising from employee benefits. The actuarial discount is the product of the financial discount, the probability that an individual will be an employee of the Bank as at the benefit payment date and the probability of benefit payment (i.e. probability of disablement). The annual appropriations and the probability are determined on the basis of models taking into account the following three risks:
   - the risk of the employee leaving the job;
   - the risk of permanent incapacity to work;
   - the risk of mortality.

   The risk of the employee leaving the job is estimated based on probability distribution, considering the statistical data of the Bank. It depends on the employee's age and is fixed during each year of service. The risk of mortality and disablement has been estimated on the basis of an analysis of the latest statistical data from the Polish life expectancy tables for men and women as well as historical data published by the Central Statistical Office and the Social Insurance Institution.

   The provision recognized as a result of the actuarial valuation is updated on an annual basis based on an independent actuary's valuation, and on a quarterly basis by reference to quarterly forecasts.

Sensitivity analysis

The following table presents the potential effect of changes in the relevant actuarial assumptions by 1 p.p. on the liabilities arising from retirement, disability ad death benefits as at 31 December 2016 and 31 December 2015.

	increase by 1 p.p.	decrease by 1 p.p.
31.12.2016		
discount rate	(1 291)	1 527
pay growth rate	1 526	(1 313)
31.12.2015		
discount rate	(3 957)	4 979
pay growth rate	4 953	(4 010)

Reconciliation of the present value of liabilities due to retirement, disability and death benefits

Reconciliation of the opening balance and the closing balance of the present value of liabilities due to retirement, disability and death benefits has been presented in the table below

	31.12.2016	31.12.2015
Opening balance	**25 461**	**26 859**
current employment costs	2 263	2 184
net interest on net liability	708	741
actuarial gain or loss	(4 799)	(6 355)
past service costs	(11 193)	(1 362)
benefits paid	(446)	(377)
provision acquired as a result of merger	1 243	3 771
Closing balance	**13 237**	**25 461**

35. DEFERRED INCOME TAX

Changes in deferred income tax in the financial year:

Deferred tax assets	Deferred tax basis as at 31.12.2016	Changes arising from merger as at 31.05.2016	Deferred tax basis as at 31.12.2015	Charge arising from changes in asset for 2016
Outstanding interest accrued on liabilities, including CD interest and discount	235 035	25 941	169 063	7 606
Fair value measurement of derivative instruments and securities	46 598	-	74 670	(5 333)
Unrealized liabilities related to hedged items and hedging instruments	-	-	1 605	(305)
Impairment losses on financial assets and provisions for contingent liabilities (non-deductible), which are likely to occur	1 921 994	50 705	1 627 829	46 256
Fair value adjustment due to credit risk of derivative instruments after maturity	31 466	-	41 934	(1 989)
Revenue collected in advance and accounted for based on amortized cost using the effective interest method	418 522	83 524	352 116	(3 253)
Provision for retirement benefits and provision for restructuring	57 081	13 817	67 140	(4 536)
Other provisions for personnel costs	146 824	10	120 439	5 012
Provisions for non-personnel expenses	148 453	26 438	151 392	(5 581)
Difference between the market price and the subscription price	-	-	-	-
Impairment loss on fixed and intangible assets	6 261	124	3 249	548
Impairment loss on shares in subsidiaries and associates	23 467	-	6 551	3 214
Goodwill for tax purposes	-	-	3 990	(758)
Tax on civil law transactions – acquisition of shares in subsidiaries	77	-	77	-
Impairment loss on bonds and shares	-	-	-	-
Damages paid	12 820	-	13 926	(210)
Impairment losses on lease receivables	60 622	--	64 918	(816)
Impairment losses on available for sale assets related to leasing operations	7 009	-	8 564	(296)
Surplus of the tax value of leased fixed assets over the book value of receivables	313 616	-	198 380	21 895
Lease down-payments	8 050	-	10 141	(397)
Deferred income from leasing operations	6 070	-	4 829	236
Impairment losses on other assets	4 193	-	4 190	1
Measurement of available for sale securities	9 268	-	15 268	(1 140)
Other deductible temporary differences	25 480	76	5 775	3 730
Total:	**3 482 906**	**200 635**	**2 946 046**	**63 884**
Asset basis recognized in profit or loss (in the current and preceding years) and charge arising from changes in asset	3 473 638	200 559	2 930 778	65 038

Basis for assets recognized in correspondence with revaluation reserve and charge arising from changes in asset	9 268	76	15 268	(1 154)

Unrecognized deferred tax asset is related to impairment losses on loans and advances whose non-recoverability will not become probable in the future. The related unrecognized temporary differences amounted to PLN 46 748 thousand as at 31 December 2016 as compared to PLN 119 295 thousand as at 31 December 2015.

Deferred tax liability	Deferred tax basis as at 31.12.2016	Changes arising from merger as at 31.05.2016	Deferred tax basis as at 31.12.2015	Charge arising from changes in asset for 2016
Accrued revenue from interest on amounts due	(531 338)	(6 588)	(232 688)	(55 492)
Fair value measurement of derivative instruments and securities	(62 664)	-	(59 411)	(618)
Transaction costs of loans and advances	(41)	(42)	(73 334)	13 933
Measurement of available for sale securities	(4 719)	-	(259 226)	60 127
Difference between accounting and tax depreciation of the Bank's own fixed assets	(99 634)	-	(46 913)	(10 016)
Other accrued revenue	(1 353)	-	(2 650)	246
R&D expenses	-	-	(4 746)	902
Unrealized liabilities related to hedged items and hedging instruments	(22 751)	-	(2 711)	(3 808)
Deferred costs of leasing operations	(10 467)	-	(6 458)	(762)
Other taxable temporary differences	(510)	(1 639)	(375)	285
Total:	**(733 477)**	**(8 269)**	**(688 512)**	**4 797**
Liability basis recognized in profit or loss (in the current and preceding years) and charge arising from changes in liability	(728 758)	(8 269)	(429 286)	(55 329)
Basis for liability charged to revaluation reserve and charge arising from changes in liability	(4 719)	-	(259 226)	60 127

PRESENTED AS				
Deferred tax assets	**661 752**	**-**	**559 748**	-
Deferred tax liability	**(139 361)**	**-**	**(130 817)**	-
Total	**522 391**	**-**	**428 931**	-

36. DISCONTINUED OPERATIONS

The Bank did not discontinue any operations in 2016 or 2015.

37. SHARE-BASED PAYMENTS

The Bank has a Board Member Compensation Policy and an Employee Compensation Policy in place.
The principles and assumptions underlying the aforesaid Policies guarantee the existence of a reasonable, balanced and controllable compensation policy, consistent with the acceptable risk level, the standards and values of Bank BGŻ BNP Paribas S.A. and the applicable laws and regulations, in particular Resolution No. 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 and the recommendations formulated in CRD4.

In accordance with the aforesaid regulations, variable compensation granted to the Bank's employees having a material effect on the risk profile is divided into two portions, namely a financial instrument and cash. Both these portions are deferred for three years.

Variable compensation in the form of phantom shares is paid as a cash equivalent of the number of shares granted to the employee, following the expiry of the retention period.

The cash portion of variable compensation is subject to IAS 19 and the one granted in phantom shares to IFRS 2.

Financial instruments – changes in the plan for 2016.

	Financial instrument	
	number	value (PLN '000)
Opening balance	**71 616**	**5 594**
granted in current period	46 786	2 363
exercised in current period	(22 499)	(1 136)
lost	(8 406)	(425)
expired	(2 851)	(144)
Closing balance	**84 646**	**6 252**

In 2016 payments of PLN 1 136 thousand were made due to exercising rights to deferred phantom shares (under the plan for 2012, 2013 and 2014).

The table below presents the terms of the Stock Purchase Plan for 2016

Transaction type in line with IFRS 2	Share-based payments settled in cash
Plan issued on	21 June 2012 - the Resolution of the Supervisory Board approving the Board Member Compensation Policy and an Employee Compensation Policy of the Bank entered into force.
The first day of granting phantom shares	16 March 2016
The last day of granting phantom shares	28 April 2016
Plan settlement	On the settlement day each participant will receive cash in the amount calculated as the product of the number of phantom shares and the median price of shares in Bank BGŻ BNP Paribas at the end of each working day (i.e. closing rate) from the year preceding the year of unit realization (January - December).
Median share price of Bank BGŻ BNP Paribas S.A.	PLN 50.5
Conditions for share granting	Individual performance appraisal Financial performance of the Bank Analysis of the probability of situations which could reduce the deferred portion of the variable pay. Meeting conditions of employment at the Bank.

38. CONTINGENT COMMITMENTS

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

	31.12.2016	31.12.2015
CONTINGENT COMMITMENTS GRANTED	**18 846 626**	**15 607 484**
financial commitments	15 017 787	11 965 758
guarantees	3 828 839	3 641 726
CONTINGENT COMMITMENTS RECEIVED	**12 308 051**	**5 136 758**
financial commitments	10 994 807	3 951 269
guarantees	1 313 244	1 185 489

Commitments granted and received by the Bank – by maturity

	31.12.2016	31.12.2015
Up to 1 month	9 686 771	7 076 369
From 1 month to 3 months	1 120 263	1 182 002
From 3 months to 1 year	3 255 610	3 745 663
From 1 year to 5 years	3 648 355	2 929 449
Over 5 years	1 135 627	674 001
Total commitments granted	**18 846 626**	**15 607 484**
Up to 1 month	33 468	216 409
From 1 month to 3 months	66 107	143 769
From 3 months to 1 year	2 172 469	339 919
From 1 year to 5 years	406 916	577 505
Over 5 years	9 629 091	3 859 156
Total commitments received	**12 308 051**	**5 136 758**

The Bank had the following assets as security for payment of its own and third-party commitments:

Assets securing payment of the Bank's commitments	31.12.2016
BANK GUARANTEE FUND – GUARANTEED AMOUNT PROTECTION FUND	
nominal value of security	285 000
type of security	T-bonds
maturity	25.01.2024
carrying amount of security	274 449
SECURITY FOR BM BGŻ BNP PARIBAS S.A. TRANSACTIONS IN SECURITIES DEPOSITED WITH THE NATIONAL DEPOSITORY FOR SECURITIES AS PART OF THE STOCK EXCHANGE GUARANTEE FUND	
cash	8 550
SECURITY FOR DERIVATIVE TRANSACTION SETTLEMENT	
nominal value of security	34 551
type of security	call deposits (loans and advances to banks)

	31.12.2015
BANK GUARANTEE FUND – GUARANTEED AMOUNT PROTECTION FUND	
nominal value of security	275 000
type of security	T-bonds
maturity	25.01.2024
carrying amount of security	265 425
SECURITY FOR BM BGŻ BNP PARIBAS S.A. TRANSACTIONS IN SECURITIES DEPOSITED WITH THE NATIONAL DEPOSITORY FOR SECURITIES AS PART OF THE STOCK EXCHANGE GUARANTEE FUND	
cash	6 699
SECURITY FOR DERIVATIVE TRANSACTION SETTLEMENT	
nominal value of security	69 536
type of security	call deposits (loans and advances to banks)

39. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

At the end of 2016, instruments were allocated to the following measurement levels:

1. level 1: treasury bonds, (fair value determined directly by reference to published active market quotations);
2. level 2: interest rate options in EUR, FX options, base interest rate and FX swaps, 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);
3. level 3: interest rate options in PLN, FX options maturing over 1 year, FX Forward, NDF and FX swaps maturing over 1 year, FRA maturing over 1 year, 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 separate financial statements into three categories:

31.12.2016	Level 1	Level 2	Level 3	Total
ASSETS RE-MEASURED TO FAIR VALUE:	**11 374 631**	**1 385 860**	**79 418**	**12 839 909**
Derivative financial instruments	-	300 753	23 252	324 005
Hedging instruments	-	18 671	-	18 671
Available for sale financial assets	11 374 631	1 066 436	56 166	12 497 233
LIABILITIES RE-MEASURED TO FAIR VALUE:	**-**	**257 076**	**14 681**	**271 757**
Derivative financial instruments	-	257 076	14 681	271 757

31.12.2015	Level 1	Level 2	Level 3	Total
ASSETS RE-MEASURED TO FAIR VALUE:	**7 606 835**	**422 167**	**101 813**	**8 130 815**
Debt securities held for trading	-	-	-	-
Derivative financial instruments		361 454	6 684	368 138
Available for sale financial assets	7 606 835	60 713	95 129	7 762 677
LIABILITIES RE-MEASURED TO FAIR VALUE:	**-**	**(344 994)**	**(6 545)**	**(351 539)**
Held for trading financial liabilities	-	-	-	-
Derivative financial instruments	-	(344 994)	(6 545)	(351 539)

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 includes 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.

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	Available for sale financial assets	Derivative financial instruments – liabilities
Balance as at 01.01.2016	**6 684**	**95 129**	**(6 545)**
Total gains/losses recognized in:	16 568	(31 598)	(8 136)
statement of profit or loss	*16 568*	*286*	*(8 136)*
statement of other comprehensive income	-	*(31 884)*	-
Purchase	-	32 135	-
Settlement	-	(34 500)	-
Transfer	-	(5 000)	-
Merger	-		-
Balance as at 31.12.2016	**23 252**	**56 166**	**(14 681)**
Unrealized gains/losses recognized in profit or loss related to assets and liabilities held at the end of the period	**16 568**	**286**	**(8 136)**

	Derivative financial instruments – assets	Available for sale financial assets	Derivative financial instruments – liabilities
Balance as at 01.01.2015	**8 283**	**20 675**	**(6 231)**
Total gains/losses recognized in:	(15 483)	21 553	12 601
statement of profit or loss	*(15 483)*	*291*	*12 601*
statement of other comprehensive income	-	*21 262*	-
Purchase	3 924	50 337	(2 633)
Settlement	229	(19 928)	(229)
Transfer	(469)	-	147
Merger	10 200	22 492	(10 200)
Balance as at 31.12.2015	**6 684**	**95 129**	**(6 545)**
Unrealized gains/losses recognized in profit or loss related to assets and liabilities held at the end of the period	**(5 123)**	**(3)**	**2 632**

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. Where no repayment schedule is agreed for a product, it is assumed that the fair value is equal to the carrying amount of the transaction.

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 no such loans were granted over such period, a period of six months is analyzed. If no new transaction was entered into during the past six months, the margin for the whole portfolio of specific type loans is used as the basis. In particular, for foreign currency mortgage loans, the margin for the whole portfolio of a specific type of mortgage loans serves as the basis for determination of a margin reflecting credit risk as no new transactions are concluded.

At the end of 2016, receivables and liabilities were allocated to the following measurement levels:

- level 2, which denotes that the fair value is measured using techniques based on available, verifiable market data, without any discretionary adjustments that would have a considerable effect on the results of measurement;
- level 3, which denotes that the fair value is measured using available market data adjusted by parameters resulting from the Bank's own assumptions based on expertise and experience as well as the perceived behavior of other market participants.

The following table presents the book and fair values of those financial assets and liabilities which have not been presented in the Bank'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.

31.12.2016	Book value	Fair value	Level
FINANCIAL ASSETS			
Loans and advances to banks	1 225 912	1 223 721	3
Loans and advances to customers	53 179 717	47 628 965	3
FINANCIAL LIABILITIES			
Amounts due to banks	5 291 459	5 394 549	3
Amounts due to customers	55 297 324	55 460 913	3
Debt securities issued	1 768 458	2 069 547	3
Liabilities due to subordinated loan			

31.12.2015	Book value	Fair value	Level
FINANCIAL ASSETS			
Loans and advances to banks	544 012	526 725	2.3
Loans and advances to customers	49 831 458	49 516 190	3
FINANCIAL LIABILITIES			
Amounts due to banks	7 617 946	7 680 607	2.3
Amounts due to customers	46 620 848	46 677 887	3
Debt securities issued	468 933	469 540	3
Liabilities due to subordinated loan	847 568	972 970	2.3

a) Loans and advances to banks and amounts due to banks

Loans and advances to 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 subsidiaries and associates

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

d) 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.

e) 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.

f) 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.

The following table presents information on offsetting financial instruments as at 31 December 2016 and 31 December 2015.

31.12.2016	Gross value presented under financial assets/liabilities	Gross value for balance sheet offsetting under IAS 32	Net value presented under financial assets/liabilities	Offsetting value under concluded contracts	Cash collateral value	Net value
FINANCIAL ASSETS						
Trading derivatives	324 005	-	324 005	(194 142)	(28 693)	101 170
Total	**324 005**	**-**	**324 005**	**(194 142)**	**(28 693)**	**101 170**
FINANCIAL LIABILITIES						
Trading derivatives	271 757	-	271 757	(194 142)	(26 074)	51 541
Total	**271 757**	**-**	**271 757**	**(194 142)**	**(26 074)**	**51 541**
31.12.2015						
FINANCIAL ASSETS						
Trading derivatives	368 138	-	368 138	(205 245)	(19 286)	143 607
Total	**368 138**	**-**	**368 138**	**(205 245)**	**(19 286)**	**143 607**
FINANCIAL LIABILITIES						
Trading derivatives	351 539	-	351 539	(205 245)	(68 536)	77 758
Total	**351 539**	**-**	**351 539**	**(205 245)**	**(68 536)**	**77 758**

Receivables and liabilities which are not past due may be offset and the netting arrangement is possible for early contract settlement in accordance with the framework agreements / ISDA concluded with the contracting parties.

40. LEASES

Finance leases – liabilities

The Bank is a lessee under finance lease agreements involving branch equipment. The items leased under finance lease agreements are recognized by the Bank as non-current assets.

Finance lease liabilities	31.12.2016	31.12.2015
Total minimum lease payments	247	768
Unrealized financial expenses	(108)	(308)
Present value of minimum lease payments	**139**	**460**

Total minimum lease payments by maturity	31.12.2016	31.12.2015
up to 1 year	213	472
from 1 year to 5 years	34	296
Total	**247**	**768**

Present value of minimum lease payments by maturity	31.12.2016	31.12.2015
up to 1 year	120	284
from 1 year to 5 years	19	176
Total	**139**	**460**

Operating leases

Bank as a lessee

The Bank incurs expenses under passenger car and photocopier lease agreements. It also makes office lease payments. The aforesaid transactions are treated as operating leases. The agreements do not provide for any contingent payments on the part of the lessee or impose any restrictions. Under some agreements, the term may be extended, the assets purchased or the price changed.

Lease payments by maturity	31.12.2016	31.12.2015
up to 1 year	119 754	116 625
from 1 year to 5 years	311 565	250 050
over 5 years	10 235	20 269
Total	**441 554**	**386 944**

Bank as a lessor

The Bank earns revenue from office leases. The related agreements are treated as operating lease agreements. The agreements do not provide for any contingent payments on the part of the lessee or impose any restrictions. Under some agreements, the term may be extended or the price changed.

Lease payments by maturity	31.12.2016	31.12.2015
up to 1 year	3 406	2 877
from 1 year to 5 years	201	159
over 5 years	73	-
Total	**3 680**	**3 036**

41. CUSTODY OPERATIONS

The Brokerage Office offers custody services, which involve maintenance of securities accounts. Additionally, it offers portfolio management and investment advisory services to Personal Banking and Private Banking customers.

The Brokerage Office offers a wide range of investment funds managed by recognized Polish Investment Fund Management Companies. As at the end of December 2016, the Brokerage Office had sold units in more than 300 funds managed by 18 Investment Fund Management Companies. As at 31 December 2016, the value of Investment Fund Management Company assets sold by Bank BGŻ BNP Paribas totaled PLN 2.29 billion.

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

As at 31 December 2016 and the date of signed of the report for 2016, i.e. 14 March 2017, 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 2016.

As at 31 December 2016, the Bank's share capital amounted to PLN 84 238 thousand.
and was 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 December 2016, there were 13 024 915 registered shares, including 4 B series shares).
No special control rights are attached to the ordinary bearer shares.
Four 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 December 2016, none 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 the third quarter of 2016, i.e. 10 November 2016.

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 traded freely 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 if reaching the assumed percentage of freely traded 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 freely traded shares.

On 31 May 2016 the Management Board of Bank BGŻ BNP Paribas S.A. was informed that during a meeting held on 31 May 2016, PFSA unanimously accepted a change in the deadline to fulfill 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 fulfill 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.

43. OTHER SUPPLEMENTARY CAPITAL AND OTHER CAPITALS

The following table presents changes in reserve capitals:

Supplementary capital	12 months ended 31.12.2016	12 months ended 31.12.2015
Opening balance	**5 092 196**	**3 430 785**
Appropriation of retained earnings	-	7 730
Equity resulting from merger	35 703	1 653 681
Closing balance	**5 127 899**	**5 092 196**

Other reserve capital	12 months ended 31.12.2016	12 months ended 31.12.2015
General banking risk reserve	577 766	498 399
Revaluation reserve	(552)	197 607
Other reserve capital	282 475	282 475
Total	**859 689**	**978 481**

General banking risk reserve created from net profit	12 months ended 31.12.2016	12 months ended 31.12.2015
Opening balance	**498 399**	**120 640**
Appropriation of retained earnings	8 263	-
Equity resulting from merger	71 104	377 759
Closing balance	**577 766**	**498 399**

Revaluation reserve	12 months ended 31.12.2016	12 months ended 31.12.2015
Opening balance	**197 607**	**255 363**
Net gain/loss on changes in fair value of available for sale financial assets	(250 249)	(79 043)
Actuarial valuation of employee benefits	4 874	6 355
Deferred income tax	47 216	13 810
Equity resulting from merger	-	1 122
Closing balance	**(552)**	**197 607**

Other reserve capital	12 months ended 31.12.2016	12 months ended 31.12.2015
Opening balance	**282 475**	**151 218**
Equity resulting from merger	-	1 257
Appropriation of retained earnings	-	130 000
Closing balance	**282 475**	**282 475**

Changes in revaluation reserve related to available for sale financial assets

	2016		2015	
	Gross value	Deferred income tax	Gross value	Deferred income tax
Opening balance	**242 284**	**(46 034)**	**320 070**	**(60 813)**
gains/losses on revaluation of available for sale financial assets recognized in equity	(204 573)	38 942	(31 653)	6 014
reclassification due to sale of financial assets from the available for sale portfolio to profit or loss	(45 677)	8 679	(47 390)	9 004
Equity resulting from merger	-	-	1 257	(239)
Closing balance	**(7 966)**	**1 587**	**242 284**	**(46 034)**

44. DIVIDENDS PAID

The Bank did not pay any dividends for 2015. The Management Board of the Bank will not recommend dividend payment for 2016.

45. APPROPRIATION OF RETAINED EARNINGS

Pursuant to a Resolution of the General Shareholders' Meeting of Bank BGŻ BNP Paribas of 30 June 2016, the net profit for 2015, in the amount of PLN 8 263 thousand, was allocated to the unidentified banking risk reserve.

46. CASH AND CASH EQUIVALENTS

For purposes of preparation of the statement of cash flows, the balance of cash and cash equivalents comprises the following balances with maturity shorter than three months:

	31.12.2016	31.12.2015
Cash and balances at Central Bank (Note 18)	1 302 847	2 826 407
Current accounts of banks and other receivables	233 288	163 036
Interbank placements	913 600	262 441
Loans and advances	3 000	989
Total cash and cash equivalents	**2 452 735**	**3 252 873**

47. ADDITIONAL INFORMATION REGARDING THE STATEMENT OF CASH FLOWS

Differences between balance sheet changes in items and changes in the same items as part of operating activities:

Change in loans and advances from banks	12 months ended 31.12.2016	12 months ended 31.12.2015
Change arising from the balance sheet	(683 439)	(139 879)
Elimination of a change in cash and cash equivalents	724 946	29 470
Total change in loans and advances to banks	**41 507**	**(110 409)**

Change in amounts due to banks	12 months ended 31.12.2016	12 months ended 31.12.2015
Change arising from the balance sheet	(2 338 464)	6 072 794
Repayment of long-term loans received	3 255 289	8 343 670
Long-term loans granted by other banks	(1 323 519)	(6 200 738)
Total change in amounts due to other banks	**(406 694)**	**8 215 726**

Change in amounts due to customers	12 months ended 31.12.2016	12 months ended 31.12.2015
Change arising from the balance sheet	8 662 733	13 867 087
Repayment of long-term loans received	294 989	303 467
Total change in amounts due to customers	**8 957 722**	**14 170 554**

Cash flows from operating activities – other adjustments	12 months ended 31.12.2016	12 months ended 31.12.2015
Changes resulting from changes in balance sheet as a result of merger (see Note 4):	-	2 062 040
Cash and cash equivalents	-	*2 745 280*
Loans and advances to banks	-	*504 402*
Derivative financial instruments	-	-
Debt securities held for trading	-	*167 463*
Hedging instruments	-	*6 500*
Loans and advances to customers	-	*18 138 127*
Available for sale financial assets	-	*1 238 010*
Investments in subsidiaries	-	*21 067*
Intangible assets	-	*73 271*
Property, plant and equipment	-	*97 266*
Deferred tax assets	-	*213 610*
Current tax receivables	-	-
Other assets	-	*144 415*

Amounts due to banks	*-*	*(595 093)*
Derivative financial instruments	*-*	*-*
Held for trading financial liabilities	*-*	*(176 832)*
Differences resulting from fair value hedges against interest rate risk attributable to hedged items	*-*	*(5 872)*
Amounts due to customers	*-*	*(12 392 905)*
Loans and advances received	*-*	*(6 706 454)*
Subordinated liabilities	*-*	*(474 016)*
Current tax liabilities	*-*	*(14 176)*
Deferred tax liability	*-*	*(263)*
Other liabilities	*-*	*(835 199)*
Provisions	*-*	*(86 561)*
FX differences from subordinated loans	36 461	54 380
Tax on financial institutions	185 876	-
Impairment allowance for shares in Actus	16 916	-
Elimination of available for sale financial assets as at the merger date	-	(1 238 010)
Elimination of investments in subsidiaries as at the merger date	-	(21 067)
Elimination of intangible assets as at the merger date	-	(73 271)
Elimination of property, plant and equipment as at the merger date	-	(97 266)
Elimination of subordinated liabilities as at the merger date	-	474 016
Other adjustments	6 524	(16 242)
Cash flows from operating activities – total other adjustments	**245 777**	**1 144 580**

48. RELATED PARTY TRANSACTIONS

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

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

As at 31 December 2016, 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 ul. Kasprzaka 10/16 in Warsaw. The company is registered with 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 ul. Bielańska 12 in Warsaw. The company is registered with 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 ul. Suwak 3 in Warsaw. The company is registered with 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. BGŻ BNP Paribas Faktoring Sp. z o.o. (“Faktoring”) with its registered office at ul. Suwak 3 in Warsaw. The company is registered with the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000225155. The Bank holds 100% of the Company’s shares.
5. BNP Paribas Group Service Center S.A. (“GSC”, formerly: Laser Services Polska S.A.) with the registered office at ul. Suwak 3 in Warsaw. The company is registered with 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.

All transactions between the Bank and its related parties were entered into as part of its day-to-day 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

31.12.2016	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	**773 559**	**370 497**	**11 311**	**14**	**2 305**	**1 157 686**
Current accounts, interbank placements, loans and advances	672 511	339 267	9 321	14	10	**1 021 123**
Derivative financial instruments	100 986	14 737	-	-	-	**115 723**
Hedging instruments	-	16 493	1 990	-	-	**18 483**
Other assets	62	-	-	-	2 295	**2 357**
LIABILITIES	**4 967 263**	**103 868**	**2 992 664**	**2 160**	**148 291**	**8 214 246**
Loans and advances received	3 302 143	82 817	2 672 621	-	-	**6 057 581**
Interbank deposits and current accounts	91 615	20 093	51 636	2 160	146 379	**311 883**
Subordinated liabilities	1 507 179	-	265 400	-	-	**1 772 579**
Derivative financial instruments	66 287	958	-	-	-	**67 245**
Other liabilities	39	-	3 007	-	1 912	**4 958**
CONTINGENT LIABILITIES						
Financial commitments granted	-	-	104 826	113	30 050	**134 989**
Guarantees granted	-	-	-	-	60 000	**60 000**
Commitments received	105 078	282 550	1 864 501	-	-	**2 252 129**
Derivative financial instruments (face value)	56 908 449	1 885 846	16 880	-	-	**58 811 175**

12 months ended 31.12.2016						
STATEMENT OF PROFIT OR LOSS	**(37 889)**	**36 798**	**(33 152)**	**24**	**13 378**	**(20 841)**
Interest income	-	613	3 780	1	669	**5 063**
Interest expense	(57 539)	(1 063)	(36 120)	22	(343)	**(95 043)**
Fee and commission income	1 552	165	4 590	1	76	**6 384**
Fee and commission expense	(99)	(1 868)	(395)	-	-	**(2 362)**
Net trading income	18 197	38 916	8 759	-	-	**65 872**
Other operating income	-	36	17	-	16 438	**16 491**
Other operating expenses	-	(1)	(13 783)	-	(3 462)	**(17 246)**

31.12.2015	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	**44 876**	**121 369**	**49 127**	**1 553**	**110 134**	**327 059**
Current accounts, interbank placements, loans and advances	6 097	112 846	41 399	1 553	107 966	**269 861**
Derivative financial instruments	38 772	-	2 951	-	-	**41 723**
Hedging instruments	-	8 523	-	-	-	**8 523**
Other assets	7	-	4 777	-	2 168	**6 952**
LIABILITIES	**4 969 826**	**494 717**	**3 444 015**	**3 519**	**270 462**	**9 182 539**
Loans and advances received	4 093 896	492 077	3 414 357	-	-	**8 000 330**
Interbank deposits and current accounts	-	16	19 801	3 519	270 300	**293 636**
Subordinated liabilities	848 360	-	-	-	-	**848 360**
Derivative financial instruments	27 413	2 392	2 413	-	-	**32 218**
Other liabilities	157	232	7 444	-	162	**7 995**
CONTINGENT LIABILITIES						
Financial commitments granted	-	-	103 817	223	35 440	**139 480**
Guarantees granted	7 313	60 316	174 690	-	9 356	**251 675**
Commitments received	87 341	73 743	558 855	-	-	**719 939**
Derivative financial instruments (face value)	36 180 827	848 082	704 829	-	-	**37 733 738**

12 months ended 31.12.2015	BNP Paribas S.A.	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Subsidiaries	Total
STATEMENT OF PROFIT OR LOSS	**(21 749)**	**(1 050)**	**(43 133)**	**15**	**453**	**(65 464)**
Interest income	11 587	1 543	776	26	1 917	**15 849**
Interest expense	(35 257)	(2 710)	(42 376)	(11)	(1 575)	**(81 929)**
Fee and commission income	5	-	10 372	-	97	**10 474**
Fee and commission expense	-	(196)	(171)	-	-	**(367)**
Net trading income	2 436	(1 728)	(3 603)	-	-	**(2 895)**
Result on hedge accounting	(402)	2 056	-	-	-	**1 654**
Other operating income	-	-	314	-	14	**328**
Other operating expenses	(118)	(15)	(8 445)	-	-	**(8 578)**

Remuneration of the Management Board and Supervisory Board

Management Board	31.12.2016	31.12.2015
Short-term employee benefits	18 970	20 992
Long-term benefits	5 264	6 753
Benefits due to termination of employment	-	3 224
Share-based payments	748	2 542
TOTAL	**24 982**	**33 511**

Supervisory Board	31.12.2016	31.12.2015
Short-term employee benefits	1 695	664
Long-term benefits	-	-
Benefits due to termination of employment	-	-
Share-based payments	-	-
TOTAL	**1 695**	**664**

49. OPERATING SEGMENTS

Segment reporting

The Bank 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 Center. Additionally, performance related to Agro customers, i.e. individual farmers and agri-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 Bank'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. Enterprises are segmented on the basis of activity classification codes.

The Bank'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 – such information is assigned to the Bank's customers.

The Bank'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 Bank applies consistent, detailed principles to all identified segments. As regards 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 Bank'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 Bank 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 offers comprehensive services to individuals, also private banking customers, as well as businesses (microenterprises), including:

- entrepreneurs whose annual net income for the preceding financial year is below PLN 10 million and the Bank's credit exposure to a customer is less than PLN 2 million;
- farmers, where the Bank's credit exposure to a customer 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 home loans, cash advances, mortgage loans, 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 direct 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, direct banking channel (BGŻ Optima) and the Personal Banking 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 three major products, i.e. cash advances, car loans and credit cards. The aforesaid products are distributed through the Retail and Business Banking branch network as well as external distribution channels.

Personal Finance provides strong support in acquisition of individual customers, generating income and increasing profitability.

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, where 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 producer groups.

The SME sales network has been divided into seven SME Regions with 44 SME Business Centers dedicated solely to provision of services to Small and Medium-Sized 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 9 Business Centers 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 (TeleBGŻ) and online (eBGŻ Firma, Biznes Planet and Connexis). Selected products are also sold by financial intermediaries active at the country and local level.

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 Operations of the Group are carried out mainly through the **ALM Treasury**, the main objective of which is ensuring an appropriate and stable level of funding to guarantee 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 Bank, 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 Bank'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).

31.12.2016 *	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	1 053 135	230 511	237 752	3 215	237 920	**1 762 532**	349 480	413 629
external interest income	1 339 927	430 872	350 962	8 809	359 300	**2 489 870**	641 124	584 725
external interest expense	(343 790)	(56 444)	(139 298)	-	(187 806)	**(727 338)**	(42 834)	-
internal interest income	652 134	107 574	228 995	-	1 109 961	**2 098 664**	95 945	-
internal interest expense	(595 136)	(251 490)	(202 908)	(5 594)	(1 043 536)	**(2 098 664)**	(344 756)	(171 095)
Net fee and commission income	246 869	87 834	106 992	89	(151)	**441 633**	122 333	26 014
Dividend income	6 016	796	3 595	-	4 155	**14 561**	119	6 016
Net trading income	41 738	25 634	78 879	68 043	39 551	**253 845**	28 329	629
Net investment income	-	-	(3)	-	28 764	**28 761**	-	-
Result on hedge accounting	-	-	-	-	(77)	**(77)**	-	-
Other operating income and expenses	1 200	7 683	6 278	164	(24 331)	**(9 007)**	1 985	(4 445)
Net impairment losses on financial assets and contingent liabilities	(273 465)	(89 459)	(39 240)	100	16 133	**(385 930)**	(90 951)	(116 789)
General administrative expenses	(721 827)	(110 098)	(139 721)	(28 738)	(588 993)	**(1 589 377)**	(10 770)	(169 951)
Depreciation and amortization	(69 901)	(1 132)	(7 437)	(1 151)	(117 096)	**(196 716)**	(335)	(6 020)
Expense allocation (internal)	(340 793)	(100 285)	(64 538)	(5 401)	511 017	**-**	-	(54 068)
Operating result	**(57 030)**	**51 485**	**182 556**	**36 321**	**106 892**	**320 225**	**400 190**	**95 015**
Tax on financial institutions	(98 737)	(37 786)	(40 626)	(763)	(7 963)	(185 876)	-	(22 249)
Segment profit before income tax	**(155 767)**	**13 699**	**141 930**	**35 558**	**98 929**	**134 349**	**-**	**72 766**
Income tax expense	**-**	**-**		**-**	**-**	**(84 961)**	**-**	**-**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**49 388**	**-**	**-**
STATEMENT OF FINANCIAL POSITION AS AT 31.12.2016								
Segment assets	29 369 694	11 068 968	12 350 221	310 656	17 282 394	**70 381 933**	15 058 445	7 372 518
Segment liabilities	32 895 716	5 610 472	14 528 568	-	11 225 963	**64 260 719**	5 631 607	-

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

31.12.2015 *	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	831 645	199 607	158 313	3 057	213 140	**1 405 762**	317 749	268 100
external interest income	1 116 109	401 126	280 979	3 067	242 829	**2 044 110**	642 065	386 151
external interest expense	(362 405)	(50 067)	(104 542)	-	(121 334)	**(638 348)**	(50 969)	-
internal interest income	628 991	104 125	154 546	-	1 008 841	**1 896 503**	(382 064)	(118 064)
internal interest expense	(551 050)	(255 577)	(172 670)	(10)	(917 196)	**(1 896 503)**	108 717	13
Net fee and commission income	243 468	84 837	77 179	51	1 706	**407 241**	121 707	15 372
Dividend income	839	416	1 188	-	4 394	**6 837**	192	-
Net trading income	40 243	30 905	57 046	31 260	24 892	**184 346**	23 176	753
Net investment income	-	-	14 218	-	33 171	**47 390**	-	-
Other operating income and expenses	(18 892)	5 032	2 328	-	(22 661)	**(34 191)**	4 248	(4 760)
Net impairment losses on financial assets and contingent liabilities	(274 377)	(47 699)	18 989	574	(1 707)	**(304 220)**	(92 259)	(90 537)
General administrative expenses	(633 333)	(68 475)	(75 889)	(15 302)	(747 804)	**(1 540 803)**	(11 098)	(63 330)
Depreciation and amortization	(67 330)	(1 105)	(6 950)	(1 044)	(70 656)	**(147 086)**	(407)	(3 237)
Expense allocation (internal)	(140 320)	(41 174)	(34 221)	(2 971)	218 686	**-**	(142 383)	(85 224)
Operating result	**(18 057)**	**162 345**	**212 202**	**15 625**	**(346 839)**	**25 276**	**220 925**	**37 137**
Profit before income tax	**-**	**-**	**-**	**-**	**-**	**25 276**	**-**	**-**
Income tax expense	**-**	**-**	**-**	**-**	**-**	**(17 013)**	**-**	**-**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**8 263**	**-**	**-**
STATEMENT OF FINANCIAL POSITION AS AT 31.12.2015								
Segment assets	27 636 998	10 703 979	11 312 416	128 144	13 227 592	**63 009 129**	15 614 438	5 144 121
Segment liabilities	28 398 421	5 938 245	10 128 571	-	12 380 714	**56 845 951**	4 821 835	-

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

50. FINANCIAL RISK MANAGEMENT

50.1. Financial instrument use strategy

The Bank's core business focuses on financial products offered to customers: individuals, entrepreneurs and enterprises, public sector and budget entities as well as non-bank financial institutions. Short-term fixed rate deposits as well as current and savings accounts are the key items of the Bank's liabilities. On the other hand, the Bank's assets comprise such credit products as home loans, cash advances, credit cards, overdraft facilities, investment and revolving loans, subsidized preferential loans, factoring facilities, guarantees, international trade finance transactions (e.g. letters of credit), the majority of which are medium- and long-term instruments bearing interest based on short-term market rates.

The Bank uses financial market instruments in the first place to manage the liquidity, interest rate and currency risk inherent in its core business, considering the internal risk appetite as well as market trends in the medium and long term.

Additionally, the Bank offers access to financial market instruments to its customers for purposes of hedging market (currency, interest rate or commodity) risk involved in their core business.

50.2. Credit risk

Credit risk is inherent in the core financial operations of the Bank, the scope of which includes both lending and provision of 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 its 79% share in the total economic capital estimated by the Bank for purposes of covering major risks involved in the Bank'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 Bank'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 Bank:

- 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 Bank 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 Bank;
- the credit risk assessment is additionally verified by credit risk assessment personnel, independent of the business;
- the 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 Bank 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 that strengthens the relationship between the Bank and the customer.

Concentration risk

Concentration risk is the Bank's risk inherent to its statutory operations, which is appropriately defined and managed.

The Management Board assesses the concentration risk policy in terms of its application, in particular it analyzes the efficiency and adequacy of the principles applied in the context of the current and planned operations and risk management strategy. The adequacy of the concentration risk management is reviewed if any material changes are observed in the Bank's environment or if the risk management strategy is modified.

The appropriate assessment of the concentration risk of the Bank is highly dependent on correct identification of all key concentration risks. In justified cases, the Bank identifies concentration risk when planning its new activities involving the development and launch of new products, services, expansion to new markets, considerable alterations of products and services or market changes.

Credit portfolio diversification is one of the key credit risk management tools. The Banks avoids excessive credit concentration, as it increases the risk. Possible losses pose a considerable threat, therefore the concentration level should be monitored, controlled and reported to the Bank's management. Key concentration risk mitigation tools include risk identification and measurement mechanisms and exposure limits in individual Bank portfolio segments and in subsidiaries. These tools enable internal differentiation of the loan portfolio and mitigation of negative effects of adverse changes in the economy.

A significant concentration area (aspect) is one whose share in the Bank's balance sheet total is equal or higher than 10% or 5% of the net profit planned for a given year. In such cases, a given concentration area (aspect) is subject to analyses, reporting and management under the concentration risk management process.

High concentration of the Bank's credit exposures to each entity or group of entities with equity or organizational relationships is one of the potential sources of credit risk. For purposes of its reduction, the Banking Law sets the Bank's maximum exposure limit. Under Article 71.1 of the Banking Law, the total of the Bank's liabilities, off-balance sheet liabilities of the Bank as well as shares held by the Bank, whether directly or indirectly, in another entity, contributions made to a limited liability company or contributions/commendam sums, whichever is higher, in a limited partnership or a limited joint-stock partnership, exposed to the risk of a single entity or a group of entities with equity or organizational relationships, may not exceed the exposure concentration limit representing 25% of the Bank's equity.

The Bank's concentration limits are monitored in accordance with Article 71 of the Banking Law. The limits defined in Article 71 of the Banking Law had not been exceeded as at the end of 2016. As at the end of December 2016, no exposures exceeding 10% of equity had been identified. As at the end of 2016, the Bank's exposure to customers/groups of customers with equity or organizational relationships had not exceeded the concentration limit. The total of exposures equal to or exceeding 10% of the Bank's equity was 12.18%.

Concentration risk tolerance in the Bank is determined by a system of internal limits, including both assumed development directions and speed of the Bank's business, an acceptable level of credit risk and liquidity, as well as external conditions, macroeconomic and sectoral perspective. Among others, internal limits for credit concentration risk are determined for:

- Selected sectors / industries;
- Exposures denominated in foreign currencies;
- Customer segments (intrabank customer segmentation);
- Loans secured with a given type of collateral;
- Geographical regions;
- Average probability of default;
- Exposures with a determined rating (the Bank's internal rating scale);
- Exposures with determined debt-to-income;
- Exposures with determined loan-to-value.

Activities that limit Bank's exposure to concentration risk may include systemic measures and one-off / specific decision and transactions. Systemic measures that limit concentration risk include:

- Reducing the scope of crediting of determined customer types through credit policy adjustment;
- Reducing limits charged with concentration risk;
- Diversifying asset types on the level of Bank's balance sheet;
- Changing business strategy to ensure prevention of excessive concentration;
- Diversification of accepted collateral types.

Systemic measures that limit concentration risk include:

- Refraining from conclusion of further transactions with a given customer or a group of related customers;
- Sale of selected assets/loan portfolios;
- Securitization of assets;
- Establishing of new collateral types (e.g. credit derivatives, guarantees, sub-participation, and insurance contracts) for existing or new credit exposures.

A concentration analysis by industry, conducted by the Bank, focuses on all credit exposures of the Bank to institutional customers. The Bank defines industries based on Polish NACE (PKD 2007). Bank's exposure to industries analyzed at the end of 2016 (similarly as at the end of 2015) is concentrated in the following industries: *Agriculture, Forestry, Hunting and Fishing; Manufacture of Food Products, Beverages and Tobacco Products*. In 2015, they accounted for 42.8% of industrial exposure, while in 2016, the exposure to these three industries reached 43.4%.

Construction of Civil Engineering and Specialist Structures had the biggest share (31.9%) in non-performing loans per industry in 2015. In 2016, the share dropped to 27.9%. A high share (68.1%) of impaired loans was observed in the following sectors: *mining of coal and peat; oil and gas extraction; production of gaseous fuels; manufacture of coke and oil refining products.* In 2015, the share was mere 0.1%. The situation may be caused by the fact that in recent years, the production of coal has diminished on a regular basis, as a result of difficult standing of the Polish mining sector arising from the restructuring procedures carried out by the State. Further, the Bank's portfolio in these industries is concentrated on three "large customers", two of which have exposures with recognized impairment.

Below please find a table comparing the share of impaired loans in 2015 and 2016. Except for the above, no major differences occurred compared to 2015.

Share of impaired loans** in exposure by industry (gross carrying amounts)*

Industry	Exposure		Share of impaired loans	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Agriculture, Forestry, Hunting and Fishing; Manufacture of Food Products, Beverages and Tobacco Products.	14 515 167	13 838 506	5.2%	4.9%
Manufacture of motor vehicles, motorcycles and tyres	234 601	222 495	4.6%	5.6%
Construction of civil engineering and specialist structures	1 001 210	794 991	27.9%	31.9%
Professional activities, including science and engineering; administration services and auxiliary services	1 215 843	1 097 189	6.9%	13.3%
Manufacture of chemicals and chemical products	334 193	177 945	1.3%	3.6%
Telecommunications; Postal and courier services	54 562	53 642	2.9%	3.7%
Mining of coal and peat; oil and gas extraction; production of gaseous fuels; manufacture of coke and oil refining products.	449 148	627 072	68.1%	0.1%
Manufacture of machinery and equipment (except for computers and electronic products)	1 564 307	1 416 734	11.3%	8.2%
Financial activities	358 624	520 395	2.9%	2.6%
Health care; manufacture of basic pharmaceutical products and medicines	435 139	402 917	3.1%	2.3%
Hotels and restaurants; Culture, entertainment and leisure activities	464 556	486 231	19.8%	22.6%
Manufacture of furniture and household appliances; Manufacture of apparel, textiles and leather	451 912	456 005	21.5%	24.6%
Activities related to software and IT consultancy; information processing services; Manufacture of computers, electronic and optical devices	216 780	224 578	6.4%	3.2%
Insurance	20 329	38 318	11.1%	5.1%
Extraction and production of other materials and ores	2 172 362	1 914 172	12.1%	15.5%
Editorial and printing activities; Media production	240 057	292 605	4.7%	4.8%
Education; Social assistance; Other services	140 992	152 227	13.9%	10.7%
Residential and non-residential construction; Services provided on real property market	2 336 338	2 701 118	7.3%	9.1%
Retail trade	2 261 899	2 274 466	6.9%	8.6%
Public administration; economic and social policy	172 188	176 494	0%	0.0%
Transport and warehousing	1 397 443	1 173 828	6.0%	6.0%
Generation and supply of electricity, gas, steam, hot water; Water supply, Sewage and waste management	561 792	489 132	3.1%	6.1%
Wholesale trade	2 814 277	2 825 461	14.3%	13.6%
Total	**33 413 719**	**32 356 518**	**8.9%**	**8.4%**

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

** Loans with identified objective indications of impairment

Amounts due by delinquency

The delinquency analysis is carried out to estimate a possible credit loss (for non-impaired exposures). The longer the delinquency period, the higher the probability of identification of objective indications of impairment in the future. Although extension of the delinquency period over zero days increases the risk of identification of an indication of impairment, it is not sufficient to assume that such an indication exists. However, for exposures with a delinquency period of less than 91 days, an indication of impairment may be identified on the basis of additional information concerning the economic and financial standing of the customer.

The following tables present the structure of the loan portfolio broken down by impaired and non-impaired exposures, including the delinquency period. For purposes of impairment loss calculation and presentation of data in the tables below, it is assumed that a loan does not mature on the due date of the payment but on the following day.

Loan portfolio structure by impairment and delinquency as at 31 December 2016

*(net exposure)**

	non-impaired					
31.12.2016	0 days	1-30 days	31-60 days	61-90 days	impaired	total
Car loans	1 028 013	38 075	5 198	2 044	22 649	1 095 980
Cash advances	4 360 254	152 777	32 482	11 367	185 632	4 742 512
Credit cards	644 154	21 963	3 797	1 249	54 713	725 877
Lease of movable assets	1 496 490	194 748	21 388	9 390	6 712	1 728 728
Mortgage loans	124 795	7 722	820	530	9 551	142 418
Investment loans	16 028 354	70 668	20 407	221	663 397	16 783 046
Letter of credit discounting	3 531	-	-	-	-	3 531
Home loans	13 899 981	380 166	37 900	10 783	357 360	14 686 191
Other loans	581 144	2 848	1 036	149	265 159	850 337
Overdraft facilities	7 455 883	44 217	11 199	6 219	241 187	7 758 705
Lease of real estate	728 984	54 320	27 105	4 863	39 952	855 224
Purchased debts	18 693	-	-	-	-	18 693
Inventory financing	515 522	-	-	-	-	515 522
VISA card fees	6 900	-	-	5	238	7 143
Corporate revolving loans	3 254 583	96 811	4 929	1 953	309 675	3 667 952
Total	**50 147 281**	**1 064 316**	**166 263**	**48 772**	**2 156 225**	**53 582 857**

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

*Loan portfolio structure by impairment and delinquency as at 31 December 2015 (net exposure)**

31.12.2015	non-impaired 0 days	1-30 days	31-60 days	61-90 days	impaired	total
Car loans	992 793	31 016	3 414	1 081	19 475	1 047 779
Cash advances	3 076 230	118 238	17 560	7 459	110 700	3 330 187
Credit cards	147 635	6 516	1 695	563	7 329	163 738
Lease of movable assets	1 139 125	96 439	7 340	4 715	610	1 248 228
Mortgage loans	114 231	6 076	540	464	5 815	127 126
Investment loans	15 161 594	34 050	67 155	1 991	592 940	15 857 730
Letter of credit discounting	27 806	-	-	-	-	27 806
Home loans	13 725 065	320 705	55 382	11 899	320 370	14 433 422
Other loans	1 098 180	30	52	31	65 637	1 163 929
Overdraft facilities	7 299 180	12 094	20 473	5 315	132 687	7 469 750
Lease of real estate	770 116	39 331	28 429	-	44 602	882 478
Purchased debts	121 723	-	-	-	-	121 723
Inventory financing	408 605	-	-	-	-	408 605
VISA card fees	6 079	-	3	-	65	6 147
Vostro accounts	24 770	-	-	-	-	24 770
Corporate revolving loans	3 401 602	18 824	7 255	1 739	200 861	3 630 282
Total	**47 514 733**	**683 319**	**209 300**	**35 256**	**1 501 092**	**49 943 701**

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

For large enterprises and SMEs with integrated accounts, the Bank determines internal rating classes in accordance with its credit policy. The rating classes are defined using a risk model dedicated to this part of the loan portfolio and they serve as the basis for estimating the IBNR provision. Ratings from 1 (the lowest credit risk identified by the Bank) to 12 (the highest credit risk identified by the Bank) are assigned to the Bank's customers. Additionally, ratings are assigned on the basis of the annual financial information presented by the customer as well as general qualitative assessment of its market position. The structure of financial assets without identified indications of impairment using the Bank's internal ratings is presented in the following table.

Structure of the portfolio of credit exposures to enterprises with internal rating, for which no objective indications of impairment have been identified (net carrying amounts)

	31.12.2016		31.12.2015	
Internal rating*	value	share	value	share
1	444	0.0%	34 016	0.2%
2	949	0.0%	35 977	0.2%
3	43 332	0.2%	130 622	0.7%
4	351 342	1.8%	283 815	1.5%
5	1 198 407	6.0%	1 241 248	6.5%
6	6 094 878	30.7%	6 368 340	33.5%
7	8 327 343	42.0%	8 095 412	42.5%
8	2 732 449	13.8%	2 051 869	10.8%
9	536 275	2.7%	322 937	1.7%
10	535 673	2.7%	449 958	2.4%
11-12	13 004	0.1%	20 575	0.1%

* The customer's rating is determined using an internal model in place at the Bank, which enables classification of the Bank's customers based on the criterion of their credit quality by reference to financial information and qualitative data (where 1 represents the best and 11 & 12 the worst ratings).

According to the Bank, a good financial standing of the customer is of key importance for protection of the Bank's interest, while acceptance of collateral or personal guarantees is an additional factor mitigating risk in the event of the customer's insolvency. The Bank accepts standard security for repayment of loans, provided for in the loan agreements, which is in line with the sector practice (i.e. mortgages, alienation, registered pledges, suretyships, guarantees and assignment of receivables).

The legal security accepted by the Bank for loan transactions is monitored by way of its valuation on the basis of documents filed by the obligors. Additionally, the Bank relies on historical information such as statistics on the use of security, when carrying out such valuation.

Home loans in foreign currencies

As the portfolio of home loans in foreign currencies to retail customers is material, the Bank provides a number of additional disclosures concerning the related exposure.

Home loans to retail customers account for ca. 26% of the whole loan portfolio of the Bank (gross carrying amount), with nearly a half of them (45.4%) being loans in foreign currencies the major part of which (98.8%) are denominated in the Swiss franc. The total gross carrying amount of home loans in foreign currencies is slightly more than PLN 6.8 billion.

From the point of view of the credit risk, it is important to analyze the Bank's loan portfolio structure with the use of such measures as PD (probability of default) and the current LTV (current Loan-to-Value) as well as their interdependence.

For home loans to retail customers, PD for a single exposure is determined for each delinquency bucket. In the delinquency bucket of 0-3 days PD equals 0.46%, in the one of 4-30 days PD is 7.31%, in the one of 31-60 it is 20.68% and for loans which are delinquent by more than 60 days PD is 52.81%.

The Bank revalues the residential property pledged as collateral for loans on an annual basis, on the following assumptions:

- where the original amount of the loan is up to PLN 2 million (inclusive) and the debt is below PLN 1 million at the revaluation date – the property is revalued using a statistical method;
- where the original amount of the loan exceeds PLN 2 million and/or the debt is more than PLN 1 million at the revaluation date – the property is revalued on a case-by-case basis.

The revalued amount serves as the basis for calculation of the current LTV for a single exposure and the average LTV for the whole portfolio as the average weighted by the gross carrying amount of individual LTVs.

Presented below is the total on-balance sheet exposure and the average LTVs for home loans in foreign currencies considering impairment and delinquency in days.

Exposure structure and average current LTV by impairment and delinquency

delinquency in days	Gross exposure	average LTV weighted by gross carrying amount
0-30 days	6 436 326	96.50%
31-60 days	45 888	114.88%
61-90 days	25 991	125.01%
over 90 days	303 500	125.19%
Total	**6 811 705**	**98.01%**

recognition of impairment	gross exposure	average LTV weighted by gross carrying amount
NO	6 362 414	96.49%
YES	449 291	119.50%
Total	**6 811 705**	**98.01%**

The average current LTV rises along with an increase in the number of days past due. For the whole foreign currency home loan portfolio it exceeds the average current LTV for home loans in the Polish currency (77%). This is attributable to considerable appreciation of the Swiss currency, thus an increase in the gross carrying amount of the portfolio.

Exposure structure and average current LTV by loan granting year

*non-impaired loans

agreement year	number of loans granted	gross exposure	average LTV weighted by gross carrying amount
2005 and before	3 680	513 445	49.78%
2006	6 163	1 576 103	72.08%
2007	5 199	2 034 966	106.35%
2008	6 779	2 377 942	121.00%
2009	743	185 494	78.82%
2010 and after	324	123 755	77.92%
Total	**22 888**	**6 811 705**	**98.01%**

agreement year	gross exposure	average PD
2005 and before	492 344	0.77%
2006	1 522 368	0.72%
2007	1 943 035	0.78%
2008	2 127 008	0.86%
2009	176 591	0.79%
2010 and after	101 069	0.6%
Total	**6 362 415**	**0.78%**

Appreciation of the Swiss currency led to an increase in the current LTV for exposures from the years 2006-2008, when foreign currency loans were most popular. LTV for loans granted in 2007 and 2008 exceeds 100%.

PD value relative to current LTV and by delinquency

LTV	gross exposure	average PD
up to 50%	875 873	0.76%
50-80%	1 622 111	0.74%
80-100%	1 089 492	0.76%
100-150%	2 080 706	0.83%
150-200%	626 219	0.93%
>200%	68 014	0.89%
Total	**6 362 415**	**0.78%**

delinquency in days	gross exposure	average PD
0-30 days	6 332 784	0.67%
31-60 days	23 847	20.68%
61-90 days	5 784	52.81%
Total	**6 362 415**	**0.78%**

The probability of default increases with the number of days past due. At the same time, inconsiderable positive correlation is observed between the current LTV and PD.

Forbearance practices

The Bank treats its exposures as forborne if the obligor is provided with a facility which results in a material economic loss or any facility for exposures with indications of impairment.

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

- a change to the repayment schedule;
- canceling overdue amounts (e.g. capitalization of an overdue amount, which can be repaid at a later date);
- cancellation 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:

- a margin drop by more than 50%; or
- cancellation of receivables by more than 5% of the total amount due (principal, interest, fees, charges); or
- a combination of the aforementioned elements, provided that they represent at least 100% of the loss materiality threshold.

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.

Value of forborne exposures

31.12.2016	Total portfolio	including forborne exposures	including modification of terms	including refinancing
(GROSS) LOAN PORTFOLIO, INCLUDING:				
CURRENT ACCOUNTS:	**8 114 481**	**5 107**	**162**	**4 945**
corporate	4 188 362	5 107	162	4 945
households:	3 918 198	-	-	-
individual customers	183 507	-	-	-
individual entrepreneurs	428 561	-	-	-
farmers	3 306 130	-	-	-
budget entities	475	-	-	-
other entities	7 446	-	-	-
LOANS AND ADVANCES:	**48 062 151**	**625 481**	**308 351**	**317 130**
corporate:	13 340 120	258 981	116 981	142 000
investment loans	7 198 133	58 504	16 203	42 301
revolving loans	3 557 759	175 645	78 911	96 734
other	2 584 228	24 832	21 867	2 965
households:	31 476 050	366 500	191 370	175 130
individual customers, in this:	21 885 691	281 147	177 661	103 486
real estate	15 005 546	229 705	145 376	84 329
individual entrepreneurs	2 251 724	51 625	12 277	39 348
farmers	7 338 635	33 728	1 432	32 296
budget entities	185 097	-	-	-
other entities	384 543	-	-	-
Lease receivables	2 676 341	-	-	-
Total gross loans and advances	**56 176 632**	**630 588**	**308 513**	**322 075**

31.12.2015	Total portfolio	including forborne exposures	including modification of terms	including refinancing
(GROSS) LOAN PORTFOLIO, INCLUDING:				
CURRENT ACCOUNTS:	**7 944 884**	**14 505**	**4 269**	**10 236**
corporate	3 906 021	7 712	1 061	6 651
households:	3 967 365	6 793	3 208	3 585
individual customers	207 899	2 853	2 853	-
individual entrepreneurs	497 868	355	355	-
farmers	3 261 598	3 585	-	3 585
budget entities	526	-	-	-
other entities	70 972	-	-	-
LOANS AND ADVANCES:	**44 623 766**	**713 478**	**349 145**	**364 333**
corporate:	13 274 824	304 389	146 671	157 718
investment loans	6 154 067	66 779	32 604	34 175
revolving loans	3 778 853	186 835	88 439	98 396
other	3 341 904	50 775	25 628	25 147
households:	28 542 903	408 852	202 472	206 380
individual customers, in this:	19 322 358	296 354	183 580	112 774
real estate	14 722 641	191 686	142 714	48 972
individual entrepreneurs	2 349 830	55 660	12 140	43 520
farmers	6 870 715	56 838	6 752	50 086
budget entities	180 339	10	2	8
other entities	387 008	227	-	227
Lease receivables	2 238 692	-	-	-
Total gross loans and advances	**52 568 650**	**727 983**	**353 414**	**374 569**

Impairment losses on forborne exposures

31.12.2016	Total portfolio	including forborne exposures	including modification of terms	including refinancing
IMPAIRMENT LOSS, INCLUDING:				
CURRENT ACCOUNTS:	**(433 071)**	**(164)**	**(101)**	**(63)**
corporate	(292 401)	(164)	(101)	(63)
households:	(140 033)	-	-	-
individual customers	(21 068)	-	-	-
individual entrepreneurs	(66 233)	-	-	-
farmers	(52 732)	-	-	-
budget entities	-	-	-	-
other entities	(637)	-	-	-
LOANS AND ADVANCES:	**(2 563 844)**	**(306 837)**	**(146 645)**	**(160 192)**
corporate:	(939 039)	(142 107)	(64 250)	(77 857)
investment loans	(284 646)	(30 926)	(12 011)	(18 915)
revolving loans	(481 415)	(100 055)	(41 552)	(58 503)
other	(172 978)	(11 126)	(10 687)	(439)
households:	(1 525 360)	(164 730)	(82 395)	(82 335)
individual customers, in this:	(1 084 337)	(122 157)	(73 918)	(48 239)
real estate	(364 406)	(87 594)	(52 944)	(34 650)
individual entrepreneurs	(235 033)	(28 398)	(7 990)	(20 408)
farmers	(205 990)	(14 175)	(487)	(13 688)
budget entities	(215)	-	-	-
other entities	(3 933)	-	-	-
Lease receivables	(95 297)	-	-	-
Total gross loans and advances	**(2 996 915)**	**(307 001)**	**(146 746)**	**(160 255)**

31.12.2015	Total portfolio	including forborne exposures	including modification of terms	including refinancing
IMPAIRMENT LOSS, INCLUDING:				
CURRENT ACCOUNTS:	**(427 738)**	**(7 658)**	**(3 356)**	**(4 302)**
corporate	(286 390)	(2 266)	(158)	(2 108)
households:	(140 770)	(5 392)	(3 198)	(2 194)
individual customers	(24 384)	(2 843)	(2 843)	-
individual entrepreneurs	(74 438)	(355)	(355)	-
farmers	(41 948)	(2 194)	-	(2 194)
budget entities	-	-	-	-
other entities	(578)	-	-	-
LOANS AND ADVANCES:	**(2 309 454)**	**(313 636)**	**(153 103)**	**(160 533)**
corporate:	(1 022 778)	(159 563)	(75 877)	(83 686)
investment loans	(231 727)	(31 613)	(15 802)	(15 811)
revolving loans	(443 234)	(102 273)	(46 507)	(55 766)
other	(347 817)	(25 677)	(13 568)	(12 109)
households:	(1 191 467)	(153 837)	(77 225)	(76 612)
individual customers, in this:	(768 212)	(105 891)	(64 468)	(41 423)
real estate	(347 082)	(75 229)	(46 596)	(28 633)
individual entrepreneurs	(240 600)	(32 838)	(7 982)	(24 856)
farmers	(182 655)	(15 108)	(4 775)	(10 333)
budget entities	(219)	(9)	(1)	(8)
other entities	(4 027)	(227)	-	(227)
Lease receivables	(90 963)	-	-	-
Total gross loans and advances	**(2 737 192)**	**(321 294)**	**(156 459)**	**(164 835)**

Structure of forborne exposures by impairment

	31.12.2016		31.12.2015	
	Total	including: forborne exposures	Total	including: forborne exposures
NON-IMPAIRED EXPOSURES				
Gross exposure	51 693 673	31 144	48 645 317	52 171
IBNR provision	(312 218)	(331)	(297 994)	(74)
Net exposure	**51 381 455**	**30 813**	**48 347 323**	**52 097**
IMPAIRED EXPOSURES*				
Gross exposure, including:	4 482 959	595 474	3 923 333	675 814
exposures tested separately	2 312 017	277 986	2 107 780	358 118
exposures tested collectively	2 170 942	317 488	1 815 553	317 696
Impairment losses, including:	(2 684 697)	(303 134)	(2 439 198)	(321 220)
exposures tested separately	(1 195 505)	(154 078)	(1 263 799)	(174 991)
exposures tested collectively	(1 489 192)	(149 056)	(1 175 399)	(146 229)
Net exposure	**1 798 262**	**292 340**	**1 484 135**	**354 594**
Total net loans and advances	**53 179 717**	**323 153**	**49 831 458**	**406 691**

* Exposures with identified objective indications of impairment

Structure of forborne exposures by impairment and delinquency

	31.12.2016	31.12.2015
NET CARRYING AMOUNT OF EXPOSURE NON-IMPAIRED, INCLUDING:	**30 813**	**52 097**
0 days	18 413	40 554
1-30 days	2 263	11 543
31-60 days	10 137	-
61-90 days	-	-
over 90 days	-	-
NET CARRYING AMOUNT OF EXPOSURE IMPAIRED*	**292 774**	**354 594**
0 days	83 100	113 166
1-30 days	26 782	72 700
31-60 days	24 525	61 028
61-90 days	2 291	8 424
over 90 days	156 076	99 276
Net exposure total	**323 587**	**406 691**

* Exposures with identified objective indications of impairment

50.3. Market risk and ALM (Asset Liability Management)

Market risk management organization

The operations of Bank BGŻ BNP Paribas S.A. are recorded in the trading and in the banking book. Changes in market interest rates, foreign exchange rates, security prices and implied volatility of option instruments lead to changes in the net interest income and the result on measurement of the books' present value. The risk of adverse changes in the value, driven by the aforesaid factors, is recognized by the Bank as market risk. Due to differences in the characteristic features of those books, the risk is monitored and managed with the use of tools and measures appropriate for the nature of the risk in each book.

In order to reflect the characteristics of financial market transactions appropriately, i.e. the intentions of the parties entering into the transactions, the major risks and the accounting treatment, the Bank allocates all on- and off-balance sheet items to the banking or trading book. Detailed allocation criteria are established in the documents ("policies" and "methodologies") adopted by resolutions of the Management Board of the Bank and defining the purpose of keeping each book, the profile and types of risks assumed by the Bank, the measurement and mitigation methods as well as the authorizations and place of each organizational unit of the Bank in the risk generation, measurement, mitigation and reporting process.

The process of transaction conclusion and recording as well as risk level supervision and adoption of risk limits is carried out by independent units. In line with the long-term strategy adopted by the Bank as well as its financial plan, the Supervisory Board determines the Bank's risk tolerance, i.e. an acceptable risk level and profile, which is subsequently allocated, in the form of risk limits, to the books and portfolios by the Asset-Liability Committee (ALCO) and the Risk Management Committee. The Financial Markets Division assumes responsibility for day-to-day operational management of the risk inherent in trading book in line with the defined market risk limits. The structural interest rate and currency risk in the banking book and the market risk of the short-term liquidity position is managed by ALM Treasury. Management of the current operational currency risk position of the Bank is centralized in the trading book. The Financial and Counterparty Risk Department and ALM Finance and Operations are in charge of measuring and reporting risk and limit overrides. Additionally, the Financial and Counterparty Risk Department ensures that financial instruments are measured properly. The management result is calculated by the Financial Market Transactions Monitoring Unit, while transactions are recorded and settled by the Financial Market Transactions Processing Department. The system of limit override acceptance is hierarchical. It depends on the period of such override and its scale, and is managed by the Department head or Members of the Bank's Management Board exercising supervision of the Risk Function and the function responsible for the risk override. Irrespective of the said process, all limit overrides are reported immediately after they occur and discussed at monthly ALCO or Risk Management Committee meetings.

Interest rate risk in the banking book (ALM Treasury)

The banking book of Bank BGŻ BNP Paribas S.A. is composed of two parts: the ALM portfolio as part of which structural interest rate, currency and liquidity risks resulting from the balance sheet structure determined by the core lending, deposit and investing operations of the Bank, are managed. On the other hand, the Treasury portfolio is where day-to-day and short-term liquidity of the Bank is managed. It is also used by the Bank for purposes of carrying out its investing activities as well as concluding hedging transactions on the financial market.

The ALM portfolio comprises accounts, deposits and loans, strategic items (long-term investments, own debt issues and long-term loans), financial market transactions hedging the portfolio (derivative instruments) and zero-interest items (to include equity, tangible assets, intangible assets, taxes and provisions and profit for the period), transferred under management of ALM Treasury through the Fund Transfer Pricing (FTP) system.

The Treasury portfolio includes liquid securities (liquidity buffer), interbank deposits and placements, nostro and loro accounts as well as financial market transactions hedging the market risk of the portfolio (derivative instruments).

The Bank's policy in respect of the banking book – ALM and Treasury portfolios managed collectively – is to earn additional, stable revenue in excess of the product margin, without any threat to the stability of funds deposited by customers, equity and profit. The said objective is accomplished by the Bank by maintaining or matching its natural exposure generated by the core lending and deposit operations, in line with the adopted risk limits which guarantee limited sensitivity of the Bank's profit to changes in market factors, in addition to bringing the exposure into line with financial market trends forecast in the medium and long term.

The competitive conditions on the local financial market and customer expectations are the major factors affecting the product policy of the Bank, in particular application of floating interest rates for medium- and long-term credit products as well as financing such assets with the use of short-term deposits and non-interest bearing accounts. Introduction of new liquidity requirements in compliance with CRR/CRD4 and PFSA's Recommendation P further intensified the pressure on diversification of the sources of funding and increase in the share of the most stable funds from individuals, while record-low interest rates and anticipation of their further cuts persuaded customers to hold their funds in current and savings accounts and banks to reduce the maturity of deposits.

The realigned interest rate gap and net interest income sensitivity are the key measures of the market risk in the banking book, which comprises the ALM portfolio and the Treasury portfolio. The major assumptions adopted for realignment of the interest rate gap and used subsequently for purposes of determining net interest income sensitivity are as follows:

a) individual assets, liabilities and off-balance sheet transactions are analyzed at their nominal value which is used as the basis for calculation of interest;
b) items and transactions based on floating reference rates, such as WIBOR, LIBOR, EURIBOR, NBP rediscount rate etc. are taken into account for purposes of determining the gap at the nearest repricing date for a given contract;
c) items based on floating reference rates scaled with a multiplier are taken into account for purposes of determining the gap at the nearest repricing date for a given contract at nominal value scaled with a multiplier and the nominal amount scaled with a value (1 – multiplier) is considered at the maturity date or proportionally at the principal payment dates;
d) fixed rate items and transactions are taken into account for purposes of determining the gap at the principal payment dates, at the amounts of the principal paid at a given date or at the full amount at the maturity date for items where the principal is not repaid (e.g. term deposits);
e) items and transactions with unspecified maturity, repricing date or non-interest bearing are taken into account in line with the profile determined as a result of modeling, which is aimed to ensure the best possible reflection of the changes in interest and principal cash flows in response to external factors, in particular the market interest rates.

The following tables present the Bank's realigned interest rate gap on a consolidated basis as at 31 December 2016 and 31 December 2015 (PLN '000):

Interest rate gap as at 31.12.2016	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and balances at Central Bank	1 302 838	-	-	-	-	1 302 838
Loans and advances to banks	1 225 921	-	-	-	-	1 225 921
Debt securities held for trading	-	-	-	-	-	-
Loans and advances to customers	21 826 034	19 178 629	8 415 039	3 750 836	-	53 170 538
Investment securities:						
- available for sale	2 534 986	-	1 930 000	4 039 000	3 930 000	12 433 986
- other debt securities	-	-	-	-	-	-
Other assets	586 422	78 180	351 809	938 157	-	1 954 568
Total assets:	**27 476 201**	**19 256 809**	**10 696 848**	**8 727 993**	**3 930 000**	**70 087 851**
Amounts due to banks	(3 518 056)	(3 541 374)	-	-	-	(7 059 430)
Amounts due to customers	(25 129 591)	(6 660 750)	(10 140 254)	(7 555 134)	(3 492 574)	(52 978 303)
Other amounts due	(846 852)	(983 481)	(667 453)	(4 771)	(4 318)	(2 506 875)
Other liabilities	(1 291 625)	-	-	-	(31 797)	(1 323 422)
Total liabilities:	**(30 786 124)**	**(11 185 605)**	**(10 807 707)**	**(7 559 905)**	**(3 528 689)**	**(63 868 030)**
Net off-balance sheet liabilities	(660 194)	(3 370 112)	2 125 820	1 775 624	154 840	25 978
Interest rate gap	**(3 970 117)**	**4 701 092**	**2 014 961**	**2 943 712**	**556 151**	

Interest rate gap as at 31.12.2015	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and balances at Central Bank	2 826 407	-	-	-	-	2 826 407
Loans and advances to banks	506 822	32 642	5 000	495	-	544 959
Debt securities held for trading	-	-	-	-	-	-
Loans and advances to customers	23 433 260	18 944 012	5 877 947	1 789 938	-	50 045 157
Investment securities:						
- available for sale	1 455 153	-	220 721	4 527 226	1 723 879	7 926 979
- other debt securities	-	-	-	-	-	-
Other assets	2 004 648	272 494	55 412	-	-	2 332 554
Total assets:	**30 226 290**	**19 249 148**	**6 159 080**	**6 317 659**	**1 723 879**	**63 676 056**
Amounts due to banks	(4 447 092)	(3 690 605)	(106 425)	(217 770)	(13 000)	(8 474 892)
Amounts due to customers	(21 696 724)	(5 856 476)	(8 620 611)	(6 964 134)	(1 208 970)	(44 346 915)
Other amounts due	(665 196)	(920 562)	(837 546)	-	(310 228)	(2 733 532)
Other liabilities	(954 040)	-	-	-	(180 576)	(1 134 616)
Total liabilities:	**(27 763 052)**	**(10 467 643)**	**(9 564 582)**	**(7 181 904)**	**(1 712 774)**	**(56 689 955)**
Net off-balance sheet liabilities	(1 801 997)	(3 692 635)	2 275 000	3 209 673	12 784	2 825
Interest rate gap	**661 241**	**5 088 870**	**(1 130 502)**	**2 345 428**	**23 889**	

Estimated reductions or increases in the net interest income for the banking portfolio between 1 and 3 years, resulting from changes in market interest rates, are the measure of its sensitivity. For management and risk control purposes, the Bank calculates sensitivity to a number of different market parameter change scenarios: immediate shifts and shifts in time, parallel and non-parallel shifts, in normal and stress conditions, varying depending on the currency, market and instrument.

Below please find annual net interest income sensitivity to an immediate shift of market rates by 50 bps (in PLN'000):

Immediate shift in interest rates by 50 bps:	31.12.2016	31.12.2015
- up	6 200	10 574
- down	1 744	(13 374)

A change in the interest rate risk profile between the aforementioned dates, i.e. a positive change under both scenarios results from low interest rates for individual currencies. In particular, no negative rates occur for items denominated in EUR.

Market risk in the trading book

The Bank's trading activities are supplementary as they support sales of financial products to corporate customers, non-bank financial customers (directly) and retail customers (through structured products, which are officially classified into the banking book). To this end, the Bank opens its own positions, thus generating income on short-term changes in price parameters (foreign currency rates or interest rates), while maintaining the exposure within the adopted risk limits. The Bank offers commodity instruments but does not maintain open position in commodity market.

As part of the interest rate risk exposure, which is the key exposure in the trading portfolio, the Bank could enter into IRS, OIS, CIRS, FRA and basis swap transactions. The interest rate risk was also determined by positions resulting from FX swap and FX Forward transactions. The Bank did not maintain an open option position and the risk resulting from its customers' option transactions was immediately eliminated by offsetting transactions entered into on the interbank market. Hedging the interest rate and the currency risk was the Bank's priority.

Sensitivity of items to shifts in the yield curve and VaR are the key measures of the interest rate risk in the trading portfolio. Additionally, the Bank conducts sensitivity analyses, where the changes in interest rates are more considerable than those typically observed (stress tests).
In 2016, the interest rate risk for PLN items, measured by sensitivity to shifts in the yield curve in the trading portfolio, was slightly higher (by PLN 27 thousand on average) than in 2015 (PLN 26 thousand). The following table presents the interest rate risk in the trading book based on BPV (*Basis Point Value*) in PLN '000.

	2016		2015	
BPV[1]	PLN	EUR	PLN	EUR
31.12	*23*	*-11*	*-65*	*-9*
average	*-27*	*-4*	*-26*	*3*
max	*52*	*25*	*36*	*23*
min	*-124*	*-26*	*-126*	*-16*

[1)] measure of sensitivity of instrument valuation to a shift in the yield curve by 1 bp

The Bank's currency risk is measured using Value at Risk (VaR), which is a measure of the change in the market value of an asset or an asset portfolio with specific assumptions concerning the market parameters, at a specific time and with defined probability. For purposes of currency risk monitoring, it is assumed that VaR is determined with a 99% confidence level and that a position is maintained for one day. The VaR methodology is validated on a quarterly basis by means of an analysis which involves a comparison of the forecast figures and those determined on the basis of actual changes in foreign exchange rates, assuming that the currency position is maintained (back-testing). The comparative period covers the last 250 business days. The VaR model was back-tested in 2016 and the verification did not identify the necessity to make any adjustments.

Foreign currency transactions used for management of the Bank's currency position were characterized by a stable exposure and a low risk. The risk resulting from foreign currency transactions with customers was offset immediately. Therefore, also the intraday foreign currency exposure remained at a low level. Similarly, in line with the policy in place at the Bank, positions in FX options offered to customers were definitely closed immediately on the interbank market. The following table presents currency risk of the Bank expressed as FX VaR (in PLN'000):

	31.12.2016	31.12.2015
FX VAR[1]	**225**	**135**
average	*108*	*61*
max	*750*	*443*
min	*18*	*0*

[1)] The Bank uses a historical method which assumes that the confidence level is 99% and that positions are maintained for 1 day.

The following table presents the currency structure of assets and liabilities at gross carrying amounts in PLN '000.

	31.12.2016		31.12.2015	
Currency position items	Assets	Equity and liabilities	Assets	Equity and liabilities
USD	464 492	1 072 278	422 629	956 319
GBP	100 128	159 151	113 055	86 936
CHF	6 848 106	5 181 200	7 094 582	6 369 096
EUR	6 476 876	5 777 703	5 404 372	5 105 542
Other convertible currencies	52 374	133 683	43 669	73 485
PLN	56 439 957	58 057 918	49 930 822	50 417 751
Total	**70 381 933**	**70 381 933**	**63 009 129**	**63 009 129**

50.4. Liquidity risk

Liquidity risk – risk management organization

The Bank's liquidity management system is comprehensive, i.e. it covers both immediate (intraday) and future (current, short-term as well as structural medium- and long-term) liquidity. Risk is managed by the Bank by building the structure of the balance sheet, transactions and off-balance sheet liabilities to ensure liquidity at any time, taking into consideration the profile of the Bank's business, customer characteristics and behaviors as well as needs that may arise as a result of changes in the financial market. Additionally, the risk identification and measurement methods used by the Bank enable it to forecast future liquidity levels, also in stress conditions.

The Bank ensures separation and independence of its operations, risk management, control and reporting functions. In particular, transactions with contracting parties and customers are entered into by the business, confirmed and processed by Operations, immediate (intraday) and future liquidity is managed by ALM Treasury, day-to-day supervision of the risk level and compliance with risk limits is the responsibility of the Risk Function, while supervisory liquidity measures are reported independently by the Finance Division.

The liquidity risk limits adopted by the Bank reduce its exposure to this type of risk. Risk is monitored and controlled based on documents adopted by resolutions of the Bank's Management Board (risk measurement and monitoring policy and methodologies), developed in compliance with the guidelines formulated in Recommendation P of the Polish Financial Supervision Authority, the provisions of PFSA's Resolution No. 386/2008 establishing liquidity requirements for banks and Commission Delegated Regulation (EU) 2015/61. The Bank has an internal transfer pricing system in place, which reflects accurately the real financing cost for each operation type, and the transfer pricing structure stimulates balance sheet optimization, including diversification of the sources of funding, from the perspective of liquidity risk. LTD limits for each business line are an important additional component of that system, as they facilitate maintenance of a secure level of assets relative to liabilities, which is appropriate considering the characteristics of each line.

The liquidity risk appetite is determined by the Supervisory Board of the Bank and the risk management policy based on that appetite, including definition of general liquidity risk measures, is approved by the Management Board, whereas specific risk limits and their monitoring are the responsibility of ALCO. The Bank's Management Board and Supervisory Board supervise the effectiveness of the liquidity risk management process based on periodic information and current reports.

In compliance with the requirements of PFSA's Recommendation P, the Bank conducts numerous analyses verifying its ability to maintain liquidity in crisis situations. Stress tests cover comprehensive scenarios considering internal and system factors and combining different variants with possible interactions. Stress test results are taken into account in determining liquidity limits. The Bank also has a comprehensive emergency plan in place. It comprises various scenarios along with action plans for liquidity crisis situations in the Bank and in the banking system as a whole. Stress test results are correlated with the emergency plan and reaching defined warning levels triggers the emergency plan.

Risk measures

The Bank uses external and internal risk measures. The internal measures include, among other things, an analysis of trends and volatility of each source of funding relative to the loan portfolio (LTD), the contractual liquidity gap and the liquidity gap realigned based on behavioral factors along with mismatch structure limits defined on its basis, an analysis of surplus liquidity and the available sources of funding, an analysis of stability and concentration of the deposit base as well as a review of the structure of funds placed with the Bank by the major depositors by volume and maturity. Additionally, sales plans (covering loans and deposits) are monitored, broken down by each business line, and simulation analyses are performed. Furthermore, the Bank analyzes the costs of the deposit base with a view to optimizing the liquidity buffer and the use of such tools as the liquidity margin or pricing policy.

The external measures include supervisory short- and long-term liquidity ratios introduced by PFSA's Resolution No. 386/2008 as well as LCR, as defined in Commission Delegated Regulation (EU) 2015/61 and NSFR determined in the Regulation (EU) No. 575/2013 of the European Parliament and of the Council and developed in line with the Commission Implementing Regulation (EU) No. 680/2014 and Basel III introducing the new stable funding ratio requirement.

The on-going supervision includes early warning tools, such as monthly reviews of additional liquidity requirements defined in the Commission Implementing Regulation (EU) No. 2016/313.

Liquidity risk

In 2016, the Bank's liquidity was maintained at a safe level. The Bank's funds were sufficient for payment of all its liabilities upon maturity. The portfolio of the most liquid securities was maintained at a high level, which was sufficient to offset a potential outflow of funds placed with the Bank by the major depositors in whole.

As at the end of 2016, the Bank's surplus liquidity was at the level of PLN 10.95 billion.

	31.12.2016	31.12.2015
Cash at the Central Bank (in excess of the reserve requirement)	(1 629 628)	110 849
Cash at other banks up to 30 days	1 187 419	344 977
Highly-liquid securities	11 396 210	6 597 980
Surplus liquidity up to 30 days	**10 954 001**	**7 053 806**

The surplus liquidity has significantly increased compared to the end of 2015, among others due to a higher share of long-term stable loans from financial institutions (mainly multilateral development banks and from the BNP Paribas Group) in the sources of funding.

Throughout 2016, in particular as at 31 December 2016, the Bank complied with the requirements applicable to the supervisory measures.

	31.12.2016	31.12.2015
M1 (PLN '000)	4 601 516	2 454 459
M2	1.47	1.37
M3	6.93	8.48
M4	1.13	1.09
limit	**1.00**	**1.00**

	31.12.2016	31.12.2015	limit
Liquidity Coverage Ratio	121%	100%	**70%**

In 2016, the Bank continued initiatives aimed at optimization of its sources of funding with a view to reducing excessive, costly and not particularly stable surplus funding. Intense activities aimed to obtain stable retail (up by PLN 4.5 billion during the year) and corporate deposits (up by PLN 4.7 billion), increase the share of long-term loans from the BNP Paribas Group and its subsidiaries (used mainly for financing foreign currency assets, including the CHF home loan portfolio, a portion of corporate loans in EUR and assets in PLN – up by PLN 0.97 billion), enabled the Bank to reduce the level of unstable deposits considerably and replace them with highly stable funds.

The Bank's sources of funding remained highly stable throughout 2016:

	31.12.2016		31.12.2015	
	balance	stable (%)	balance	stable (%)
long-term loans from the Group	7 755 148	100.0%	6 783 823	100.0%
other long-term loans	956 839	100.0%	1 468 802	99.3%
debt securities issued	394 000	100.0%	465 000	100.0%
retail	32 808 708	90.7%	28 351 264	90.8%
corporate	19 170 941	83.8%	14 490 539	87.4%
financial entities	1 267 567	81.8%	1 746 263	71.6%
banks and other unstable sources	1 256 440	0.0%	1 394 060	0.0%
Total	**63 609 643**	**88.0%**	**54 699 751**	**89.4%**

Proceeds and payments expected under the agreements concluded by the Bank – contractual liquidity gap:

Contractual liquidity gap 31.12.2016	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
ASSETS					
Loans and advances to customers	10 970 299	1 335 471	5 744 243	17 592 458	17 537 247
Debt securities	1 073 500	-	1 930 000	5 114 000	4 280 000
Interbank placements	913 600	-	-	-	-
Cash and balances with the Central Bank	1 302 847	-	-	-	-
Non-current assets	-	-	-	-	790 051
Other assets	833 417	-	-	-	522 392
Off-balance sheet liabilities, including:	12 330 984	5 746	17 153	939	-
derivatives	*8 522*	*5 746*	*17 153*	*939*	-
EQUITY AND LIABILITIES					
Retail deposits	23 001 438	3 864 840	5 391 336	551 057	37
Corporate deposits	17 525 609	1 471 462	1 110 830	161 048	24 986
Interbank placements	127 500	-	-	-	-
Loans from financial institutions	161 236	1 298 118	1 131 596	2 436 558	1 919 043
Certificates of deposit	-	2 500	101 500	285 000	-
Equity and subordinated liabilities	-	-	49 388	-	7 889 672
Other equity and liabilities	1 381 360	-	-	-	-
Off-balance sheet liabilities, including:	19 529 117	-	(664)	282	-
derivatives	*5 150*	-	*(664)*	*282*	-
Total receivables	**27 424 647**	**1 341 217**	**7 691 396**	**22 707 397**	**23 129 690**
Total liabilities	**61 726 260**	**6 636 920**	**7 783 986**	**3 433 945**	**9 833 738**
Liquidity gap	**(34 301 613)**	**(5 295 703)**	**(92 590)**	**19 273 452**	**13 295 952**

Contractual liquidity gap 31.12.2015	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
ASSETS					
Loans and advances to customers	14 371 455	1 465 203	4 845 837	12 765 456	17 172 382
Debt securities	-	-	208 790	5 378 085	2 145 700
Interbank placements	418 129	5 289	12 352	32 000	-
Cash and balances with the Central Bank	2 829 806	-	-	-	-
Non-current assets	-	-	-	250 691	528 230
Other assets	77 005	1 536	7 054	65 070	295 232
Off-balance sheet liabilities, including:	6 678 981	1 625 980	2 288 393	672 714	-
derivatives	*2 184 644*	*1 625 980*	*2 288 393*	*672 714*	-
EQUITY AND LIABILITIES					
Retail deposits	26 814 241	513 714	501 885	495 304	26 121
Corporate deposits	13 767 852	1 257 107	654 507	138 384	-
Interbank placements	1 289 128	-	-	-	-
Loans from financial institutions	381 199	120 232	903 380	2 644 846	4 202 967
Certificates of deposit	-	33 000	38 000	394 000	-
Equity and subordinated liabilities	-	-	8 263	-	7 002 483
Other equity and liabilities	1 105 993	-	143 804	-	-
Off-balance sheet liabilities, including:	16 451 587	2 955 710	2 281 312	671 539	-
derivatives	*2 174 208*	*1 625 605*	*2 281 312*	*671 539*	-
Total receivables	**24 375 376**	**3 098 008**	**7 362 426**	**19 164 016**	**20 141 544**
Total liabilities	**59 810 000**	**4 879 763**	**4 531 151**	**4 344 073**	**11 231 571**
Liquidity gap	**(35 434 624)**	**(1 781 755)**	**2 831 275**	**14 819 943**	**8 909 973**

50.5. Country and counterparty risk

Country risk

Country risk comprises all risks related to conclusion of financial agreements with foreign parties, where it is possible that economic, social or political events will have an adverse effect on creditworthiness of the Bank's obligors in that country or where intervention of a foreign government could prevent the obligor (which could also be the government itself) from discharging its liabilities.

The Bank's policy concerning country risk has been conservative. Country limits have been reviewed periodically and the limit level modified to match precisely the anticipated business needs and risk appetite of the Bank.

As at 31 December 2016, treasury transactions (including deposits and derivatives) represented nearly half (48%), foreign lending operations of the Bank accounted for 31%, international trade transactions (letters of credit and guarantees) for 20% and derivative transactions entered into with foreign corporate customers represented 0.1% of the Bank's country risk exposure. France accounted for 47%, Belgium for 16%, Germany for 11% and the Netherlands for 9% of the exposure each. The remaining exposure was related to Senegal, Switzerland, Turkey, Luxembourg and the UK.

Counterparty risk

Counterparty risk is the credit risk concerning the counterparty to transactions where the amount of liability may change in time depending on market parameters. Therefore, the counterparty risk is related to transactions on instruments whose value may change over time depending on such factors as interest rates or foreign exchange rates. The varying exposure may affect the customer's solvency and is of crucial importance to the customer's ability to discharge its liabilities when the transaction is settled. The Bank's customers may enter into financial market transactions. The exposure is determined by the Bank on the basis of the current measurement of contracts as well as the potential future changes in the exposure, depending on the transaction type, customer type and the settlement dates.

At the end of December 2016 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.

Counterparty credit risk for transactions which generate counterparty risk is assessed using the same methodology as the one applied to loans. This denotes that in the credit process transactions are subject to limits, the value of which results directly from assessment of customer creditworthiness. However, the assessment also takes into account the specific nature of transactions, in particular their changing value in time or direct dependence on market parameters.

The principles applicable to foreign exchange transactions, derivative transactions as well as credit limit granting, use and monitoring for transactions subject to counterparty risk limits have been laid down in dedicated procedures. According to the policy in place at the Bank, all transactions are entered into considering individual limits and knowledge of the customer. The Bank diversifies availability of products, which are offered to customers depending on their knowledge and experience. It has in place transparent rules applicable to hedging the counterparty credit risk exposure and remains an active participant of the interbank market and fixing panelist.

50.6. 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 corrective 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 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 day-to-day 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 day-to-day 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 day-to-day 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.

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 SA, which was approved by the Management Board of the Bank and accepted by the Supervisory Board. The document lays down the key principles, defines the organizational framework and establishes the standards of the Bank's internal control environment. The Bank's internal control objectives are, in particular, improvement of efficiency of controls as part of a uniform, effective internal control system based on three control levels, as well as improvement of the process of the Bank responding to identified internal control inefficiencies and raising the risk awareness in the organization. The Bank's management is involved in the process of ensuring and confirming the efficiency of the key processes and controls (management sign-off).

Functional control is exercised in accordance with the Functional Control Rules.

Monitoring and reporting

The Bank monitors periodically 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.

51. CAPITAL ADEQUACY MANAGEMENT

Capital adequacy management is aimed to ensure the Bank's compliance with prudential regulations defining capital requirements related to the risks incurred by the Bank, quantified in the form of the capital ratio.

Since 1 January 2014, banks have been subject to new principles applicable to calculation of capital ratios, following the implementation of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012.

The capital ratios, capital requirements and equity have been calculated in accordance with the aforesaid Regulation with the use of national options in line with the assumptions adopted for purposes of temporary reporting by the Polish Financial Supervision Authority (PFSA).

PFSA recommendation concerning additional capital requirement for the Bank

On 19 October 2016, the Bank received a recommendation from the Polish Financial Supervision Authority concerning the Bank's maintenance of equity necessary to satisfy an additional capital requirement at the level of 0.71 p.p. in order to hedge the risk resulting from foreign currency mortgage loans granted to households, with Tier 1 capital accounting for at least 75% (i.e. 0.53 p.p.) of such equity.

Additionally, the Polish Financial Supervision Authority recommended banks to maintain increased capital ratios in relation to the introduction of a capital conservation buffer and a buffer of other systemically-important institution.

Therefore, the Bank's minimum capital ratios, taking into account the additional capital requirement recommended by PFSA, should be as follows:

- Tier 1=11.03%
- Total Capital Ratio = 14.21%

The Bank's capital ratios taking into account the additional capital requirement in the context of the dividend policy (criteria for distribution of up to 50% of profit for 2016) are as follows: CET1=14.03%.

The aforesaid recommendation should be respected by the Bank from the date of its receipt until revoked.

As at the date of receipt of PFSA recommendations and until 31 December 2016, the Bank maintained equity sufficient to satisfy the aforesaid capital requirements, i.e. as at 31 December 2016, the Bank's capital ratios were as follows: Tier 1 = 11.49% and TCR = 14.94%.

52. MAJOR EVENTS IN 2016

8.01.2016

Payment of a contribution to the Borrower Support Fund – pursuant to a decision of the Board of the Borrower Support Fund of 5 January 2016 regarding the actual amount and due date of the contribution to the Borrowers' Support Fund (the "Fund"), the Bank was obliged to pay a contribution of PLN 38 167 677.50 by 18 February 2016.

In the fourth quarter of 2015, the Bank recognized the relevant provision for the said contribution. The payment was made in the first quarter of 2016.

19.01.2016

The estimated effect of the Act (of 15 January 2016, Journal of Laws, item 68, which came into force as of 1 February 2016) **on Tax on Certain Financial Institutions on the performance of Bank BGŻ BNP Paribas S.A. in 2016 – the** Management Board of the Bank estimated that the related reduction of the Bank's net profit would be ca. PLN 185 876 thousand.

29.01.2016

PFSA decisions of 28 January 2016 granting the consent for classification of subordinated loans (of PLN 440 million and EUR 40 million) as the Bank's Tier 2 capital - received by the Bank on 29 January 2016.

The Bank raised the funds from realization of subordinated loan agreements concluded with BNP Paribas S.A. on 29 December 2015. Once the aforesaid subordinated loans are classified as Tier 2 capital, the Bank's equity will be sufficient to satisfy the capital requirements recommended by PFSA.

26.02.2016

Shareholders' first announcement of planned merger of Bank BGŻ BNP S.A. and Sygma Bank Polska S.A.

14.03.2016

Registration of amendments to the Statute of Bank BGŻ BNP Paribas S.A., adopted by the Extraordinary Shareholders' Meeting on 15 December 2015 in the National Court Register.

21.03.2016

Second announcement of planned merger of Bank BGŻ BNP S.A. and Sygma Bank Polska S.A.

23.03.2016

Management Board of Bank BGŻ BNP Paribas S.A. gives a positive opinion on merger of Bank BGŻ BNP Paribas S.A. with Sygma Bank Polska S.A.

24.03.2016

PFSA's recommendations regarding the additional capital requirement for the Bank on the consolidated level and on an increase in equity by retaining the entire profit generated in 2015.

PFSA recommends that the Capital Group of the Bank maintain equity necessary to satisfy an additional capital requirement of 0.72 p.p. with Tier 1 capital accounting for at least 75% (i.e. 0.54 p.p.).

Effective from 1 January 2016, the Bank's minimum capital ratios taking into account the additional capital requirement should be as follows:

- Standalone presentation: Tier I - 10.78%; TCR* - 13.96%;
- Consolidated presentation: Tier I - 10.79%; TCR* - 13.97%.

In addition the Bank was instructed to increase its equity through retaining its whole profit earned from 1 January to 31 December 2015.

**TCR - Total Capital Ratio*

30.03.2016

Extraordinary Shareholders' Meeting of Bank BGŻ BNP Paribas S.A. - a decision to merge Bank BGŻ BNP Paribas S.A. with Sygma Bank Polska S.A. and acceptance of the Merger Plan.

13.04.2016

Announcing an updated of the strategy of Bank BGŻ BNP Paribas S.A. for 2016-2018.

The key strategic goals to be achieved by 2018 (on stable economic growth assumption):

- Over five percent share in the loans and deposits market;
- An improvement in effectiveness as a result of post-integration cost synergies and increased revenues;
- A 14% increase in the net banking income measured by the compound average growth rate between 2015 and 2018, resulting from implementation of new initiatives in all business lines;
- A reduction of the cost/income ratio from 74% in 2015 (less integration costs) to ca. 55% in 2018;

- An increase in ROE to ca. 10%.

The key to effective implementation of the Strategy will be completion of the operating integration of Bank BGŻ S.A. with BNP Paribas Bank Polska S.A. by the end of 2016, as well as a legal merger of the Bank with Sygma Bank Polska S.A.

The four pillars of the Strategy are:

- Focus on the customer;
- Support for international expansion of corporate customers;
- Integrated universal bank;
- Implementation of digital services in each operating segment.

19.04.2016 **Obtaining a permission of the Polish Financial Supervisory Authority to merge Bank BGŻ S.A. and BNP Paribas Bank Polska S.A.**

The PFSA issued the permission pursuant to Article 124.1 of the Act of 29 August 1997. Pursuant to Art. 124.1 of the Banking Law of 29 August 1997, the Polish Financial Supervision Authority gave its permission for the merger of Bank BGŻ BNP Paribas S.A. ("BGŻ BNPP") (the acquiring bank) and Sygma Bank Polska ("Sygma Bank Polska") (the acquired bank) by way of transferring all the assets and liabilities of Sygma Bank Polska to BGŻ BNPP in line with the conditions set forth in the Merger Plan agreed between the banks on 10 December 2015.

31.05.2016 **Registration of the merger of Bank BGŻ BNP Paribas S.A. and Sygma Bank Polska S.A. in the National Court Register**

31.05.2016 **The change in the deadline to fulfill the investor obligation of BNP Paribas SA, regarding the improving of liquidity of shares of Bank BGŻ BNP Paribas S.A., justified with an unforeseen adverse change in market conditions compared to the date of accepting the obligation, consists in PFSA considering the obligation 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.

09.06.2016 **Ordinary General Shareholders' Meeting of Bank BGŻ BNP Paribas S.A. - part 1**, accepting the change to the Statute. Announcing a break in the meeting until 30 June 2016.

17.06.2016 **Information concerning the effect of the acquisition of Visa Europe by Visa Inc. on the financial performance of Bank BGŻ BNP Paribas S.A.**

The share of the Bank as a beneficiary of the transaction:

- EUR 6.9 million in cash - an equivalent of PLN 30.5 million (at the average exchange rate of NBP of 20 June 2016);
- 2 521 C-series preference shares in Visa Inc.

The transactions were settled in the second quarter of 2016.

Following an amendment to the terms of the transaction regarding its settlement, as announced in the current report no. 90/2015, the earn-out payment was replaced by an increase in the cash amount payable in the second quarter of 2016 and a deferred cash amount payable in the second quarter of 2019 (Deferred payment). According to the communication, the deferred payment may be adjusted in cases described in Transaction Terms.

The total amount of the Deferred Payment assigned to all participants of the Transaction shall be EUR 1.12 billion, 0.0535214433% of which is assigned to the Bank.

30.06.2016 **Ordinary General Shareholders' Meeting of Bank BGŻ BNP Paribas S.A. - part 2** (continuing the meeting after the break announced on 9 June 2016);

- approving Financial Statements for 2015 and Management Board Reports for 2015;
- acknowledgement of the fulfillment of duties by members of the Management and Supervisory Board for 2015;
- appointing the former members of the Supervisory Board of the Bank for the new, five-year office term.

14.07.2016	**Registration of amendments to the Statute of Bank BGŻ BNP Paribas S.A.,** adopted by the Extraordinary Shareholders' Meeting on 9 June 2016 in the National Court Register.
9.08.2016	**The stand of the Financial Supervision Authority (KNF) on the additional requirement regarding the own funds of Bank BGŻ BNP Paribas S.A. with respect to the capital buffer for other systemically-important institution** - under the ongoing administrative proceedings conducted to identify the Bank as other systemically-important institution and impose on the Bank (based on consolidated and standalone principle) a buffer for other systemically-important institution, based on the performed evaluation of the Bank's systemic importance, pursuant to Article 39, item 1 of the Act on Macroprudential Supervision over the Financial System and Crisis Management in the Financial System of 5 August 2015, PFSA has decided to request the opinion of the Financial Stability Committee on identification of the Bank as other systemically-important institution, and on imposing on the Bank a buffer (based on consolidated and standalone principle) equal to 0.25% of the total risk exposure amount.
18.08.2016	**Decision of the Financial Stability Committee** on issuance of a positive opinion on identification of Bank BGŻ BNP Paribas S.A. by the Polish Financial Supervision Authority as other systemically-important institution, and on imposing a buffer of other systemically-important institution on Bank BGŻ BNP Paribas S.A.
6.10.2016	**A decision of the Polish Financial Supervision Authority ("PFSA") on identification of the Bank as other systemically-important institution,** and imposing on the Bank a buffer of other systemically-important institution (based on consolidated and standalone principle) equal to 0.25% of the total risk exposure amount, calculated pursuant to Article 92, item 3 of EU Regulation no 575/2013.
19.10.2016	**A decision of the Polish Financial Supervision Authority recommending that the Bank should maintain own funds for the coverage of additional capital requirement** in order to secure the risk resulting from FX mortgage loans for households, at the level of 0.71 p.p. above the level of Total Capital Ratio as mentioned in Article 92, para. 1(c) of the Regulation (EU) No 575/2013. Additional capital requirement should consist of at least 75% of Tier I capital (which corresponds to capital requirement at the level of 0.53 p.p. above the level of Tier I Capital Ratio as mentioned in Article 92, para. 1(b) of the Regulation (EU) No 575/2013), and should consist of at least 56% of core Tier I capital (which corresponds to capital requirement at the level of 0.40 p.p. above the level of Core Tier I Ratio as mentioned in Article 92, para. 1(a) of the Regulation (EU) No 575/2013).
22.11.2016	**The Bank concluded a fixed-term subordinated loan agreement** with Lion International Investments S.A. based in Luxembourg, in the amount of EUR 60 million, i.e. the equivalent of PLN 266.3 million at the average NBP exchange rate of 21 November 2016. Classification of the funds obtained under the aforesaid loan agreements as the Bank's equity (Tier 2 capital) requires the consent of the Polish Financial Supervision Authority.
22.12.2016	**The decision of the PFSA dated 21 December 2016 on the consent for recognition of the net profit for first half of 2016 in the amount of PLN 42.1 million as a part of the Bank's Tier 1 capital** - received by the Bank on 22 December 2016.
27.12.2016	**Decision of the PFSA of 23 December 2016 to include subordinated loan of EUR 60 million into the Bank's Tier 2 capital calculation** - received by the Bank on 27 December 2016. The Bank obtained the fund under a subordinated loan agreement concluded with Lion International Investments S.A. with the registered office in Luxembourg on 22 November 2016.

27.12.2016 **Recommendation of the PFSA on the additional capital requirement in order to secure the risk resulting from FX mortgage loans for households on consolidated level.**

The PFSA recommends that the Bank's Capital Group should maintain its own funds to cover the additional capital requirement at 0.68 p.p. for Total Capital Ratio (TCR), 0.51 p.p. for Tier I Ratio and 0.38 p.p. for Core Tier I Ratio.

Previously, as the Bank informed in current report no. 10/2016 published on 24 March 2016, the Bank's Capital Group had been obliged to maintain own funds for the coverage of additional capital requirement in order to secure the risk resulting from FX mortgage loans for households on consolidated level, at 0.72 p.p., which should have consisted in at least 75% of Tier I capital (which corresponded to 0.54 p.p.).

53. EVENTS AFTER THE END OF THE REPORTING PERIOD

10.03.2017

Polish Financial Supervision Authority individual recommendation on the dividend for 2016 and recommendation of the Bank Management Board on non-payment of 2016 dividend.

The Management Board of Bank BGŻ BNP Paribas S.A. informed that it has received a letter from the Polish Financial Supervision Authority with an individual recommendation that the Bank's own funds be increased by retaining the entire profit earned by the Bank between 1 January 2016 and 31 December 2016.

Therefore, the Bank Management Board on 10 March 2017 decided to recommend the General Meeting to pass a resolution on the allocation of the entire 2016 net profit for the Bank's own funds.

In current report no. 36/2016 dated 30 November 2016, the Bank's Management Board informed that it did not intend to recommend any dividend payment from the 2016 net profit.

14.03.2017	**Tomasz Bogus** *President of the Management Board*	signature
14.03.2017	**Daniel Astraud** *Vice-President of the Management Board*	signature
14.03.2017	**François Benaroya** *Vice-President of the Management Board*	signature
14.03.2017	**Philippe Paul Bézieau** *Vice-President of the Management Board*	signature
14.03.2017	**Blagoy Bochev** *Vice-President of the Management Board*	signature
14.03.2017	**Jan Bujak** *Vice-President of the Management Board;*	signature
14.03.2017	**Wojciech Kembłowski** *Vice-President of the Management Board*	signature
14.03.2017	**Magdalena Legęć** *Vice-President of the Management Board*	signature
14.03.2017	**Jaromir Pelczarski** *Vice-President of the Management Board*	signature
14.03.2017	**Jerzy Śledziewski** *Vice-President of the Management Board*	signature
14.03.2017	**Bartosz Urbaniak** *Member of the Management Board*	signature
14.03.2017	**Katarzyna Romaszewska-Rosiak** *Managing Director, Financial Accounting Department*	signature

Warsaw, 14 March 2017