2017

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

for the third quarter ended 30 September 2017

BGŻ BNP PARIBAS

The bank for a changing world

TABLE OF CONTENTS

SELECTED FINANCIAL INFORMATION

Selected consolidated financial information

	in PLN '000		in EUR '000	
STATEMENT OF PROFIT OR LOSS	**30.09.2017 (YTD)**	30.09.2016 (YTD)	**30.09.2017 (YTD)**	30.09.2016 (YTD)
Net interest income	**1 452 073**	1 363 128	**341 134**	312 016
Net fee and commission income	**371 564**	375 580	**87 291**	85 969
Profit before income tax	**375 438**	158 083	**88 201**	36 185
Profit after income tax	**230 569**	74 856	**54 167**	17 134
Total comprehensive income	**325 735**	51 228	**76 525**	11 726
Total net cash flows	**(579 210)**	(998 741)	**(136 073)**	(228 608)
INDICATORS	**30.09.2017**	30.09.2016	**30.09.2017**	30.09.2016
Number of shares	**84 238 318**	84 238 318	**84 238 318**	84 238 318
Earnings per share	**2.74**	0.89	**0.64**	0.20
BALANCE SHEET	**30.09.2017**	31.12.2016	**30.09.2017**	31.12.2016
Total assets	**71 900 179**	72 304 999	**16 685 660**	16 343 806
Loans and advances to customers	**56 546 787**	55 075 871	**13 122 644**	12 449 338
Total liabilities	**65 427 623**	66 158 178	**15 183 594**	14 954 380
Amounts due to customers	**55 285 977**	55 155 014	**12 830 052**	12 467 227
Share capital	**84 238**	84 238	**19 549**	19 041
Total equity	**6 472 556**	6 146 821	**1 502 067**	1 389 426
CAPITAL ADEQUACY	**30.09.2017**	31.12.2016	**30.09.2017**	31.12.2016
Total own funds	**7 621 643**	7 619 694	**1 768 732**	1 722 354
Total risk exposure	**55 610 903**	52 913 987	**12 905 457**	11 960 666
Total capital ratio	**13.71%**	14.40%	**13.71%**	14.40%
Tier 1 ratio	**10.66%**	11.06%	**10.66%**	11.06%

Selected separate financial information

	in PLN '000		in EUR '000	
STATEMENT OF PROFIT OR LOSS	**30.09.2017 (YTD)**	30.09.2016 (YTD)	**30.09.2017 (YTD)**	30.09.2016 (YTD)
Net interest income	**1 434 420**	1 302 644	**336 987**	298 171
Net fee and commission income	**335 986**	335 255	**78 933**	76 739
Profit before income tax	**379 578**	118 251	**89 174**	27 067
Profit after income tax	**237 265**	46 632	**55 740**	10 674
Total comprehensive income	**332 422**	23 419	**78 096**	5 361
Total net cash flows	**(556 990)**	(1 005 359)	**(130 853)**	(230 124)
INDICATORS	**30.09.2017**	30.09.2016	**30.09.2017**	30.09.2016
Number of shares	**84 238 318**	84 238 318	**84 238 318**	84 238 318
Earnings per share	**2.82**	0.55	**0.66**	0.13
BALANCE SHEET	**30.09.2017**	31.12.2016	**30.09.2017**	31.12.2016
Total assets	**68 847 136**	70 381 933	**15 977 150**	15 909 117
Loans and advances to customers	**53 569 203**	53 179 717	**12 431 645**	12 020 732
Total liabilities	**62 393 500**	64 260 719	**14 479 474**	14 525 479
Amounts due to customers	**55 444 773**	55 297 324	**12 866 903**	12 499 395
Share capital	**84 238**	84 238	**19 549**	19 041
Total equity	**6 453 636**	6 121 214	**1 497 676**	1 383 638
CAPITAL ADEQUACY	**30.09.2017**	31.12.2016	**30.09.2017**	31.12.2016
Total own funds	**7 616 937**	7 634 483	**1 767 640**	1 725 697
Total risk exposure	**52 781 269**	51 098 527	**12 248 792**	11 550 300
Total capital ratio	**14.43%**	14.94%	**14.43%**	14.94%
Tier 1 ratio	**11.22%**	11.49%	**11.22%**	11.49%

The following exchange rates have been applied to translate the data presented into euro:

For the statement of financial position, the following rate of the National Bank of Poland was applied:

- as at 30 September 2017 EUR 1 = PLN 4.3091
- as at 31 December 2016 EUR 1 = PLN 4.4240

For 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 nine-month period:

— for the period from 1 January 2017 to 30 September 2017 — EUR 1 = PLN 4.2566
— for the period from 1 January 2016 to 30 September 2016 — EUR 1 = PLN 4.3688

I INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Interim condensed consolidated statement of profit or loss

	Note	3rd quarter 2017 from 01.07.2017 to 30.09.2017	3 quarters 2017 from 01.01.2017 to 30.09.2017	3rd quarter 2016 from 01.07.2016 to 30.09.2016	3 quarters 2016 from 01.01.2016 to 30.09.2016
Interest income	8	693 817	2 011 377	659 021	1 929 628
Interest expense	8	(190 034)	(559 304)	(191 832)	(566 500)
Net interest income		**503 783**	**1 452 073**	**467 189**	**1 363 128**
Fee and commission income	9	154 314	468 267	160 113	453 786
Fee and commission expense	9	(34 789)	(96 703)	(29 460)	(78 206)
Net fee and commission income		**119 525**	**371 564**	**130 653**	**375 580**
Dividend income		-	4 693	19	5 777
Net trading income	10	59 654	186 112	67 797	177 652
Result on investment activities	11	4 448	25 543	4	42 437
Result on hedge accounting		3 793	5 436	116	256
Other operating income	12	36 603	102 319	21 630	105 410
Other operating expenses	13	(36 921)	(102 017)	(23 443)	(82 952)
Net impairment losses on financial assets and contingent liabilities	14	(87 164)	(265 187)	(115 922)	(281 737)
General administrative expenses	15	(346 838)	(1 119 990)	(408 780)	(1 264 891)
Depreciation and amortization	16	(38 516)	(130 500)	(52 443)	(148 829)
Operating result		**218 367**	**530 046**	**86 820**	**291 831**
Tax on financial institutions		(51 053)	(154 608)	(51 203)	(133 748)
Profit before income tax		**167 314**	**375 438**	**35 617**	**158 083**
Income tax expense	17	(57 524)	(144 869)	(25 399)	(83 227)
Net profit for the period		**109 790**	**230 569**	**10 218**	**74 856**
attributable to equity holders of the Bank		109 790	230 569	10 218	74 856
EARNINGS PER SHARE (IN PLN PER ONE SHARE)					
Basic		1.30	2.74	0.12	0.89
Diluted		1.30	2.74	0.12	0.89

Interim condensed consolidated statement of comprehensive income

	3rd quarter 2017 from 01.07.2017 to 30.09.2017	3 quarters 2017 from 01.01.2017 to 30.09.2017	3rd quarter 2016 from 01.07.2016 to 30.09.2016	3 quarters 2016 from 01.01.2016 to 30.09.2016
Net profit for the period	**109 790**	**230 569**	**10 218**	**74 856**
OTHER COMPREHENSIVE INCOME				
ITEMS THAT ARE OR MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS	**(18 355)**	**95 231**	**(19 732)**	**(24 481)**
Net change in valuation of available for sale financial assets	(22 423)	117 807	(24 361)	(30 223)
Deferred tax	4 068	(22 576)	4 629	5 742
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**103**	**(65)**	**2 133**	**853**
Actuarial valuation of employee benefits	103	539	50	1 053
Deferred tax	-	(604)	(9)	(200)
OTHER COMPREHENSIVE INCOME (NET OF TAX)	**(18 252)**	**95 166**	**(19 691)**	**(23 628)**
TOTAL COMPREHENSIVE INCOME	**91 538**	**325 735**	**(9 473)**	**51 228**
attributable to equity holders of the Group	91 538	325 735	(9 473)	51 228

The financial information of the Capital Group of Bank BGŻ BNP Paribas S.A. Capital Group pertains to the following companies: Bank BGŻ BNP Paribas S.A, TFI BGZ BNP Paribas S.A., BGZ BNP Paribas Faktoring Sp. z o.o., Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o., BNP Paribas Leasing Services Sp. z o.o. and BNP Paribas Group Service Center S.A.

On 31 May 2016, Bank BGŻ BNP Paribas was legally merged with Sygma Bank Polska, and the latter has been included into the Capital Group of the Bank as of 1.12.2015. Until the legal merger of Bank BGŻ BNP Paribas and Sygma Bank Polska the financial information of Sygma Bank Polska, a subsidiary, was consolidated with the financial information of the Bank.

The Group's comprehensive income generated in three quarters of 2017 was PLN 325 735 thousand, up by PLN 274 501 thousand compared to the same period in 2016.

The increase resulted mainly from an increase in the net profit (up by PLN 155 713 thousand, i.e. 208.0% YoY). It was also the effect of lower general administrative expenses, depreciation and amortization (down by PLN 163 230 thousand, i.e. 11.5%, following completion of the operational merger of banks BGŻ S.A., BNPP Polska S.A. and Sygma Bank Polska S.A.) and a higher net banking income (up by +2.9% YoY). The improvement of the comprehensive income of the Group also resulted from higher measurement of available for sale financial assets (up by PLN 148 030 thousand, from the negative amount of PLN -30 223 thousand in the same period in 2016).

Interim condensed consolidated statement of financial position

ASSETS	Note	30.09.2017	31.12.2016
Cash and balances with the Central Bank	18	1 708 096	1 302 847
Loans and advances to banks	19	273 646	1 233 592
Derivative financial instruments	20	395 696	324 005
Hedging instruments	21	20 230	18 671
Loans and advances to customers	22	56 546 787	55 075 871
Available for sale financial assets	23	11 218 587	12 497 855
Investment property		54 466	54 466
Intangible assets	24	260 424	246 552
Property, plant and equipment	25	507 276	546 002
Deferred tax asset		518 139	529 824
Other assets	26	396 832	475 314
Total assets		**71 900 179**	**72 304 999**

As at the end of September 2017, the total assets of the Group amounted to PLN 71 900 179 thousand, down by PLN 404 820 thousand, i.e. 0.6% compared to the end of December 2016.

Key changes in the structure of Group's assets after three quarters of 2017 included an increase in the share of loans and advances to customers, as well as in cash and monetary assets in Central Bank, accompanied with a decrease in the share of available for sale financial assets and loans and advances to banks.

Loans and advances to customers, which accounted for 78.6% of total assets as at the end of September 2017 vs. 76.2% at the end of 2016, were the key item in the structure of assets. In terms of value, net loans and advances increased by PLN 1 470 916 thousand, i.e. 2.7%.

Assets available for sale were the second largest asset item and constituted 15.6% of the total assets at the end of September 2017 (vs. 17.3% at the end of December 2016). After three quarters of 2017 their value decreased by PLN 1 279 268 thousand, i.e. by 10.2%, mostly as a result of no renewal of the NBP bills portfolio (as of December 31, 2016 in the amount of PLN 999 959 thousand) and a reduction in the portfolio of treasury bonds.

Changes in earning assets were accompanied by a slight increase (up to 2.4%) in cash and balances at Central Bank by PLN 405 249 thousand (31.1%).

LIABILITIES	Note	30.09.2017	31.12.2016
Amounts due to banks	27	6 607 230	7 308 814
Hedged items	21	(9 895)	(4 080)
Derivative financial instruments	20	309 422	271 757
Amounts due to customers	28	55 285 977	55 155 014
Debt securities issued	29	386 516	398 059
Subordinated liabilities	30	1 695 470	1 768 458
Other liabilities	31	952 263	1 122 780
Current tax liabilities		104 171	8 313
Deferred tax liability		8 022	8 022
Provisions	32	88 447	121 041
Total liabilities		**65 427 623**	**66 158 178**

EQUITY	Note	30.09.2017	31.12.2016
Share capital	39	84 238	84 238
Other supplementary capital		5 127 899	5 108 418
Other reserve capital		909 629	860 241
Revaluation reserve		94 669	(497)
Retained earnings		256 121	94 421
retained profit		25 552	17 561
net profit for the period		230 569	76 860
Total equity		**6 472 556**	**6 146 821**
Total liabilities and equity		**71 900 179**	**72 304 999**

As at the end of September 2017, the total liabilities of the Group amounted to PLN 65 427 623 thousand, down by PLN 730 555 thousand, i.e. 1.1% compared to the end of 2016. The share of liabilities in Group's total liabilities and equity was 91.0% and was 0.5 p.p. lower than at the end of 2016. An increase in the share of amounts due to customers, accompanied in a decrease in amounts due to banks was the most important change in liabilities after three quarters of 2017.

At the end of September 2017 amounts due to customers grew by PLN 130 963 thousand (0.2%) vs. the end of December 2016 and amounted to PLN 55 285 977 thousand. Their share in total liabilities increased to 84.5%, as compared to 83.4% as at the end of 2016.

In three quarters of 2017, the former trend to reduce debt arising from loans and advances from banks continued, resulting in a drop in the share of amounts due to banks in total liabilities. At the end of September 2017, the item amounted to 10.1% vs. 11.0% at the end of 2016. At the end of September 2017, amounts due to banks amounted to PLN 6 607 230 thousand and were PLN 701 584 thousand (i.e. 9.6%) lower than at the end of 2016.

Interim condensed consolidated statement of changes in equity

					Retained earnings		
	Share capital	Other supplementary capital	Other reserve capital	Revaluation reserve	Retained profit	Net profit for the period	Total
Balance as at 1 January 2017	**84 238**	**5 108 418**	**860 241**	**(497)**	**17 561**	**76 860**	**6 146 821**
Total comprehensive income for the period	**-**	**-**	**-**	**95 166**	**-**	**230 569**	**325 735**
Net profit for the period	-	-	-	**-**	**-**	**230 569**	**230 569**
Other comprehensive income for the period	-	-	-	95 166	-	**-**	**95 166**
Appropriation of retained earnings	**-**	**-**	**49 388**	**-**	**27 472**	**(76 860)**	**-**
Appropriation of retained earnings to equity	-	-	**49 388**	**-**	27 472	(76 860)	**-**
Other (equity of subsidiaries)	**-**	**19 481**	**-**	**-**	**(19 481)**	**-**	**-**
Balance as at 30 September 2017	**84 238**	**5 127 899**	**909 629**	**94 669**	**25 552**	**230 569**	**6 472 556**

					Retained earnings		
	Share capital	Other supplementary capital	Other reserve capital	Revaluation reserve	Retained profit	Net profit for the period	Total
Balance as at 1 January 2016	**84 238**	**5 092 196**	**780 874**	**198 090**	**99 663**	**13 293**	**6 268 354**
Total comprehensive income for the period	**-**	**-**	**-**	**(198 587)**	**-**	**76 860**	**(121 727)**
Net profit for the period	-	-	-	-	-	76 860	76 860
Other comprehensive income for the period	-	-	-	(198 587)	-	-	(198 587)
Appropriation of retained earnings	**-**	**-**	**8 263**	**-**	**5 030**	**(13 293)**	**-**
Appropriation of retained earnings to equity	-	-	8 263	-	5 030	(13 293)	-
Merger	**-**	**16 222**	**71 104**	**-**	**(87 326)**	**-**	**-**
Equity resulting from merger	-	16 222	71 104	-	(87 326)	-	-
Other (equity of subsidiaries)	**-**	**-**	**-**	**-**	**194**	**-**	**194**
Balance as at 31 December 2016	**84 238**	**5 108 418**	**860 241**	**(497)**	**17 561**	**76 860**	**6 146 821**

Interim condensed consolidated statement of changes in equity (continued)

	Share capital	Other supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings: Retained profit	Retained earnings: Net profit for the period	Total
Balance as at 1 January 2016	**84 238**	**5 092 196**	**780 874**	**198 090**	**99 663**	**13 293**	**6 268 354**
Total comprehensive income for the period	**-**	**-**	**-**	**(23 628)**	**-**	**74 856**	**51 228**
Net profit for the period	-	-	-	-	-	74 856	74 856
Other comprehensive income for the period	-	-	-	(23 628)	-	-	(23 628)
Appropriation of retained earnings	**-**	**-**	**8 263**	**-**	**5 030**	**(13 293)**	**-**
Appropriation of profit	-	-	8 263	-	5 030	(13 293)	-
Merger	**-**	**16 222**	**71 104**	**-**	**(87 326)**	**-**	**-**
Equity resulting from merger	-	16 222	71 104	-	(87 326)	-	-
Other (equity of subsidiaries)	**-**	**-**	**-**	**-**	**195**	**-**	**195**
Balance as at 30 September 2016	**84 238**	**5 108 418**	**860 241**	**174 462**	**17 562**	**74 856**	**6 319 777**

Interim condensed consolidated statement of cash flows

CASH FLOWS FROM OPERATING ACTIVITIES:	Note	3 quarters 2017 from 01.01.2017 to 30.09.2017	3 quarters 2016 from 01.01.2016 to 30.09.2016
Net profit for the period		**230 569**	**74 856**
TOTAL ADJUSTMENTS:		**1 163 818**	**3 674 629**
Income tax expense		144 869	83 227
Depreciation and amortization		130 500	148 829
Dividend income		(4 693)	(5 777)
Interest income		(2 011 377)	(1 929 628)
Interest expense		559 304	566 500
Change in provisions		(32 055)	(22 712)
Change in loans and advances to banks		(838)	15 939
Change in derivative financial instruments (assets)		(71 691)	(1 583)
Change in loans and advances to customers		(1 482 737)	(2 057 252)
Change in amounts due to banks		1 357 210	(751 436)
Change in derivative financial instruments (liabilities)		37 665	(59 638)
Change in amounts due to customers		332 938	6 396 142
Change in other assets and current tax assets		(113 345)	(178 499)
Change in other liabilities and deferred tax liabilities		(74 659)	171 118
Other adjustments	34	(65 672)	(121 394)
Interest received		2 990 571	2 008 950
Interest paid		(532 172)	(588 157)
Net cash from operating activities		**1 394 387**	**3 749 485**

CASH FLOWS FROM INVESTING ACTIVITIES:	Note	3 quarters 2017 from 01.01.2017 to 30.09.2017	3 quarters 2016 from 01.01.2016 to 30.09.2016
INVESTING ACTIVITIES INFLOWS		**15 260 045**	**15 977 330**
Sale of available for sale financial assets		15 232 051	15 947 620
Sale of intangible assets and property, plant and equipment		23 301	23 933
Dividends received and other investing activities inflows		4 693	5 777
INVESTING ACTIVITIES OUTFLOWS		**(14 932 904)**	**(18 659 614)**
Purchase of available-for-sale securities		(14 802 758)	(18 500 479)
Purchase of intangible assets and property, plant and equipment		(130 146)	(159 135)
Net cash from investing activities		**327 141**	**(2 682 284)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
FINANCING ACTIVITIES INFLOWS		**105 805**	**1 731 417**
Long-term loans received		105 805	1 117 517
Increase in subordinated liabilities		-	613 900
FINANCING ACTIVITIES OUTFLOWS		**(2 406 543)**	**(3 797 359)**
Repayment of long-term loans and advances to banks		(2 396 543)	(3 725 363)
Redemption of debt securities		(10 000)	(71 996)
Net cash from financing activities		**(2 300 738)**	**(2 065 942)**
TOTAL NET CASH		**(579 210)**	**(998 741)**
Cash and cash equivalents at the beginning of the period		**2 483 623**	**3 262 335**
Cash and cash equivalents at the end of the period, of which:	**33**	**1 904 413**	**2 263 594**
effect of exchange rate fluctuations on cash and cash equivalents held		(12 434)	(2 126)
of restricted use		1 302	1 933

EXPLANATORY INFORMATION TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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. ("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.

2 GENERAL INFORMATION ON THE CAPITAL GROUP

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

As at 30 September 2017, the Group comprised Bank BGŻ BNP Paribas S.A., the parent, and its subsidiaries:

2.1. 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.

2.2. 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.

2.3. BNP Paribas Leasing Services Sp. z o.o. ("Leasing", formerly: Fortis Lease Polska Sp. z o.o. in liquidation) with its registered office at 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.

2.4. 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.

2.5. BNP Paribas Group Service Center S.A. ("GSC", formerly: Laser Services Polska S.A.), with its registered office at ul. Suwak 3 in Warsaw. 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.

In accordance with the principles laid down in IFRS, the interim condensed consolidated financial statements cover all subsidiaries as at 30 September 2017.

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

These interim condensed consolidated financial statements for the third quarter ended 30 September 2017, have been prepared in conformity with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"), as endorsed by the European Union, and other applicable regulations. The accounting principles applied in the third quarter of 2017 do not differ from the principles used in 2016, which were presented in detail in the consolidated financial statements of the Capital Group of Bank BGŻ BNP Paribas S.A. for the year ended 31 December 2016.

As these interim condensed consolidated financial statements do not contain all the information and disclosures required for the annual consolidated financial statements, they should be read together with the Consolidated Financial Statements of the Capital Group of Bank BGŻ BNP Paribas S.A. for the year ended 31 December 2016.

These 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 for 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.

3.1 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 revisions (applicable to annual periods beginning on or after 1 January 2018),
- **IFRS 16 "Leases"** (applicable to annual periods beginning on or after 1 January 2019),
- **IFRS 17 "Insurance Contracts"** (applicable to annual periods beginning on or after 1 January 2021),
- **Revised IFRS 2 "Share Based-Payments"** — Classification and Measurement of Share-Based Payments (applicable to annual periods beginning on or after 1 January 2018),
- **Revised 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 upon first-time application of IFRS 9 Financial Instruments),
- **Revised IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (applicable to annual periods beginning on or after 1 January 2019),
- **Revised IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** — Sale or Contribution of Assets between an Investor and an Associate or Joint Venture, and subsequent revisions (the effective date has been postponed until inquiry into the equity method is completed),
- **Revised IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (applicable to annual periods beginning on or after 1 January 2019),
- **Revised IAS 40 "Investment Property"** — Transfers of Investment Property (applicable to annual period beginning on or after 1 January 2018),
- **Amendments to IFRS 1 and IAS 28 following "IFRS Improvements (2014-2016)"** — amendments to standards resulting from the annual improvements process (IFRS 1, IFRS 12, and IAS 28), primarily with a view to removing

inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 apply to annual periods beginning on or after 1 January 2018),

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (applicable to annual period beginning on or after 1 January 2018),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (applicable to annual periods beginning on or after 1 January 2019).

The above standards and amendments to the existing standards have not significantly affected the financial statements for the third quarter of 2017.

3.2 Implementation of IFRS 9

IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments", published by the International Accounting Standards Board on 24 July 2014 and endorsed by the European Union on 22 November 2016 is the final version of the standard which replaces the earlier published versions of IFRS 9 and ends the project of the International Accounting Standards Board aimed at replacing IAS 39 "Financial Instruments: Recognition and Measurement"
The new IFRS 9 amends the following three areas: classification and measurement of financial instruments, recognition and calculation of their impairment and hedge accounting.

Summary of the key assumptions of IFRS 9

Classification and measurement

In line with IFRS 9, at initial recognition financial assets are classified to the following measurement categories:

— financial assets measured at amortized cost,

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

— financial assets measured at fair value through profit or loss.

Classification of financial assets in line with IFRS 9 depends on:

— the business model for managing the financial assets, and

— the contractual cash flow characteristics, i.e. whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding.

The Bank BGŻ BNP Paribas Group, based on analyses of cash flows and the initially assumed financial models, does not expect any material changes in the classification and measurement of financial assets, i.e.:

- financial assets classified to "Loans and receivables" under IAS 39 will still be measured at amortized cost, provided that the requirements of the cash flow analysis test will be satisfied,
- debt instruments classified to the "available for sale" category will be divided into those measured at amortized cost and those still measured at fair value through other comprehensive income,
- available-for-sale equity instruments without a quoted price measured at cost less impairment loss will be measured at fair value through profit or loss or other comprehensive income depending on the type of investment; the Group has not yet made any final and irrevocable decision whether to recognize changes in the fair value of equity instruments in other comprehensive income,
- financial instruments currently measured at fair value through profit or loss will still be measured this way.

The analyses carried out by the Bank BGŻ BNP Paribas Group based on the results of the tests of contractual cash flows and evaluation of the business model revealed that potential changes in the classification and measurement of assets will primarily apply to the portfolio of loans in which the structure of interest rate is based on financial leverage.
IFRS 9 does not introduce any material changes in the classification and measurement of financial liabilities compared to the principles introduced by IAS 39, which means that when financial liabilities are incurred they are classified to the following categories:

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

Hedge accounting

Based on the provisions of IFRS 9.7.2.21, the Group intends to decide to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9. This decision will apply to all hedging relationships for which the Group has been applying and will continue to apply hedge accounting.
Therefore, as far as hedge accounting is concerned, the implementation of IFRS 9 will not affect the financial position of the Group.

Impairment

Impairment requirements of IFRS 9 are based on the expected credit loss model, which replaces the incurred loss model adopted by IAS 39.

The Group applies a three-stage approach to the measurement of expected credit losses on debt instruments measured at amortized cost or at fair value through other comprehensive income. Following the credit quality changes observed since the initial recognition, financial assets go through the three stages as presented below:

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

If credit risk has not increased significantly since initial recognition and no credit impairment has been observed since its origination, the Group recognizes a loss allowance for expected credit losses related to the probability of default in the subsequent 12 months,

ii) Stage 2: Lifetime expected credit losses — no impairment of financial asset item 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”). Since the Group will use the same impairment indications to calculate impairment in line with IFRS 9 as those used in the calculation in line with IAS 39, the methodology of recognizing individual provisions remains substantially the same. 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 Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. To make that assessment, the Groups compares the risk of a default as at the reporting date with the risk of a default as at the date of initial recognition using e.g. an internal credit risk rating, external credit ratings, information about payment delays and information from internal credit risk control system such as warning letters and information about restructuring.

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

The Group assesses that the impairment loss calculated in line with IFRS 9 will lead to earlier recognition of credit losses compared to the requirements of IAS 39.

Disclosures and comparative information

The new requirements of IFRS 9 lead to a significant change in the presentation and scope of disclosures as regards financial instruments, especially during the first year of application of the new standard.

The Group intends to apply the provisions of IFRS 9 whereby comparative information for prior periods does not need to be restated with respect to changes resulting from classification and measurement (including impairment). Differences between the carrying amount of financial assets and liabilities arising from application of IFRS 9 will be recognized under “Retained earnings” as at 1 January 2018.

Implementation schedule

In mid-2016 the Capital Group of Bank BGŻ BNP Paribas, in cooperation with an external advisor, launched a project aimed at implementation of IFRS 9. At the Capital Group of Bank BGŻ BNP Paribas the project involves departments responsible for risk management, accounting policy, reporting, IT systems as well as business and operating departments.

The project is intended to include:

- analysis (identification) of differences between IAS 39 and IFRS 9 and analysis of steps which need to be taken to ensure compliance with the new standard,
- implementation of necessary solutions to meet individual requirements of the new standard.

The Group focuses on:

- developing and implementing models to calculate impairment losses,
- developing and implementing solutions in IT systems,
- modifying/developing new processes and internal regulations related to the implementation of the new standard.

Currently, the Group is testing and implementing solutions necessary for the individual requirements based on the analysis and defined methodical assumptions. As expected, the Group intends to complete the implementation of IFRS 9 by the end of 2017.

Potential impact of IFRS 9 on the financial position and own funds

As at 30 September 2017 it is impossible to estimate the overall impact of implementation of IFRS 9 on the financial position and own funds of the Group. In the opinion of the Group, the disclosure of quantitative information which does not reflect the potential impact of all aspects of IFRS 9 on the Group's financial position and own funds could have a negative impact on the informative value of the financial statements for its readers.

Therefore, the Group decided to disclose only quantitative information about the Group's approach to the way the requirements of IFRS 9 are implemented, which — in the opinion of the Group — will help the recipients understand the impact of IFRS 9 on the financial position of the Group and equity management. A reliable assessment of the final effects of the changes will be possible in Consolidated Financial Statements of Bank BGŻ BNP Paribas S.A. Capital Group for the year ended 31 December 2017.

Additionally, in relation to changes arising from the implementation of IFRS 9 and the lack of current information regarding planned changes in tax regulations, the Group 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 Group, derived from impairment-related costs.

3.3 Implementation of IFRS 15

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 "Revenue from Contracts with Customers" was published by the International Accounting Standards Board on 28 May 2014 and applies to annual periods beginning on or after 1 January 2018. The terms and conditions provided for in IFRS 15 will apply to all contracts generating revenue except for the contracts covered by other standards. The core principle of the new standard is that revenue is recognized when goods and services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The new principles will be delivered in a five-step model framework:

a) Identify the contract with a customer which may provide the Bank with the right to recognize revenue,
b) Identify the performance obligations in the contract,
c) Determine the transaction price,
d) Allocate the transaction price to the performance obligations in the contract,
e) Recognize revenue when (or as) the entity satisfies a performance obligation.

Revenue from sales of goods or services offered to customers in bundles should be distinct and accounted for separately, unless the bundle of goods /services delivered to the customer has been considered a single performance obligation.

Additionally all discounts and rebates as well as refunds or payments to the customer adjust the transaction price, and hence the amount of recognized revenue, unless the payment to the customer is made in connection with a fee for separate services provided by the customer. In the case of payments to the customer, the revenue should be recognized at net amounts (adjusted by the amount to be returned to the customer).

If the revenue is variable, in line with the new standard, the variable amount is classified to revenue only to the extent that it is highly probable that a significant reversal in the amount will not occur.

Moreover, in line with IFRS 15, the costs incurred to obtain and secure a contract with a customer should be recognized as an asset and settled over time throughout the period of consumption of the benefits derived from the contract, if the Bank expects that the costs will be recovered.

The Bank may recognize the incremental costs of obtaining a contract as an expense when incurred, if the amortization period of the asset that the Bank otherwise would have recognized is one year or less.

Bank BGŻ BNP Paribas Group will apply IFRS 15 as of 1 January 2018.

In 2017 the Company initiated a project to analyse the impact of the implementation of IFRS 15 on revenue recognition.

The analysis revealed the following types of revenue which as a rule should be recognized in line with IFRS 15:

• consideration under contracts in which the Bank is an agent,

• additional consideration paid by clearing institutions,

• loyalty schemes and interchange revenue received from clearing institutions, the so called "success fee" - contracts understood as contracts in which the Capital Group of Bank BGŻ BNP Paribas has not been guaranteed consideration or in which consideration is minimum through the performance of the contract until a condition arises that gives the Capital Group of Bank BGŻ BNP Paribas a considerable fee enough to pay for the performance of the contract over an extensive preceding period,

• revenue from asset management.

The Bank BGŻ BNP Paribas Group has been conducting an analysis to determine whether the current way in which revenue is recognized under applied contractual provisions, will change following the implementation of IFRS 15.

Since the analysis is pending, the impact on the financial performance has not been disclosed. However, since the Capital Group of Bank BGŻ BNP Paribas offers financial instruments such as credit facilities, loans and leases and the resulting revenue is recognized based on the effective interest rate, the Group estimates that they will not be material to ensure a clear and reliable picture of the financial and economic position and its profit or loss.

4 GOING CONCERN

These interim condensed consolidated financial statements have been prepared on the assumption that the Group 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.

5 APPROVAL FOR PUBLICATION

The consolidated interim report of the Capital Group of Bank BGŻ BNP Paribas S.A. for the third quarter ended 30 September 2017 was approved by the Management Board for publication on 8 November 2017.

6 SEASONALITY OR CYCLICALITY OF OPERATIONS

There are no major seasonal or cyclical phenomena in the operations of the Group.

7 ESTIMATES

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

a) Impairment of 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 of 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. The individual test is performed by the Bank for individually significant financial assets and wherever the Bank decided to carry out individual impairment tests for a given exposure.

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 homogeneous 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 homogeneous 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 in a collective impairment test are back-tested on a regular basis. The risk parameter models used to estimate the impairment allowances are also covered by the model management process, which involves laying down the principles of their development, approval and monitoring (including back testing) of the models. The risk parameters and impairment allowances/provisions determined using the collective method are back-tested at least once a year. Additionally, the Bank has a validation unit independent of the owners and model users which once a year validates the risk parameters of significant models. The validation applies both to the quantity and quality approach. 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 in 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 property, plant and equipment

At the end of each reporting period, the Group verifies whether there is any objective indication of impairment of its property, plant and equipment. 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 Group to make assumptions as to the estimated amounts, dates of future cash flows that may be generated by the Group on the item of property, plant and equipment 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.

f) Leases — the Group as a lessor

Lease contracts whereby substantially all risks and rewards of ownership of the assets are transferred onto the lessee are classified as finance leases. The balance sheet discloses receivables in the amount of net investment in the lease. Revenue from finance lease contracts is recognized to reflect the constant periodic rate of return on the net investment in the lease made by the Group in the form of a finance lease.

The Group does not offer operating lease products where substantially all risks and rewards of ownership of the assets are not transferred onto the lessee.

8 NET INTEREST INCOME

	3rd quarter 2017 from 01.07.2017 to 30.09.2017	3 quarters 2017 from 01.01.2017 to 30.09.2017	3rd quarter 2016 from 01.07.2017 to 30.09.2017	3 quarters 2016 from 01.01.2016 to 30.09.2016
Loans and advances to banks	7 324	21 776	7 706	20 661
Customer overdrafts	93 077	273 344	92 053	269 281
Loans and advances to customers, including:	485 662	1 430 833	473 466	1 392 804
corporations	118 930	344 056	113 018	331 515
households	335 502	1 000 440	337 910	998 217
budget entities	1 248	3 841	1 258	3 735
other entities	29 982	82 496	21 280	59 337
Hedging instruments	26 725	54 267	20 294	59 941
Debt securities, including:	81 029	231 157	65 502	186 941
available-for-sale financial assets	81 029	231 157	65 502	186 941
INTEREST INCOME	**693 817**	**2 011 377**	**659 021**	**1 929 628**
Amounts due to banks	(25 281)	(69 688)	(28 265)	(83 185)
Debt securities issued	(2 930)	(8 849)	(3 017)	(9 638)
Amounts due to customers, including:	(138 246)	(430 468)	(140 151)	(412 896)
corporations	(50 682)	(148 902)	(37 621)	(113 485)
households	(69 122)	(224 292)	(80 081)	(232 386)
budget entities	(6 277)	(16 717)	(5 156)	(13 731)
other entities	(12 165)	(40 557)	(17 293)	(53 294)
Hedged items	(23 577)	(50 299)	(20 516)	(60 781)
Repo transactions	-	-	117	-
INTEREST EXPENSE	**(190 034)**	**(559 304)**	**(191 832)**	**(566 500)**
Net interest income	**503 783**	**1 452 073**	**467 189**	**1 363 128**

In three quarters of 2017, the net interest income, which is the main source of revenue for the Group, went up by PLN 88 945 thousand, i.e. by 6.5% compared to the same period last year. This was the effect of an increase in interest income by PLN 81 749 thousand, i.e. by 4.2% YoY accompanied by a drop in interest expense (by PLN 7 196 thousand YoY, i.e. by 1.3%).

The growth in the business operations was the key factor affecting the revenue. It translated into higher average volumes of loans and advances to customers (moderate growth of average value of overdrafts) and higher average value of the securities portfolio.

As for expenses, the key factor was improved interest margin on amounts due to customers (lower costs), especially in the case of the amounts due to households which retain the biggest share in the total amounts due to customers. Moreover, the share of amounts due to customers in the total sources of funding increased and at the same time the share of amounts due to banks (which are more expensive) was reduced.

After three quarters of 2017 the key item of interest income of the Group was interest income on loans and advances to customers (71.1%), which increased by PLN 38 029 thousand (by 2.7%) compared to the third quarter of 2016. In addition, interest on overdrafts to customers went up by PLN 4 063 thousand, i.e. by 1.5% YoY. The above were the effect of an expanded range of operations, mainly in the corporate segment (the gross loan portfolio for the category increased by 9.8% YoY). The Group's gross loan volume as a whole increased by 4.0% YoY.

After three quarters of 2017 the third major item in the interest income structure of the Group were interest income on debt securities (11.5%). This item grew by PLN 44 216 thousand, i.e. by 23.7% YoY, following an expansion of the range of operations and a growth of the portfolio of available-for-sale assets (by 7.2% YoY).

After three quarters of 2017, the key item of interest expense of the Group was interest expense on amounts due to customers (77.0% of the total interest expense). The item has grown by PLN 17 572 thousand (4.3%) YoY. As is has been discussed above, the margin on deposits of households improved, the expense growth was slower than the increase in the amounts due to customers (YoY).

The visible decrease in interest expense on amounts due to banks resulted from replacing a portion of wholesale funding (average loans and advances from banks in three quarters of 2017 and 2016) with funding acquired from customers. After three quarters of 2017, the interest expense on amounts due to banks was by PLN 13 497 thousand (16.2%) lower than the same time last year.

As at the end of September 2017 the Capital Group used macro fair value hedges. In three quarters of 2017, the net interest income on hedging relationships (the sum of interest income on hedging instruments and interest expense on hedged items) was positive and totaled PLN 3 968 thousand as compared to a negative figure for three quarters of 2016: PLN -840 thousand.

9 NET FEE AND COMMISSION INCOME

	3rd quarter 2017 from 01.07.2017 to 30.09.2017	3 quarters 2017 from 01.01.2017 to 30.09.2017	3rd quarter 2016 from 01.07.2016 to 30.09.2016	3 quarters 2016 from 01.01.2016 to 30.09.2016
loans and advances	45 782	158 220	41 759	131 829
account maintenance and settlements	42 838	115 585	46 038	139 998
guarantee commitments	7 162	20 762	7 496	20 842
brokerage operations	8 946	24 707	3 894	15 557
payment cards	22 312	67 165	21 536	59 569
insurance activity	10 276	31 932	17 085	35 282
asset management	4 521	11 326	3 297	5 412
other	12 477	38 570	19 008	45 297
FEE AND COMMISSION INCOME	**154 314**	**468 267**	**160 113**	**453 786**
loans and advances	(1 766)	(4 626)	(806)	(1 022)
payment cards	(24 389)	(51 982)	(15 294)	(38 985)
insurance activity	(6 469)	(18 583)	(2 217)	(5 501)
related to partners' network	(4 013)	(6 987)	306	(7 232)
other	1 848	(14 525)	(11 449)	(25 466)
FEE AND COMMISSION EXPENSE	**(34 789)**	**(96 703)**	**(29 460)**	**(78 206)**
Net fee and commission income	**119 525**	**371 564**	**130 653**	**375 580**

After three quarters of 2017, the net fee and commission income amounted to PLN 371 564 thousand and was by PLN 4 016 thousand (1.1% YoY) lower than the same time last year. The change resulted from an increase in expenses (up by PLN 18 497 thousand, i.e. 23.7% YoY) which was faster than the increase in fee and commission income (up by PLN 14 481 thousand, i.e. by 3.2% YoY).

The income growth was recognized for fees and commissions from:

- loans and advances by PLN 26 391 thousand, i.e. by 20.0%,
- brokerage operations by PLN 9 150 thousand, i.e. by 58.8%,
- payment cards by PLN 7 596 thousand, i.e. 12.8%,
- asset management by PLN 5 914 thousand, i.e. by 109.3%.

The fee and commission income decreased in the following categories:

- account maintenance and settlements by PLN 24 413 thousand, i.e. by 17.4%,
- insurance activity by PLN 3 350 thousand, i.e. by 9.5%.

The increase in the fee and commission expenses was mainly the effect of:

- higher fee and commission expense on insurance activity by PLN 13 082 thousand, i.e. by PLN 237.8%,
- higher fee and commission expense on payment cards by PLN 12 997 thousand, i.e. by 33.3%.

10 NET TRADING INCOME

	3rd quarter 2017 from 01.07.2017 to 30.09.2017	3 quarters 2017 from 01.01.2017 to 30.09.2017	3rd quarter 2016 from 01.07.2016 to 30.09.2016	3 quarters 2016 from 01.01.2016 to 30.09.2016
Derivative instruments and foreign currency exchange result	59 654	186 112	67 797	177 652
Net trading income	**59 654**	**186 112**	**67 797**	**177 652**

The net trading income for three quarters of 2017 was PLN 186 112 thousand, up by PLN 8 460 thousand, i.e. 4.8% YoY. The level of the income and its changes were mainly shaped by the valuation of the derivatives and foreign exchange gain/loss.

11 NET INVESTMENT INCOME

During the year, the Group did not reclassify any financial assets measured at amortized cost to financial assets measured at fair value.

	3rd quarter 2017 from 01.07.2017 to 30.09.2017	3 quarters 2017 from 01.01.2017 to 30.09.2017	3rd quarter 2016 from 01.07.2016 to 30.09.2016	3 quarters 2016 from 01.01.2016 to 30.09.2016
Available-for-sale assets	4 448	25 543	4	42 437
Total	**4 448**	**25 543**	**4**	**42 437**

The net investment income for three quarters of 2017 totaled PLN 25 543 thousand, down by PLN 16 894 thousand, i.e. by 39.8% as compared to that for the same time last year.

The major factor affecting the income after three quarters of 2016 was the income from settlement of the acquisition of Visa Europe Limited by Visa Inc. As a result of the settlement the Group received EUR 6.9 million in cash (i.e. PLN 30 518 thousand following translation at the 4.3945 exchange rate of 20 June 2016) and 2 521 preference shares C series. The total profit on the transaction was PLN 41,817 thousand.

The income for three quarters of 2017 comprises the income from the sale of the available-for-sale securities generated mainly in the second and the third quarter of 2017 (second quarter: PLN 20 111 thousand, third quarter: PLN 4 448 thousand).

12 OTHER OPERATING INCOME

	3rd quarter 2017 from 01.07.2017 to 30.09.2017	3 quarters 2017 from 01.01.2017 to 30.09.2017	3rd quarter 2016 from 01.07.2016 to 30.09.2016	3 quarters 2016 from 01.01.2016 to 30.09.2016
Sale or liquidation of property, plant and equipment and intangible assets	14 303	23 707	4 359	7 514
Sale of goods and services	4 029	10 991	(7 013)	4 896
Release of provisions for litigation and claims and other liabilities	486	1 665	(269)	3 190
Recovery of debt collection costs	3 090	8 980	2 408	5 731
Recovery of overdue debts, redeemed receivables, noncollectible debts and payment of receivables that were excluded from the consolidated statement of financial position	494	2 520	3 993	28 920
Income from leasing operations	7 059	20 946	6 037	18 409
Other operating income	7 142	33 510	12 115	36 750
Total other operating income	**36 603**	**102 319**	**21 630**	**105 410**

Other operating income for three quarters of 2017 equaled PLN 102 319 thousand and was by PLN 3 091 thousand, i.e. by 2.9% lower than after the third quarter of 2016. The key reasons were:

- drop in the income from recovery of overdue debts, redeemed receivables, non-collectible debts and payment of receivables that were excluded from the consolidated statement of financial position by PLN 26 400 thousand, i.e. by 91.3%. In the first half of 2016 this item included PLN 20 200 thousand of income from the sale of debts, mainly in the loan portfolio of Sygma Bank Polska S.A.,
- a decrease in other operating income of PLN 3 240 thousand, i.e. by 8.8% YoY resulting from an annual adjustment of VAT for 2016 in the amount of PLN 7 873 thousand, made in the first quarter 2017,
- an increase in the income from the sale or liquidation of property, plant and equipment and intangible assets by PLN 16 193 thousand, i.e. by 215.5% YoY (resulting from the sale of real estate of the Bank).

13 OTHER OPERATING EXPENSES

	3rd quarter 2017 from 01.07.2017 to 30.09.2017	3 quarters 2017 from 01.01.2017 to 30.09.2017	3rd quarter 2016 from 01.07.2016 to 30.09.2016	3 quarters 2016 from 01.01.2016 to 30.09.2016
Loss on sale or liquidation of property, plant and equipment and intangible assets	(11 190)	(23 736)	(4 954)	(18 385)
Impairment charges on other receivables	(75)	(10 146)	(428)	(428)
Provisions for litigation and claims and other liabilities	(985)	(3 019)	(90)	(840)
Debt collection	(7 768)	(24 079)	(7 324)	(19 416)
Donations	(640)	(1 920)	(691)	(2 812)
Costs of leasing operations	(6 253)	(18 728)	(6 606)	(18 113)
Other operating expenses	(10 010)	(20 389)	(3 350)	(22 958)
Total other operating expenses	**(36 921)**	**(102 017)**	**(23 443)**	**(82 952)**

In three quarters of 2017 other operating expenses totaled PLN 102 017 thousand, up by PLN 19 065 thousand (i.e. by 23.0%) as compared to three quarters of 2016, mainly as a result of:

- costs of impairment charges on other receivables higher by PLN 9 718 thousand, largely due to a provision for unsettled card transaction balances resulting from migration recognized in the first quarter of 2017,
- increase in the loss on the sale or liquidation of property, plant and equipment and intangible assets by PLN 5 351 thousand, i.e. by 29.1%,
- increase in costs of debt collection by PLN 4 663 thousand, i.e. by 24.0%.

Other operating expenses for the three quarters of 2016 and 2017 include the costs of integration of BGŻ S.A., BNP Paribas Polska S.A. and Sygma Bank Polska S.A. They are mainly related to the write-off of intangible assets, liquidation of property, plant and equipment and additional expenses incurred as a result of termination of collaboration with a firm providing non-cash settlements.

After the three quarters of 2016 integration expenses included in other operating expenses totaled PLN 21 727 thousand, as compared with the three quarters of 2017 when the figure was positive and totaled PLN 1 084 thousand.

14 NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND CONTINGENT LIABILITIES

	3rd quarter 2017 from 01.07.2017 to 30.09.2017	3 quarters 2017 from 01.01.2017 to 30.09.2017	3rd quarter 2016 from 01.07.2016 to 30.09.2016	3 quarters 2016 from 01.01.2016 to 30.09.2016
Loans and advances to banks	721	895	862	276
Loans and advances to customers	(81 180)	(258 983)	(122 240)	(289 616)
Contingent commitments granted	(6 705)	(7 099)	5 456	7 603
Total net impairment losses on financial assets and contingent liabilities	**(87 164)**	**(265 187)**	**(115 922)**	**(281 737)**

Total net impairment losses on financial assets and provisions for contingent liabilities in three quarters of 2017 was PLN -265 187 thousand and improved by PLN 16 550 thousand (5.9%) comparing to the same time in 2016.

In the period from January to September 2017, the Bank entered into seven agreements to sell 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 605 588 thousand (principal, interest and other accompanying receivables). The contractual portfolio sale price was PLN 120 627 thousand. The net effect of the portfolio sale on the profit generated by the Bank was PLN 32 010 thousand and it was presented under *net impairment losses on financial assets and contingent liabilities.*

In three quarters of 2016, the Bank entered into three agreements for sale of its loan portfolios. 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 under *net impairment losses on financial assets and contingent liabilities* (PLN 32 960 thousand) and under *other operating income* (PLN 20 200 thousand - Note 12).

In three quarters of 2017, the annualized cost of credit risk exposure, i.e. net impairment losses on loans and advances to the average balance of net loans and advances to customers (calculated on the basis of quarter-end balances) equaled 0.63% and was by 0.07 p.p. (0.71%) lower YoY.

As regards the key operating segments[1]:

- the Retail and Business Banking Segment recorded a decrease in impairment losses by PLN 21 136 thousand YoY,
- in the SME Segment — down by PLN 7 422 thousand YoY,
- in the Corporate Banking (together with CIB Segment) — up by PLN 4 414 thousand YoY,
- in the Other Operations Segment up by PLN 7 593 thousand YoY.

[1] Information based on the segmentation note included in the Consolidated Interim Report of the Capital Group of Bank BGŻ BNP Paribas for the third quarter ended 30 September 2017.

15 GENERAL ADMINISTRATIVE EXPENSES

	3rd quarter 2017 from 01.07.2017 to 30.09.2017	3 quarters 2017 from 01.01.2017 to 30.09.2017	3rd quarter 2016 from 01.07.2016 to 30.09.2016	3 quarters 2016 from 01.01.2016 to 30.09.2016
Personnel expenses	(210 200)	(632 411)	(215 858)	(692 994)
Marketing	(19 306)	(55 870)	(26 655)	(71 315)
IT and telecom costs	(30 392)	(85 135)	(36 069)	(100 718)
Rental expenses	(40 515)	(121 290)	(42 987)	(132 085)
Other non-personnel expenses	(26 148)	(112 033)	(47 677)	(141 331)
Business trips	(2 517)	(8 239)	(2 261)	(6 794)
ATM and cash handling costs	(1 098)	(2 610)	(941)	(2 799)
Costs of outsourcing in leasing operations	(4 425)	(14 399)	(5 676)	(17 802)
Bank Guarantee Fund fee	(11 132)	(84 525)	(30 439)	(91 775)
Polish Financial Supervision Authority fee	(1 105)	(3 478)	(217)	(7 278)
Total general administrative expenses	**(346 838)**	**(1 119 990)**	**(408 780)**	**(1 264 891)**

The Group's general administrative expenses incurred from 1 January to 30 September 2017 totaled PLN 1 119 990 thousand, down by PLN 144 901 thousand, i.e. by 11.5% compared with the same period last year.

The largest decrease (by PLN 60.6 million) comparing to nine months of last year was reported in personnel expenses. This was the effect of the headcount reduction in the Bank by 649 FTEs, the costs of a restructuring provision of PLN 26 million recognized in the first half of 2016, lower provision for unused vacation for the current period and lower retention expenses.

The considerable decrease in other non-personnel expenses by PLN 29.3 million YoY resulted from reduction of IT and telecom costs, costs of car fleet, office supplies and project costs.

The costs for 9 months of 2016 were additionally increased by higher costs of bank integration.

The integration costs incurred by the Capital Group in the three quarters of 2017 totaled PLN 24.9 million (as compared to PLN 146.7 million in the first nine months of 2016) and included:

- PLN 26.0 million recognized as general administrative expenses (PLN 125.0 million in 9M 2016),
- PLN -1.1 million recognized as other operating expenses, costs decrease (PLN 21.7 million in 9M 2016).

The costs of integration included in other general administrative expenses (PLN 26.0 million) include mainly:

- costs of accelerated amortization of systems and liquidation of assets in connection with the banks' merger — PLN 9.3 million,
- projects delivered in connection with the integration — PLN 10.9 million (including integration with Sygma — PLN 6.2 million).

16 DEPRECIATION AND AMORTIZATION

	3rd quarter 2017 from 01.07.2017 to 30.09.2017	3 quarters 2017 from 01.01.2017 to 30.09.2017	3rd quarter 2016 from 01.07.2016 to 30.09.2016	3 quarters 2016 from 01.01.2016 to 30.09.2016
Property, plant and equipment	(21 701)	(65 484)	(19 338)	(59 629)
Intangible assets	(16 815)	(65 016)	(33 105)	(89 200)
Total amortization and depreciation	**(38 516)**	**(130 500)**	**(52 443)**	**(148 829)**

In the reporting period, the costs of amortization and depreciation went down by PLN 18.3 million, i.e. 12.3% as compared to three quarters of 2016. This was the effect of a decrease in costs of accelerated amortization and depreciation of PLN 12.6 million (as at 30 September 2017 they amounted to PLN 9.3 million, while as at 30 September 2016 they equaled PLN 21.9 million) and liquidation of assets decommissioned after completion of the operational merger (Bank BGŻ and BNP Paribas Bank Polska).

17 INCOME TAX EXPENSE

	3rd quarter 2017 from 01.07.2017 to 30.09.2017	3 quarters 2017 from 01.01.2017 to 30.09.2017	3rd quarter 2016 from 01.07.2016 to 30.09.2016	3 quarters 2016 from 01.01.2016 to 30.09.2016
Current income tax	(67 897)	(155 547)	(46 444)	(100 856)
Deferred income tax	10 373	10 678	21 045	17 629
Income tax expense	**(57 524)**	**(144 869)**	**(25 399)**	**(83 227)**
Profit before income tax	167 314	375 438	35 607	158 083
Statutory tax rate	19%	19%	19%	19%
Income taxes on gross profit	**(31 789)**	**(71 333)**	**(6 765)**	**(30 036)**
Receivables write-off	(993)	(173)	(5 122)	(9 370)
Non-tax-deductible overheads/income	(100)	321	(60)	(780)
PFRON	(227)	(771)	(299)	(965)
Prudential fee to the Bank Guarantee Fund	(2 115)	(16 060)	(1 857)	(5 600)
Purchased debts write-offs	-	-	28	184
Impairment allowance on receivables	(110)	(809)	6 195	(2 477)
Tax on financial institutions	(9 802)	(29 488)	(9 761)	(22 174)
Other differences	(12 388)	(26 556)	(7 758)	(12 009)
Total income tax charge on gross profit of the Group	**(57 524)**	**(144 869)**	**(25 399)**	**(83 227)**

18 CASH AND BALANCES WITH THE CENTRAL BANK

	30.09.2017	31.12.2016
Cash and other balances	814 202	1 062 599
Account with the National Bank of Poland	893 894	240 248
Total cash and balances at Central Bank	**1 708 096**	**1 302 847**

19 LOANS AND ADVANCES TO BANKS

	30.09.2017	31.12.2016
Current accounts	83 481	236 548
Interbank placements	112 972	918 746
Loans and advances	23 093	40 089
Other	55 259	40 262
Total loans and advances to banks (gross)	**274 805**	**1 235 645**
Impairment allowances on loans and advances to banks	(1 159)	(2 053)
Total loans and advances to banks (net)	**273 646**	**1 233 592**

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

	9 months ended 30.09.2017	12 months ended 31.12.2016
Impairment allowances on loans and advances to banks at the beginning of the period	**(2 053)**	**(1 056)**
Impairment allowances	(2 460)	(3 686)
Release of impairment allowances	3 354	2 596
Other changes	-	93
Impairment allowances on loans and advances to banks at the end of the period	**(1 159)**	**(2 053)**

20 DERIVATIVE FINANCIAL INSTRUMENTS

		Fair value	
30.09.2017	Nominal value	Assets	Liabilities
TRADING DERIVATIVES (HELD FOR TRADING)			
CURRENCY DERIVATIVES:			
Foreign Exchange Forward (FX Forward + NDF)	3 494 809	29 995	34 118
Currency Swaps (FX Swap)	9 018 928	109 216	29 838
Currency Interest Rate Swaps (CIRS)	2 512 528	38 988	44 252
OTC currency options	1 042 603	6 699	6 721
Total currency derivatives:	**16 068 868**	**184 898**	**114 929**
INTEREST RATE DERIVATIVES:			
interest rate swap	29 494 308	194 230	175 581
Forward Rate Agreements (FRA)	1 000 000	22	21
OTC interest rate options	3 051 441	11 681	11 746
Total interest rate derivatives:	**33 545 749**	**205 933**	**187 348**
OTHER DERIVATIVES			
OTC options	267 067	4 325	4 135
OTC commodity swaps	78 249	540	468
Foreign Exchange Spot (FX Spot)	1 946 689	-	2 542
other options	3 500	-	-
Total other derivatives:	**2 295 505**	**4 865**	**7 145**
TOTAL TRADING DERIVATIVES (held for trading):	**51 910 122**	**395 696**	**309 422**
including: – valued using model-based method	*51 910 122*	*395 696*	*309 422*

31.12.2016	Nominal value	Fair value Assets	Fair value Liabilities
TRADING DERIVATIVES (HELD FOR TRADING)			
CURRENCY DERIVATIVES:			
Foreign Exchange Forward (FX Forward + NDF)	5 742 464	37 841	25 516
Currency Swaps (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
Foreign Exchange Spot (FX Spot)	1 037 793	527	-
other options	8 500	-	-
Total other derivatives:	**1 449 917**	**4 027**	**3 439**
TOTAL TRADING DERIVATIVES (held for trading):	**62 777 595**	**324 005**	**271 757**
including: – valued using model-based method	*62 777 595*	*324 005*	*271 757*

21 HEDGE ACCOUNTING

As at 30 September 2017, the Group used fair value hedges (**macro fair value hedge**).

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

IRS	Nominal value	Fair value: Assets	Fair value: Liabilities
30.09.2017	5 599 543	18 881	-
31.12.2016	4 019 360	18 671	-

The table below presents hedging derivative instruments by nominal value as at 30 September 2017, broken down by residual maturity:

	30.09.2017							
	Fair value		Nominal value					
Hedging instruments	positive	negative	up to 1 month	1 - 3 months	3 months - 1 year	1-5 years	> 5 years	Total
Interest rate contracts								
Swap (IRS)	18 881	-	250 000	357 728	1 026 793	3 465 022	500 000	5 599 543
Total hedging instruments	**18 881**	**-**	**250 000**	**357 728**	**1 026 793**	**3 465 022**	**500 000**	**5 599 543**

	31.12.2016							
	Fair value		Nominal value					
Hedging instruments	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 instruments	**18 671**	**-**	**17 696**	**-**	**1 971 200**	**1 875 624**	**154 840**	**4 019 360**

Additionally, as at 30 September 2017, the Group used micro fair value hedges.

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

IRS	Nominal value	Fair value	
		Assets	Liabilities
30.09.2017	750 000	1 349	-

The table below presents hedging derivative instruments by nominal value as at 30 September 2017, broken down by residual maturity:

	30.09.2017							
	Fair value		Nominal value					
Hedging instruments	positive	negative	up to 1 month	1 - 3 months	3 months - 1 year	1-5 years	> 5 years	Total
Interest rate contracts								
Swap (IRS)	1 349	-	-	-	-	750 000	-	750 000
Total hedging instruments	**1 349**	**-**	**-**	**-**	**-**	**750 000**	**-**	**750 000**

22 LOANS AND ADVANCES TO CUSTOMERS

	30.09.2017	31.12.2016
CURRENT ACCOUNTS:	**8 940 982**	**8 114 472**
corporations	4 684 562	4 188 362
households:	4 231 201	3 918 198
individual customers	176 858	183 507
sole proprietors	426 339	428 561
farmers	3 628 004	3 306 130
budget entities	4 943	475
other entities	20 276	7 437
NON-CURRENT LOANS AND ADVANCES:	**50 418 633**	**49 962 755**
corporations:	15 879 669	15 127 379
investment loans	7 847 874	7 198 133
revolving loans	3 161 696	3 557 759
other	4 870 099	4 371 487
households:	30 787 063	31 476 050
individual customers, in this:	21 304 366	21 885 691
mortgage loans	14 077 778	15 005 546
sole proprietors	1 992 255	2 251 724
farmers	7 490 442	7 338 635
budget entities	178 467	185 097
other entities	593 643	392 790
Lease receivables	2 979 791	2 781 439
Total gross loans and advances	**59 359 615**	**58 077 227**
Impairment allowances on loans and advances (negative value)	(2 812 828)	(3 001 356)
Total net loans and advances	**56 546 787**	**55 075 871**

At the end of September 2016, gross loans and advances to customers increased by PLN 1 282 388 thousand, i.e. 2.2% vs. December 2016.

Gross loans and advances to corporations (including overdrafts) increased by PLN 1 248 490 thousand, i.e. by 6.5% versus 31 December 2016 and comprise 34.6% of the gross credit exposure (up by 1.4 p.p. comparing to the end of 2016). More than a half of the increase was reported in investment loans.

The gross loans and advances to households (including overdrafts) decreased by PLN 375 984 thousand, i.e. by 1.1% and comprise 59.0% of total gross loans and advances (down by 2.0 p.p. YoY). The decrease resulted mainly from weaker CHF versus PLN (exchange rate of PLN 4.1173 as at 31 December 2016 vs. PLN 3.7619 at the end of September 2017). The total CHF home loans to individual customers decreased in the analyzed period by PLN 969 503 thousand, i.e. 14.4%.

Home loans granted to individuals account for 40.2% (PLN 14 077 778 thousand) of the total loans granted to households and 58.5% of them are facilitates denominated in PLN and 40.9% - facilities in CHF (a decrease in CHF loans of 4.0 p.p. YoY).

Lease receivables, which are now managed within the Bank's structure, account for over 5.0% of the gross loan portfolio, following the merger of Bank BGŻ and BNPP Polska in April 2015.

The share of exposures with recognized impairment in gross loans and advances to customers improved and reached 7.1% at the end of September 2017 vs. 7.7% at the end of 2016.

Impairment allowances on loans and advances to customers

	30.09.2017	31.12.2016
CURRENT ACCOUNTS:	**(428 008)**	**(433 071)**
corporations	(279 478)	(292 401)
households:	(147 914)	(140 033)
individual customers	(15 677)	(21 068)
sole proprietors	(64 298)	(66 233)
farmers	(67 939)	(52 732)
budget entities	(6)	-
other entities	(610)	(637)
NON-CURRENT LOANS AND ADVANCES:	**(2 384 820)**	**(2 568 285)**
corporations:	(888 743)	(943 480)
investment loans	(278 649)	(284 646)
revolving loans	(457 958)	(481 415)
other	(152 136)	(177 419)
households:	(1 397 177)	(1 525 360)
individual customers, in this:	(912 867)	(1 084 337)
mortgage loans	(322 738)	(364 406)
sole proprietors	(238 140)	(235 033)
farmers	(246 170)	(205 990)
budget entities	(199)	(215)
other entities	(4 389)	(3 933)
Lease receivables	(94 312)	(95 297)
Total impairment allowances	**(2 812 828)**	**(3 001 356)**

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

IMPAIRED EXPOSURES	30.09.2017	31.12.2016
gross exposure	4 209 939	4 484 357
Impairment allowances	(2 506 205)	(2 686 095)
Net exposure	**1 703 734**	**1 798 262**
EXPOSURES WITHOUT INDICATIONS OF IMPAIRMENT		
gross exposure	55 149 676	53 592 870
IBNR provision	(306 623)	(315 261)
Net exposure	**54 843 053**	**53 277 609**

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

	9 months ended 30.09.2017	12 months ended 31.12.2016
Impairment allowances − opening balance	**(3 001 356)**	**(3 006 099)**
Impairment allowances - opening balance*	(649 945)	(1 959 065)
Release of impairment charges*	390 962	1 556 918
Write-off	448 139	415 495
Impairment charges acquired as a result of merger	-	29 988
Other changes (including exchange differences)	(628)	(38 593)
Impairment charges − closing balance	**(2 812 828)**	**(3 001 356)**

* In 2016 recognition and reversal of impairment allowances on loans and advances was 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.

As the systems were combined in November 2016, hence recognition and reversal of impairment allowances on loans and advances is no longer presented as revenue in the consolidated report prepared as at 30 September 2017.

Mortgage loans to individuals in foreign currencies (in PLN '000)

Loans by currency	30.09.2017	31.12.2016
CHF	5 764 492	6 733 995
EUR	68 496	76 696
PLN	8 240 986	8 190 068
USD	3 804	4 787
Total	**14 077 778**	**15 005 546**

CHF loan portfolio value

(Gross) loan portfolio, including:	30.09.2017 Total portfolio	30.09.2017 including exposures in CHF	31.12.2016 Total portfolio	31.12.2016 including exposures in CHF
CURRENT ACCOUNTS:	**8 940 982**	**3**	**8 114 472**	**4**
corporations	4 684 562	-	4 188 362	-
households:	4 231 201	3	3 918 198	4
individual customers	176 858	3	183 507	4
sole proprietors	426 339	-	428 561	-
farmers	3 628 004	-	3 306 130	-
budget entities	4 943	-	475	-
other entities	20 276	-	7 437	-
NON-CURRENT LOANS AND ADVANCES:	**50 418 633**	**6 044 710**	**49 962 755**	**7 090 253**
corporations:	15 879 669	61 773	15 127 379	89 739
investment loans	7 847 874	12 777	7 198 133	20 551
revolving loans	3 161 696	37 192	3 557 759	53 984
other	4 870 099	11 804	4 371 487	15 204
households:	30 787 063	5 896 225	31 476 050	6 901 923
individual customers, in this:	21 304 366	5 851 464	21 885 691	6 837 907
mortgage loans	14 077 778	5 764 492	15 005 546	6 733 995
sole proprietors	1 992 255	37 924	2 251 724	53 782
farmers	7 490 442	6 837	7 338 635	10 234
budget entities	178 467	-	185 097	-
other entities	593 643	1 970	392 790	2 593
Lease receivables	2 979 791	84 742	2 781 439	95 998
Total gross loans and advances	**59 359 615**	**6 044 713**	**58 077 227**	**7 090 257**

Impairment losses on CHF loans

(Gross) loan portfolio, including:	30.09.2017 Total portfolio	30.09.2017 including exposures in CHF	31.12.2016 Total portfolio	31.12.2016 including exposures in CHF
CURRENT ACCOUNTS:	**(428 008)**	**(2)**	**(433 071)**	**-**
corporations	(279 478)	-	(292 401)	-
households:	(147 914)	(2)	(140 033)	-
individual customers	(15 677)	(2)	(21 068)	-
sole proprietors	(64 298)	-	(66 233)	-
farmers	(67 939)	-	(52 732)	-
budget entities	(6)	-	-	-
other entities	(610)	-	(637)	-
NON-CURRENT LOANS AND ADVANCES:	**(2 384 820)**	**(260 569)**	**(2 568 285)**	**(306 212)**
corporations:	(888 743)	(4 310)	(943 480)	(12 553)
investment loans	(278 649)	(667)	(284 646)	(797)
revolving loans	(457 958)	(349)	(481 415)	(8 145)
other	(152 136)	(3 294)	(177 419)	(3 611)
households:	(1 397 177)	(238 920)	(1 525 360)	(279 004)
individual customers, in this:	(912 867)	(229 667)	(1 084 337)	(267 181)
mortgage loans	(322 738)	(217 077)	(364 406)	(254 577)
sole proprietors	(238 140)	(7 694)	(235 033)	(9 985)
farmers	(246 170)	(1 559)	(205 990)	(1 838)
budget entities	(199)	-	(215)	-
other entities	(4 389)	-	(3 933)	-
Lease receivables	(94 312)	(17 339)	(95 297)	(14 655)
Total gross loans and advances	**(2 812 828)**	**(260 571)**	**(3 001 356)**	**(306 212)**

In 3 quarters of 2017, the Bank entered into seven agreements to sell 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 605 588 thousand (principal, interest and other accompanying receivables). The contractual portfolio sale price was PLN 120 627 thousand. The net effect of the portfolio sale on the profit generated by the Bank was PLN 32 010 thousand and it was presented under *net impairment losses on financial assets and contingent liabilities*.

23 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30.09.2017	31.12.2016
Debt securities available for sale:	11 176 730	12 448 691
issued by central banks – NBP bills	-	999 959
issued by governments – T-bonds	11 121 399	11 373 673
issued by non-financial entities – bonds	50 257	70 072
issued by budget entities – municipal bonds	5 074	4 987
Available-for-sale equity instruments (stock and shares)	41 224	47 603
Share units	633	1 561
Total available for sale financial assets	**11 218 587**	**12 497 855**
of which:		
valued using the market quotation method	*11 122 032*	*11 374 313*
valued using model-based method	*96 555*	*1 123 542*

24 INTANGIBLE ASSETS

	30.09.2017	31.12.2016
Licenses	199 478	195 934
Other intangible assets	4 708	6 153
Expenditure on intangible assets	56 238	44 465
Total intangible assets	**260 424**	**246 552**

In the third quarter of 2017, the gross carrying amount of intangible assets purchased by the Group was PLN 80 340 thousand (vs. PLN 88 099 thousand in the third quarter of 2016), while the net carrying amount of assets sold and liquidated amounted to PLN 49 806 thousand (as compared to PLN 15 896 in the third quarter of 2016).

25 PROPERTY, PLANT AND EQUIPMENT

	30.09.2017	31.12.2016
Non-current assets, in this:	498 040	528 009
land and buildings	232 675	242 622
IT equipment	124 468	130 732
office equipment	27 990	30 102
other, including leasehold improvements	112 907	124 553
Assets under construction	9 236	17 993
Total property, plant and equipment	**507 276**	**546 002**

In the third quarter of 2017, the gross carrying amount of property, plant and equipment purchased by the Group was PLN 49 806 thousand (vs. PLN 64 376 thousand in the third quarter of 2016), while the net carrying amount of property, plant and equipment items sold and liquidated was PLN 12 681 thousand (as compared to PLN 7 784 in the third quarter of 2016).

26 OTHER ASSETS

OTHER ASSETS:	30.09.2017	31.12.2016
other debtors	230 737	214 630
interbank and intersystem settlements	2 454	17 240
prepaid expenses	46 175	45 605
accrued revenue	69 517	64 192
card settlements	1 528	9 780
tax and other regulatory receivables	60 457	147 606
insurance liabilities	5 635	5 474
other lease liabilities	43 632	22 936
other	11 489	3 019
Total other assets (gross)	**471 624**	**530 482**
Impairment allowances on other receivables from other debtors	(74 792)	(55 168)
Total other assets (net)	**396 832**	**475 314**

27 AMOUNTS DUE TO BANKS

	30.09.2017	31.12.2016
Current accounts	517 259	199 895
Interbank placements	233 176	127 507
Loans and advances received	5 758 548	6 957 003
Other liabilities	98 247	24 409
Total amounts due to banks	**6 607 230**	**7 308 814**

28 AMOUNTS DUE TO CUSTOMERS

	30.09.2017	31.12.2016
OTHER FINANCIAL INSTITUTIONS	**3 336 866**	**3 990 812**
Current accounts	154 018	212 503
Term deposits	1 545 524	1 754 338
Loans and advances received	1 636 720	2 023 662
Other liabilities, in this:	604	309
due to cash collateral	582	266
other	22	43
INDIVIDUAL CUSTOMERS:	**27 169 449**	**27 527 173**
Current accounts	15 109 859	14 725 418
Term deposits	11 941 093	12 680 228
Other liabilities, in this:	118 497	121 527
due to cash collateral	35 519	45 511
other	82 978	76 016
CORPORATE CUSTOMERS:	**23 044 044**	**22 819 005**
Current accounts	12 495 774	12 090 445
Term deposits	10 210 005	10 451 327
Other liabilities, in this:	338 265	277 233
due to cash collateral	292 022	245 867
other	46 243	31 366
INCLUDING FARMERS:	**1 490 828**	**1 630 880**
Current accounts	1 323 680	1 423 807
Term deposits	155 250	198 073
Other liabilities, in this:	11 898	9 000
due to cash collateral	4 320	3 521
other	7 578	5 479
BUDGET ENTITIES:	**1 735 618**	**818 024**
Current accounts	671 795	585 195
Term deposits	1 061 401	229 848
Other liabilities, in this:	2 422	2 981
due to cash collateral	77	23
other	2 345	2 958
Total amounts due to customers	**55 285 977**	**55 155 014**

At the end of September 2017 amounts due to customers reached PLN 55 285 977 thousand, having grown by 0.2% vs. the end of 2016.

The share of current accounts in total amounts due to customers increased from 50.1% at the end of December 2016 to 51.4% at the end of September 2017. The value of funds deposited in current accounts increased by PLN 817 885 thousand, i.e. 3.0%. The highest growth was reported in the corporate customer segment (+3.4%) and individual customer segment (+2.6%). On the other hand, the share of term deposits in total amounts due to customers dropped from 45.5% at the end of December 2016 to 44.8% at the end of September 2017. In terms of value, term deposits decreased by PLN 357 718 thousand, i.e. 1.4% vs. December 2016. Loans and advances received decreased by PLN 386 942 thousand.

Deposits of individual customers decreased by PLN 357 724 thousand, i.e. by 1.3% and accounted for 49.1% of all amounts due to customers at the end of September 2017 (a decrease of 0.8 p.p. compared to the end of December 2016).

Corporate customer deposits increased by PLN 225 039 thousand, i.e. 1.0%. Their share in total amounts due to customers reached 41.7% in the analyzed period, i.e. grew from 41.4% at the end of December 2016.

The increase in the volume of public sector deposits of PLN 917 594 thousand (in particular of term deposits) up to PLN 1 735 618 thousand positively affected the amounts due to customers. Their share in total amounts due to customers grew from 1.5% at the end of December 2016 to 3.1% at the end of September 2017.

29 DEBT SECURITIES ISSUED

Changes in the balance of debt securities issued

	9 months ended 30.09.2017	12 months ended 31.12.2016
Opening balance	**398 059**	**469 083**
Redemption of certificates of deposit	(10 000)	(71 996)
Changes in discount from certificates of deposit, interests, commission and other fees on certificates of deposit amortized using EIR, foreign currency exchange differences	(1 543)	972
Balance of debt securities issued at the end of the period	**386 516**	**398 059**

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. (currently mBank) 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 Group.

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

As at 30 September 2017, the par value of certificates of deposit issued was PLN 384 000 thousand as compared to PLN 394 000 thousand as at 31 December 2016.

30 SUBORDINATED LIABILITIES

As at 30 September 2017, the carrying amount of subordinated liabilities was PLN 1 695 470 thousand, as compared to PLN 1 768 458 thousand as at 31 December 2016.

Change in subordinated liabilities	9 months ended 30.09.2017	12 months until 31.12.2016
Opening balance	**1 768 458**	**847 568**
Loans taken out	-	882 400
Change in interest	(1 294)	2 029
Exchange differences	(71 694)	36 461
Closing balance	**1 695 470**	**1 768 458**

31 OTHER LIABILITIES

	30.09.2017	31.12.2016
Interbank and intersystem settlements	185 197	345 720
Other creditors	167 689	140 144
Card settlements	13 141	42 922
Provisions for non-personnel expenses	144 111	139 959
Provisions for other employees-related liabilities	139 145	131 665
Provision for unused holidays	79 864	29 653
Deferred income	71 949	83 187
Trust account liabilities	54 262	63 098
Other regulatory liabilities	20 615	103 973
Insurance liabilities	19 599	17 577
Other lease liabilities	14	16 233
Other	56 677	8 649
Total other liabilities	**952 263**	**1 122 780**

32 PROVISIONS

	30.09.2017	31.12.2016
Provision for restructuring	11 007	29 523
Provision for retirement benefits and similar obligations	13 854	13 332
Provision for guarantees, suretyships and undrawn credit facilities	49 758	42 659
Provisions for litigation and claims	6 026	26 687
Other provisions	7 802	8 840
Total provisions	**88 447**	**121 041**

Provisions for restructuring	9 months ended 30.09.2017	12 months ended 31.12.2016
Opening balance	**29 523**	**60 824**
Provisions charges	-	29 867
Provisions utilization	(18 755)	(59 674)
Provisions release	-	(2 080)
Other changes	239	586
Closing balance	**11 007**	**29 523**

Provision for retirement benefits and similar obligations	9 months ended 30.09.2017	12 months ended 31.12.2016
Opening balance	**13 332**	**25 879**
Provisions charges	1 169	5 205
Provisions release	(647)	(17 752)
Closing balance	**13 854**	**13 332**

Provisions for guarantees, suretyships and undrawn credit facilities	9 months ended 30.09.2017	12 months ended 31.12.2016
Opening balance	**42 659**	**46 784**
Provisions charges	29 826	53 981
Provisions release	(22 726)	(52 820)
Other changes	(1)	(5 286)
Closing balance	**49 758**	**42 659**

Provisions for litigation and claims	9 months ended 30.09.2017	12 months ended 31.12.2016
Opening balance	**26 687**	**20 913**
Provisions charges	5 701	11 455
Provisions utilization	(23 886)	(4 945)
Provisions release	(1 806)	(1 772)
Other changes	(670)	1 036
Closing balance	**6 026**	**26 687**

Other provisions	9 months ended 30.09.2017	12 months ended 31.12.2016
Opening balance	**8 840**	**9 754**
Provisions charges	4 716	6 146
Provisions release	(1 802)	(5 668)
Other changes	(3 952)	(1 392)
Closing balance	**7 802**	**8 840**

33 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 period shorter than three months:

	30.09.2017	30.09.2016
Cash and balances at Central Bank (Note 18)	1 708 096	2 021 495
Current accounts and other receivables	83 355	173 843
Interbank placements	112 962	68 256
Total cash and cash equivalents	**1 904 413**	**2 263 594**

34 ADDITIONAL INFORMATION REGARDING THE STATEMENT OF CASH FLOWS

Cash flows from operating activities - other adjustments	9 months ended 30.09.2017	9 months ended 30.09.2016
FX differences on subordinated liabilities	(71 694)	8 780
Change in hedge accounting	7 374	(39 372)
Equity of subsidiaries arising from business combination	-	(87 325)
Other adjustments	(1 352)	(3 477)
Cash flows from operating activities - total other adjustments	**(65 672)**	**(121 394)**

35 CONTINGENT LIABILITIES

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

	30.09.2017	31.12.2016
CONTINGENT COMMITMENTS GRANTED	**19 079 247**	**18 766 871**
financial commitments	15 163 014	14 998 032
guarantees	3 916 233	3 768 839
CONTINGENT COMMITMENTS RECEIVED	**12 040 317**	**12 308 059**
financial commitments	10 800 926	10 994 815
guarantees	1 239 391	1 313 244

36 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

In the third quarter of 2017, instruments were allocated to the following measurement levels:

- level 1: treasury bonds, (fair value determined directly by reference to published active market quotations),
- 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), 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),
- 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 consolidated financial statements into three categories:

30.09.2017	Level 1	Level 2	Level 3	Total
ASSETS RE-MEASURED TO FAIR VALUE:	**11 122 032**	**429 426**	**137 521**	**11 688 979**
Derivative financial instruments	-	362 629	33 067	395 696
Hedging instruments	-	20 230	-	20 230
Available for sale financial assets	11 122 032	46 567	49 988	11 218 587
Investment property	-	-	54 466	54 466
LIABILITIES RE-MEASURED TO FAIR VALUE:	**-**	**277 271**	**32 151**	**309 422**
Derivative financial instruments	-	277 271	32 151	309 422

31.12.2016	Level 1	Level 2	Level 3	Total
ASSETS RE-MEASURED TO FAIR VALUE:	**11 375 253**	**1 385 860**	**133 884**	**12 894 997**
Derivative financial instruments	-	300 753	23 252	324 005
Hedging instruments	-	18 671	-	18 671
Available for sale financial assets	11 375 253	1 066 436	56 166	12 497 855
Investment property	-	-	54 466	54 466
LIABILITIES RE-MEASURED TO FAIR VALUE:	**-**	**257 076**	**14 681**	**271 757**
Derivative financial instruments	-	257 076	14 681	271 757

The fair value of level 2 and 3 financial instruments is determined using valuation 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.

For investment property, offer prices for comparable property, actual transaction prices and other information concerning the conditions on a specific regional real estate market are the input data used for purposes of valuation. Adoption of estimates other than those used as at 30 September 2017 could lead to a material change in the valuation of investment property. However, the Group is not able to estimate their effect on the fair value of real property reliably.

The measurement was carried out by an independent property appraiser using the combined approach (residual method).

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

	Derivative financial instruments – assets	Available for sale financial assets	Investment property	Derivative financial instruments – liabilities
Balance as at 1 January 2017	**23 252**	**56 166**	**54 466**	**(14 681)**
Total gains/losses recognized in:	9 815	(6 041)	-	(17 470)
statement of profit or loss	*9 815*	*111*	-	*(17 470)*
statement of other comprehensive income	-	*(6 152)*	-	-
Purchase	-	-	-	-
Sale	-	(137)	-	-
Transfer	-		-	-
Balance as at 30 September 2017	**33 067**	**49 988**	**54 466**	**(32 151)**
Unrealized gains/losses recognized in profit or loss relating to assets and liabilities held at the end of the period	**9 815**	**111**	**-**	**(17 470)**

	Derivative financial instruments – assets	Available for sale financial assets	Investment property	Derivative financial instruments – liabilities
Balance as at 1 January 2016	**6 684**	**174 893**	**54 627**	**(6 545)**
Total gains/losses recognized in:	16 568	(31 598)	(161)	(8 136)
statement of profit or loss	*16 568*	*286*	*(161)*	*(8 136)*
statement of other comprehensive income	-	*(31 884)*	-	-
Purchase	-	32 135	-	-
Settlement	-	(114 264)	-	-
Transfer	-	(5 000)	-	-
Balance as at 31 December 2016	**23 252**	**56 166**	**54 466**	**(14 681)**
Unrealized gains/losses recognized in profit or loss relating to assets and liabilities held at the end of the period	**16 568**	**286**	**(161)**	**(8 136)**

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.

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

30.09.2017	Book value	Fair value	Level
FINANCIAL ASSETS			
Receivables from banks	273 646	269 226	3
Loans and advances to customers	56 546 787	49 188 776	3
FINANCIAL LIABILITIES			
Amounts due to banks	6 607 230	6 634 243	3
Amounts due to customers	55 285 977	55 386 929	3
Liabilities due to subordinated loan	1 695 470	1 909 569	3

31.12.2016	Book value	Fair value	Level
FINANCIAL ASSETS			
Receivables from banks	1 233 592	1 231 401	3
Loans and advances to customers	55 075 871	49 538 010	3
FINANCIAL LIABILITIES			
Amounts due to banks	7 308 814	7 411 904	3
Amounts due to customers	55 155 014	55 318 603	3
Liabilities due to subordinated loan	1 768 458	2 069 547	3

37 RELATED PARTY TRANSACTIONS

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

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

As at 30 September 2017, 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 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 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

30.09.2017	BNP Paribas S.A.	BNP Paribas Fortis S.A.	Other entities from the capital group of Bank BNP Paribas S.A.	Key personnel	Total
ASSETS	**257 123**	**145 501**	**48 459**	**91**	**451 174**
Current accounts, interbank placements and loans and advances	33 166	139 569	40 352	91	213 178
Derivative financial instruments	223 408	5 932	-	-	229 340
Other assets	549	-	8 107	-	8 656
LIABILITIES	**5 281 838**	**24 197**	**3 500 717**	**2 991**	**8 809 743**
Loans and advances received	3 674 501	16 413	3 086 701	-	6 777 615
Current accounts, deposits	-	7 759	141 684	2 991	152 434
Subordinated liabilities	1 441 022	-	259 132	-	1 700 154
Derivative financial instruments	166 172	25	-	-	166 197
Other liabilities	143	-	13 200	-	13 343
CONTINGENT LIABILITIES					
Financial commitments granted	904 707	521 228	131 178	47	1 557 160
Commitments received	947 665	579 812	395 816	-	1 923 293
Derivative financial instruments (face value)	71 149 381	2 433 133	-	-	73 582 514

9 months ended 30.09.2017					
STATEMENT OF PROFIT OR LOSS	**51 548**	**(11 072)**	**(20 675)**	**(44)**	**19 757**
Interest income	155	162	1 032	3	1 352
Interest expense	(34 435)	(11 979)	(28 392)	(49)	(74 855)
Fee and commission income	2	294	15 306	2	15 604
Fee and commission expense	(406)	(109)	(478)	-	(993)
Net trading income	86 282	560	4 464	-	91 306
Other operating income	-	-	9 174	-	9 174
Other operating expenses	-	-	(11 611)	-	(11 611)
General administrative expenses	(50)	-	(10 170)	-	(10 220)

31.12.2016	BNP Paribas S.A.	BNP Paribas Fortis S.A.	Other entities from the capital group of Bank BNP Paribas S.A.	Key personnel	Total
ASSETS	**791 066**	**370 497**	**13 156**	**14**	**1 174 733**
Current accounts, interbank placements and loans and advances	688 121	339 267	9 321	14	**1 036 723**
Derivative financial instruments	100 986	14 737	-	-	**115 723**
Hedging instruments	-	16 493	1 990	-	**18 483**
Other assets	1 959	-	1 845	-	**3 804**
LIABILITIES	**4 967 275**	**1 984 342**	**3 128 819**	**2 160**	**10 082 596**
Loans and advances received	3 302 143	1 963 291	2 808 755	-	**8 074 189**
Current accounts, deposits	91 615	20 093	51 636	2 160	**165 504**
Subordinated liabilities	1 507 179	-	265 400	-	**1 772 579**
Derivative financial instruments	66 287	958	-	-	**67 245**
Other liabilities	51	-	3 028	-	**3 079**
CONTINGENT LIABILITIES					
Financial commitments granted	-	-	104 826	113	**104 939**
Guarantee commitments	-	-	-	-	**-**
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	**(34 132)**	**36 798**	**(14 528)**	**24**	**(11 838)**
Interest income	10	613	3 780	1	**4 404**
Interest expense	(57 539)	(1 063)	(36 120)	22	**(94 700)**
Fee and commission income	1 552	165	22 912	1	**24 630**
Fee and commission expense	(99)	(1 868)	(395)	-	**(2 362)**
Net trading income	18 197	38 916	8 759	-	**65 872**
Other operating income	3 603	36	67	-	**3 706**
Other operating expenses	-	(1)	(13 783)	-	**(13 784)**
General administrative expenses	144	-	252	-	**396**

Remuneration of the Management Board and Supervisory Board

Management Board	30.09.2017	31.12.2016
Short-term employee benefits	17 554	18 970
Long-term benefits	4 757	5 264
Benefits due to termination of employment	1 792	-
Share-based payments	979	748
TOTAL	**25 082**	**24 982**

Supervisory Board	30.09.2017	31.12.2016
Short-term employee benefits	1 508	1 695
Long-term benefits	-	-
Benefits due to termination of employment	-	-
Share-based payments	-	-
TOTAL	**1 508**	**1 695**

38 CONSOLIDATED CAPITAL ADEQUACY RATIO

	30.09.2017	31.12.2016
Total equity	7 621 643	7 619 694
Total risk exposure	55 610 903	52 913 987
Total capital ratio	13.71%	14.40%
Tier 1 ratio	10.66%	11.06%

39 OPERATING SEGMENTS

Segment reporting

The Group has identified the following operating segments for reporting purposes and allocated income and expenses as well as assets and liabilities thereto: Retail and Business Banking, Small and Medium-Sized Enterprises (SME), Corporate Banking, Corporate and Institutional Banking (CIB) as well as Other Operations, including ALM Treasury and the Corporate 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 Group's management reporting. The abovementioned segmentation reflects the principles of customer classification to each segment in line with the business model adopted by the Bank, which are based on such criteria as the entity, finances and type of business activity.

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

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

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

Description of operating segments

The Retail and Business Banking Segment offers comprehensive services to individuals, also private banking customers, as well as businesses (microenterprises), including:

- entrepreneurs whose net annual revenue for the preceding financial year is below PLN 10 million and the Group's credit exposure to a customer is less than PLN 2 million,
- farmers, where the Group'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 online 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, the online 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 such major products as cash advances, car loans, installment 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 of the retail banking segment.

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 Segment 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 financial 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. Transaction services are provided to all institutional segment customers by the Bank's Branches, via telephone and online.

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 Group's balance sheet as well as the operational and structural currency risk. The AML Treasury focuses on both prudential (compliance with external and internal regulations) and optimization aspects (financing cost management and generating profit on management of the Group's balance sheet items).

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

30.09.2017*	Retail and Business Banking	SME Banking	Corporate Banking	CIB	Other Operations	Total	including Agro customers	including Personal Finance
STATEMENT OF PROFIT OR LOSS								
Net interest income	900 000	176 573	209 153	8 056	158 291	**1 452 073**	275 228	356 277
external interest income	1 076 900	318 773	300 507	17 012	298 184	**2 011 377**	493 901	506 353
external interest expense	(267 183)	(54 414)	(125 298)	-	(112 409)	**(559 304)**	(42 953)	(9 487)
internal interest income	551 154	98 028	195 652	-	849 273	**1 694 108**	94 350	-
internal interest expense	(460 871)	(185 814)	(161 709)	(8 956)	(876 758)	**(1 694 108)**	(270 070)	(140 589)
Net fee and commission income	213 409	66 200	92 303	2 326	(2 674)	**371 564**	102 919	42 496
Dividend income	-	-	-	-	4 693	**4 693**	-	-
Net trading income	28 680	16 672	60 024	50 074	30 662	**186 112**	17 654	45
Result on investment activities	98	-	1 930	-	23 514	**25 543**	-	-
Result on hedge accounting	-	-	-	-	5 436	**5 436**	-	-
Other operating income and expenses	(1 730)	(2 358)	292	182	3 917	**302**	(5 689)	(5 693)
Net impairment losses on financial assets and contingent liabilities	(172 161)	(63 023)	(22 282)	-	(7 721)	**(265 187)**	(95 228)	(54 760)
General administrative expenses	(565 192)	(78 019)	(98 640)	(22 541)	(355 600)	**(1 119 990)**	(7 252)	(168 978)
Depreciation and amortization	(44 897)	(847)	(4 389)	(1 667)	(78 700)	**(130 500)**	(155)	(4 289)
Expense allocation (internal)	(242 772)	(63 579)	(59 885)	(5 643)	371 880	**-**	-	(51 197)
Operating result	**115 436**	**51 619**	**178 507**	**30 787**	**153 698**	**530 046**	**287 477**	**113 900**
Tax on financial institutions	(81 852)	(30 504)	(33 916)	(897)	(7 439)	**(154 608)**	-	(20 603)
Segment profit before income tax	**33 584**	**21 114**	**144 591**	**29 891**	**146 259**	**375 438**	**287 477**	**93 298**
Income tax expense	**-**	**-**	**-**	**-**	**-**	**(144 869)**	**-**	**-**
Net profit/ (loss)	**-**	**-**	**-**	**-**	**-**	**230 569**	**-**	**-**
STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2017								
Segment assets	29 465 077	11 595 140	15 019 700	424 098	15 402 887	**71 906 902**	15 282 400	7 604 328
Segment liabilities	33 195 382	6 939 359	16 596 543	-	8 696 338	**65 427 623**	6 140 949	-

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

30.09.2016*	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	827 255	174 276	179 594	2 526	179 477	**1 363 128**	260 507	348 810
external interest income	1 057 225	325 987	273 486	6 381	266 550	**1 929 628**	476 969	491 399
external interest expense	(270 392)	(44 162)	(108 084)	-	(143 862)	**(566 500)**	(30 640)	(17 913)
internal interest income	480 922	79 692	165 105	-	822 638	**1 548 357**	69 015	-
internal interest expense	(440 499)	(187 241)	(150 913)	(3 855)	(765 849)	**(1 548 357)**	(254 837)	(124 676)
Net fee and commission income	222 968	67 229	86 081	112	(808)	**375 580**	90 676	46 519
Dividend income	-	796	851	-	4 131	**5 777**	119	-
Net trading income	29 588	19 430	57 371	48 140	23 123	**177 652**	21 512	507
Result on investment activities	453	-	(3)	-	41 987	**42 437**	-	-
Result on hedge accounting	-	-	-	-	256	**256**	-	-
Other operating income and expenses	27 934	6 594	4 019	145	(16 232)	**22 458**	2 191	23 483
Net impairment losses on financial assets and contingent liabilities	(193 297)	(70 445)	(17 968)	100	(128)	**(281 737)**	(74 416)	(79 085)
General administrative expenses	(606 352)	(85 311)	(107 709)	(20 889)	(444 632)	**(1 264 891)**	(7 425)	(184 646)
Depreciation and amortization	(56 160)	(1 011)	(5 502)	(875)	(85 281)	**(148 829)**	(252)	(8 076)
Expense allocation (internal)	(255 260)	(75 297)	(48 706)	(4 020)	383 282	**-**	-	(41 001)
Operating result	**(2 871)**	**36 260**	**148 028**	**25 239**	**85 175**	**291 831**	**292 912**	**106 512**
Tax on financial institutions	(71 090)	(27 551)	(29 672)	(459)	(4 977)	**(133 748)**	-	(15 315)
Segment profit before income tax	**(73 960)**	**8 709**	**118 356**	**24 780**	**80 199**	**158 083**	**292 912**	**91 197**
Income tax expense	**-**	**-**	**-**	**-**	**-**	**(83 227)**	**-**	**-**
Net profit/ (loss)	**-**	**-**	**-**	**-**	**-**	**74 856**	**-**	**-**
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016								
Segment assets	29 366 671	11 478 459	13 721 127	310 656	17 428 084	**72 304 999**	15 058 445	7 369 495
Segment liabilities	32 879 814	6 016 195	15 894 510	-	11 367 656	**66 158 178**	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.

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

As at 30 September 2017 and the date of the Board's approval of the report for the third quarter of 2017, i.e. 8 November 2017, the structure of the shareholders of Bank 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 THE 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%**

In three quarters of 2017 there were no changes in the shareholding structure.

As at 30 September 2017, the Bank's share capital totaled PLN 84 238 thousand

and was divided into 84 238 318 shares with the par value of PLN 1.00 each, 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 30 September 2017, there were 13 024 915 registered shares, including four B series shares).

No special control rights are attached to the ordinary bearer shares. Four registered B series shares of 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, once 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 the voting rights, nor does it include 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 30 September 2017, 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 had been no changes in this respect since the date of presenting the report for the first half of 2017, i.e. 31 August 2017.

Investor obligation of BNP Paribas concerning liquidity of the Bank's shares

As declared by BNP Paribas SA to the Polish Financial Supervision Authority (PFSA) in September 2014, the number of the Bank's shares that are 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 fulfil the investor obligation of BNP Paribas SA, justified with an unforeseen adverse change in market conditions compared to the date of accepting the obligation, consists in PFSA considering the obligation fulfilled if liquidity of the 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.

41 DIVIDENDS PAID

The Group did not pay any dividends for 2016.

42 APPROPRIATION OF PROFIT

Pursuant to a Resolution of the General Shareholders' Meeting of Bank BGŻ BNP Paribas of 22 June 2017, the net profit for 2016, in the amount of PLN 49 388 thousand, was allocated to the unidentified banking risk reserve.

43 LITIGATION

As at 30 September 2017, the total disputed amount in pending court cases was PLN 446 827 thousand (as at 31 December 2016 it was PLN 489 228 thousand), and comprised:

- the disputed amount in claims for payment filed against the Bank (i.e. except adverse claims and proceedings to annul legal transactions) of PLN 139 604 thousand (versus PLN 137 318 thousand as at 31 December 2016),
- the disputed amount in proceedings to annul legal transactions, instituted against the Bank, of PLN 1 311 thousand (versus PLN 31 472 thousand as at 31 December 2016),
- the disputed amount in the proceedings with the Bank as the plaintiff of PLN 305 912 thousand (versus PLN 320 438 thousand as at 31 December 2016).

The shareholders of Bank BGŻ BNP Paribas S.A. and other companies in the Capital Group are not 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.

Court decision regarding calculation of the interchange fee

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

Corporate claims against the Bank (interchange fee)

By 30 September 2017, the Bank received 26 calls for settlement from companies using payment cards. The total amount of these claims was PLN 986.06 million, including PLN 975.99 million where the Bank had joint and several responsibility with other banks. The claims were related to the interchange fees determined under agreements for restricting competition and the Bank executed the decision of the President of UOKiK referred to above.

Proceedings instigated by the Bank's customers being parties to CHF indexed and/or denominated loan agreements.

As at 30 September 2017, the Bank was a defendant in forty (40) court cases 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. 12 (twelve) new claims were made in the last quarter. The total value of the claims is PLN 12.83 million. Based on the assessment of the claims' rationale a provision of PLN 10.77 thousand was recognized for one claim.

(*) Excluding adverse claims.

44 RISK MANAGEMENT

Described below are key changes in credit risk management approach, key measures of market, liquidity, counterparty and country risk and changes in the operational risk management approach, introduced in the third quarter of 2017.

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 73% share in the total economic capital estimated by the Group for purposes of covering major risks involved in its operations, in addition to its 91% share in the total value of regulatory capital.

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

Credit risk management principles adopted by the Group:

- each credit transaction requires comprehensive credit risk assessment expressed in internal rating or scoring,
- in-depth and careful financial analysis serves as the basis for regarding the customer's financial information and collateral-related data as reliable; prudential analyses performed by the Group always take into account a safety margin,
- as a rule, financing is provided to the customer based on its ability to generate cash flows that ensure payment of its liabilities to the Group,
- 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 Group enters into credit transactions only with customers it knows and long-term relationships are the basis for cooperation with customers,
- the customer and the transactions made with the customer are monitored transparently from the perspective of the customer, in a manner that strengthens the relationship between the Bank and the customer.

Forbearance practices

The Bank treats its exposures as forborne if, for economic reasons (financial difficulties) 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,
- provision of a new loan to repay the existing debt,

only in the period of the 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.

FINANCIAL RISK

Market risk in the banking book

In the third quarter of 2017, the use of sensitivity limits for the interest position in each time range was limited. The interest rate risk measured by the average use of the technical interest rate gap limits increased as compared to the preceding quarter and totaled 12% at the end of September.

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

Market risk in the trading book

The market risk measured by VaR in the third quarter of 2017 was similar to that in the second quarter − the average use of the VaR limit for the trading book was 47%. Interest rate exposures were the main source of risk in the trading book (with the major share of interest rate swaps). Currency risk exposures had a very limited impact on the Bank's market risk as end-of-day positions in each currency were reduced to minimum levels.

Liquidity risk

In the third quarter of 2017, the Bank maintained the regulatory short- and long-term liquidity measures above the regulatory and internal limits. The LCR ranged between 97.5% and 102.4%.

Amounts due to customers, medium- and long-term lines of credit and equity are the major sources of funding used by the Bank. Short- and long-term lines of credit, including subordinated loans, were mainly extended by the BNP Paribas group.

Counterparty and country 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.

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.

In the third quarter of 2017, the Bank's exposure to counterparty risk in the corporate segment went up by 10% while the exposure to banks − by 5%.

As at 29 September 2017, foreign lending operations of the Bank accounted for 58.4%, international trade transactions for 27.4%, treasury transactions (including deposits and derivatives) represented 14.1% and derivative transactions entered into with foreign corporate customers represented 0.1% of the Bank's country risk exposure. France accounted for 32%, the Netherlands for 16%, Belgium for 15% and Switzerland for 11% of the exposure. The remaining exposure was related to the UK, Germany and Luxembourg.

OPERATIONAL RISK

The Bank's operational risk is defined, in accordance with a 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 operations, in addition to court and administrative proceedings which affect the Group. 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, 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 Bank BGŻ BNP Paribas SA", which was approved by the Management Board of the Bank. 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 holds data regarding operational risk losses for over ten years and estimates its regulatory capital necessary to cover operational risk in accordance with the applicable regulations. The said calculation is performed using the standardized approach (STA). Requirements for the Bank's subsidiaries, at the consolidated level, are determined using the basic indicator approach (BIA).

Subsidiaries

At the subsidiaries, operational risk is managed by dedicated units/designated employees. Operational risk management at the subsidiaries (methods and procedures) is organized considering the entity's scope of business as well as its business profile, in compliance with the Group policies.

45 GOVERNING BODIES OF BANK BGŻ BNP PARIBAS S.A.

Composition of the Supervisory Board as at 30 September 2017:

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
Yvan De Cock	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

Changes in the Management Board of the Bank between 1 January and 30 September 2017:

- On 18 May 2017, Mr. Thomas Mennicken resigned from the office of Member of the Supervisory Board of Bank BGŻ BNP Paribas S.A. as of the date of the General Shareholders' Meeting of the Bank which was held on 22 June 2017.
- On 22 June 2017, Mr. Yvan De Cock was appointed Member of the Supervisory Board by the General Shareholders' Meeting.

Composition of the Management Board of the Bank as at 30 September 2017:

FULL NAME	POSITION HELD IN THE MANAGEMENT BOARD OF THE BANK
Tomasz Bogus	President of the Management Board
Daniel Astraud	Vice President of the Management Board
Jean-Charles Aranda	Member 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
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 of the Bank between 1 January and 30 Septermber 2017:

- On 5 April 2017, Mr. Jan Bujak submitted his resignation from the position of Vice President of the Management Board as of 5 April 2017,
- During its meeting on 5 April 2017, the Supervisory Board of the Bank appointed Mr. Jean-Charles Aranda Member of the Management Board effective from 5 April 2017,
- On 2 June 2017, Mr. François Benaroya submitted his resignation from the position of Vice President of the Management Board as of 30 September 2017,
- During its meeting on 2 June 2017, the Supervisory Board of the Bank appointed Mr. Przemysław Furlepa Vice President of the Management Board as of 1 October 2017.

46 FACTORS WHICH, ACCORDING TO THE BANK, WILL AFFECT THE CAPITAL GROUP'S PERFORMANCE WITHIN AT LEAST THE UPCOMING QUARTER

The major factors which may affect the Group's performance in near future are:

- A new bill prepared by the President's Chancellery to support people unable to make payments under home loans in due time. It assumes that a new Restructuring Fund will be established. The fund will be supported with quarterly payments made by banks in values depending on the volume of individual loan portfolios denominated in and indexed to foreign currencies (up to 0.5% of the total carrying amount of the loan portfolio). The bill assumes that the maximum annual charges imposed on the banking sector will not exceed PLN 3.2 billion.
- **Higher risk weights** for home loans denominated in or indexed to foreign currencies - from December 2017.
- **New regulations** - planned to enter into force as of January 2018:
    - Amended Act on suretyships and guarantees given by the State Treasury and certain legal entities. Under the amendment the National Guarantee Fund will replace the de minimus programme applicable until the end of 2017. The amount of guarantees granted will remain unchanged.

- IFRS 9 - the change of the method of recognizing provisions for loans; the incurred loss model will be replaced with the expected credit loss model.
- Markets in Financial Instruments Directive (MIFID II). The objective of the regulation is to protect clients through increased transparency and new remuneration models for distributors.
- Implementation of Payment Services Directive ("PSD II") to the Polish law under the EU internal market approach. PSD II will introduce online access to customer account data and payment initiation at a customer's request. These services will be provided by third parties. Under the Directive banks will be obliged to provide APIs and implement additional security measures.

- **Current standing of the Polish economy.** Economic activity in the third quarter of 2017 corresponds to the higher economic growth rate in Poland of 4.5% YoY in the third quarter of 2017 (up from 3.9% YoY in the second quarter of 2017). Leading economic indicators suggest that the GDP will continue to grow fast in the coming years. Still, considering the cyclical nature of the Polish economy and the diminishing impact of fiscal stimuli, the Polish GDP is likely to drop to ca. 3.0% YoY (i.e. midterm trend) in the coming quarters.
- **Domestic labor market.** Lowering the pension age at the end of the year and the Ukraine visa waiver within the European Union may translate into lower labor supply in the upcoming quarters. According to current estimates of the Polish government, reduction of the retirement age may result in a rapid increase in the number of pensioners (by approx. 300 thousand). Based on analyses carried out by the National Bank of Poland, last year there were approx. 770 thousand Ukrainians legally employed in Poland. In the short term, a limited labor supply may intensify the pay pressure. In the medium and long term, the labor shortage may slow down the potential and real GDP growth rate.
- **Acceleration of core inflation**, arising from growing pay and demand-pull pressure that may drive market expectations of interest rate increase in Poland. These expectations may be supported by growing interest rates in world's key economies, among others resulting from further quantitative tightening in the U.S. and the phasing off of asset purchase announced by ECB. As a result, despite moderating communications of the Monetary Policy Council (MPC), it may decide to increase interest rates in 2018 to prevent occurrence of undue expectations regarding inflation among households in the context of current labor market tightening including a fast drop in the unemployment rate.
- **Growing imbalance in public finance.** Lowering of the retirement age and higher social expenditure increase the risk that the budget deficit will exceed 3% of GDP in the coming quarters. If prudential thresholds determined by the European Commission are exceeded, Poland may lose its attractiveness for foreign investors. This, in turn, may reduce portfolio investments and result in considerable depreciation of the Polish zloty and increase bond yields.
- **Potential weakening of the Polish zloty against major currencies** resulting from a decrease in real interest rate differences between Poland, the U.S. and the eurozone (related to further tightening of monetary policies abroad and higher domestic inflation).
- **A global increase in interest rates** as a potential risk factor for Polish bonds and PLN exchange rate.
- **A potential increase in fluctuations and risk aversion on European financial markets** arising from ECB's tightening monetary policy parameters, sectoral factors (resilient European banking system) and geopolitical issues (Catalan independence). Lower risk appetite on the European bonds market may result in an increase in risk premium on domestic assets and thus improve the profitability of Polish treasury bonds (in particular with regard to the long end of the yield curve).

47 MAJOR EVENTS IN 2017

10.03.2017 **PFSA'a individual dividend recommendation for 2016 and recommendation of the Bank's Management Board not to pay out dividend for 2016.**

The Management Board of Bank BGŻ BNP Paribas S.A. announced that it had received a letter from the Polish Financial Supervision Authority with an individual recommendation to increase the amount of equity by retaining the entire profit generated by Bank BGŻ BNP Paribas S.A. over the period from 1 January to 31 December 2016.

Therefore, on 10 March 2017, the Management Board of the Bank passed a resolution to recommend that the General Shareholders' Meeting decides to allocate the entire net profit for 2016 to the Bank's equity.

The Bank's Management Board included the information that it would not recommend a dividend payout for 2016 in current report No. 36/2016 published on 30 November 2016.

15.03.2017	**Recommendation of the Bank's Supervisory Board not to pay out dividend for 2016.** As announced by the Management Board of Bank BGŻ BNP Paribas S.A., on 15 March 2016, the Supervisory Board of Bank BGŻ BNP Paribas S.A. adopted a resolution formulating a recommendation as to distribution of the Bank's profit for 2016. According to the recommendation, which was presented to the General Shareholders' Meeting, the Bank's profit after tax (net profit) for the 2016 financial year should be allocated in whole to the unidentified banking risk reserve.
26.04.2017	**Information about the amount of annual payment to the mandatory restructuring fund calculated by BGF for Bank BGŻ BNP Paribas S.A. for 2017 totaling PLN 50 618 228.16.**
29.05.2017	**Capital ratios of Bank BGŻ BNP Paribas S.A. and the Capital Group of Bank BGŻ BNP Paribas S.A.** As announced by the Management Board of Bank BGŻ BNP Paribas S.A., on 29 May 2017, the Board was informed that the consolidated Tier 1 capital ratio of the Capital Group of Bank BGŻ BNP Paribas S.A. as at the end of April 2017, calculated on 29 May 2017 on the basis of the available real data received from the Group companies and verified in the internal reporting process, was 10.90%, i.e. 0.11 p.p. less than specified in the letter of the PFSA of 23 October 2015 and in administrative decisions issued by the PFSA in 2016 (11.01%). The consolidated TCR calculated in accordance with the aforementioned principles was 14.02%, i.e. 0.16 p.p. less than the ratio required at the consolidated level (14.18%). The estimated equity (calculated at the end of April 2017) that is necessary to achieve the recommended consolidated Tier 1 ratio is ca. PLN 61.1 million (EUR 14.6 million) and ca. PLN 85.5 million (EUR 20.4 million) for the consolidated TCR. The Tier 1 ratio and TCR at the separate level as at the end of April 2017 exceeded the values recommended by the PFSA in its letter of 23 October 2015 as well as the administrative decisions issued by the PFSA in 2016, and amounted to 11.26%, i.e. 0.23 p.p. more than the recommended level of 11.03%, and 14.49%, i.e. 0.28 p.p. more than the recommended level of 14.21%, respectively. At the same time, Tier 1 ratio and TCR at the separate and consolidated level (after four months of 2017) exceeded the levels defined in Regulation No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. Under the said Regulation, the consolidated Tier 1 ratio and the consolidated TCR should be 8.01% and 10.18%, respectively, as compared to 8.03% and 10.21%, respectively, at the separate level. Additionally, the Bank satisfies the combined buffer requirement set out in Article 60 of the Act on Macroprudential Supervision of the Financial System and Crisis Management in the Financial Sector of 5 August 2015, both at the consolidated and the separate level.
22.06.2017	**General Shareholders' Meeting of Bank BGŻ BNP Paribas S.A.** • approval of the financial statements for 2016 and Management Reports on the Activities of the Bank in 2016, • acknowledgement of the fulfilment of duties by Members of the Management Board and the Supervisory Board in 2016, • approval of amendments to the Bank's Statute, • adoption of a resolution to distribute the Bank's profit generated in 2016 – allocation of the net profit to the unidentified banking risk reserve.
13.09.2017	Issue of the current report on the registration of amendments to the Statute of Bank BGŻ BNP Paribas S.A.**, adopted by the Extraordinary Shareholders' Meeting on 22 June 2017 in the National Court Register.**
21.09.2017	**Resignation of the President of the Management Board of Bank BGŻ BNP Paribas S.A.**
21.09.2017	The decision of the Supervisory Board of the Bank to **extend by two years the term of the agreement** dated 12 June 2015 concluded **with z Deloitte Polska** Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with the registered office in Warsaw for the review and audit of financial statements of the Bank and the Capital Group.

48 SUBSEQUENT EVENTS

26.10.2017

Appointment of the President of the Management Board of Bank BGŻ BNP Paribas S.A.

During its meeting held on 26 October 2017 the Supervisory Board of the Bank adopted a resolution to appoint Mr. Przemysław Gdański the Vice-President of Bank BGŻ BNP Paribas S.A. as of 1 November 2017 and to entrust him with leading the works of the Management Board until the Polish Financial Supervision Authority approves his appointment to the position of the President of the Management Board.

At the same time, the Supervisory Board of the Bank adopted a resolution to appoint Mr. Przemysław Gdański the President of the Management Board of the Bank. The resolution came into force when adopted and shall come into effect as soon as the Polish Financial Supervision Authority grants the approval in question.

30.10.2017

Consent of the Supervisory Board of the Bank to sell 100% of shares of BGŻ BNP Paribas Faktoring sp. z o.o.

On 30 October 2017 the Supervisory Board of the Bank adopted a resolution and gave consent to the Bank to sell 100% of its shares in BGŻ BNP Paribas Faktoring sp. z o.o. ("BGŻ BNPP Faktoring") in favor of BNP Paribas S.A. and to conclude with the BNP Paribas S.A. a conditional share purchase agreement regarding 100% of shares of BGŻ BNPP Faktoring (i.e. 20.820 shares amounting to 10.410.000,00 zlotys), representing 100% of the share capital and 100% of the votes at the entity shareholders' meeting for the aggregate price equal to 10.410.000,00 zlotys (say: ten million four hundred ten thousand zlotys).

According to the resolution of the Supervisory Board the sale of the shares shall be effective upon fulfillment of the conditions precedent, including receipt of the information from the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego), enabling Bank BGŻ BNP Paribas S.A. to conduct cross – border factoring activities in other member states of the European Union.

Taking into account the consent of the Supervisory Board, the Bank plans to enter into a conditional share purchase agreement and expects the closing of the transaction before end of 2017, subject to the fulfilment of the conditions precedent.

The purpose of the sale is the optimization of capital use and efficiency of BGŻ BNP Paribas S.A. Group. The finalization of the sale and consequent deconsolidation of BGŻ BNPP Faktoring would improve the solvency position of the Bank on a consolidated basis (TCR by approximately 0.48 pp. and Tier 1 Ratio by approximately 0.38 pp., calculation based on data as at June 30, 2017). It is expected that the sale would impact negatively consolidated net profit in the fourth quarter of 2017 (by approximately PLN 8.9 million).

Post-transaction, Bank BGŻ BNP Paribas S.A. and BGŻ BNPP Faktoring will continue their cooperation and stay committed to supporting the Bank's clients with high-value multi-product range of factoring services.

08.11.2017

Motion to KNF for consent for recognition of 1H 2017 net profit as a part of Bank's Tier 1 capital

The Management Board of Bank BGŻ BNP Paribas S.A. announces that on 8 November 2017 it filed a motion for consent for recognition of a standalone net profit for period from 1 January 2017 to 30 June 2017 in the amount of PLN 130,029 thousand as a part of the Bank's Tier 1 capital to the Polish Financial Supervision Authority ("KNF").

Recognition of the 1H 2017 net profit as a part of the Bank's Tier 1 capital will improve the capital adequacy ratios by 0.24 pp. (Common Equity Tier 1 Ratio) and by 0.25 pp. (Total Capital Ratio – TCR), calculation based on data as at June 30, 2017.

In case of consolidated capital adequacy ratios increase would by equal to 0.23 pp. and 0.24 pp. respectively.

II INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

Interim condensed separate statement of profit or loss

	3rd quarter 2017 from 01.07.2017 to 30.09.2017	3 quarters 2017 from 01.01.2017 to 30.09.2017	3rd quarter 2016 from 01.07.2016 to 30.09.2016	3 quarters 2016 from 01.01.2016 to 30.09.2016
Interest income	674 737	1 968 059	652 804	1 842 284
Interest expense	(178 829)	(533 639)	(187 918)	(539 640)
Net interest income	**495 908**	**1 434 420**	**464 886**	**1 302 644**
Fee and commission income	140 085	425 818	141 035	406 913
Fee and commission expense	(32 784)	(89 832)	(26 895)	(71 658)
Net fee and commission income	**107 301**	**335 986**	**114 140**	**335 255**
Dividend income	-	25 238	19	14 537
Net trading income	61 176	186 721	67 261	177 163
Result on investment activities	4 448	25 543	4	41 984
Result on hedge accounting	3 793	5 436	117	256
Other operating income	39 852	106 910	27 770	77 679
Other operating expenses	(36 556)	(100 225)	(23 625)	(80 924)
Net impairment losses on financial assets and contingent liabilities	(78 539)	(256 272)	(114 554)	(287 116)
General administrative expenses	(343 433)	(1 099 850)	(404 542)	(1 185 154)
Depreciation and amortization	(38 298)	(129 721)	(52 065)	(144 325)
Operating result	**215 652**	**534 186**	**79 411**	**251 999**
Tax on financial institutions	(51 053)	(154 608)	(51 203)	(133 748)
Profit before income tax	**164 599**	**379 578**	**28 208**	**118 251**
Income tax expense	(57 363)	(142 313)	(23 716)	(71 619)
Net profit for the period	**107 236**	**237 265**	**4 492**	**46 632**
attributable to equity holders of the Bank	107 236	237 265	4 492	46 632
EARNINGS PER SHARE (IN PLN PER SHARE)				
Basic	1.28	2.82	0.05	0.55
Diluted	1.28	2.82	0.05	0.55

Interim condensed separate statement of other comprehensive income

	3rd quarter 2017 from 01.07.2017 to 30.09.2017	3 quarters 2017 from 01.01.2017 to 30.09.2017	3rd quarter 2016 from 01.07.2016 to 30.09.2016	3 quarters 2016 from 01.01.2016 to 30.09.2016
Net profit for the period	**107 236**	**237 265**	**4 492**	**46 632**
OTHER COMPREHENSIVE INCOME				
ITEMS THAT ARE OR MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS	**(18 360)**	**95 222**	**(19 772)**	**(24 066)**
Net change in valuation of available for sale financial assets	(22 429)	117 796	(24 411)	(29 711)
Deferred tax	4 069	(22 574)	4 639	5 645
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**103**	**(65)**	**40**	**853**
Actuarial valuation of employee benefits	103	539	50	1 053
Deferred tax	-	(604)	(10)	(200)
OTHER COMPREHENSIVE INCOME (NET OF TAX)	**(18 257)**	**95 157**	**(19 732)**	**(23 213)**
TOTAL COMPREHENSIVE INCOME	**88 979**	**332 422**	**(15 240)**	**23 419**
attributable to equity holders of the Bank	88 979	332 422	(15 240)	23 419

Interim condensed separate statement of financial position

ASSETS	30.09.2017	31.12.2016
Cash and balances with the Central Bank	1 708 096	1 302 847
Receivables from banks	264 978	1 225 912
Derivative financial instruments	395 696	324 005
Hedging instruments	20 230	18 671
Loans and advances to customers	53 569 203	53 179 717
Available for sale financial assets	11 217 954	12 497 233
Investments in subsidiaries	70 828	70 828
Intangible assets	258 216	244 571
Property, plant and equipment	506 925	545 480
Deferred tax asset	486 006	522 392
Other assets	394 004	450 277
Total assets	**68 847 136**	**70 381 933**

LIABILITIES	30.09.2017	31.12.2016
Amounts due to banks	3 493 307	5 291 459
Hedged items	(9 895)	(4 080)
Derivative financial instruments	309 422	271 757
Amounts due to customers	55 444 773	55 297 324
Debt securities issued	386 366	397 909
Subordinated liabilities	1 695 470	1 768 458
Other liabilities	882 146	1 116 905
Current tax liabilities	103 595	4 593
Provisions	88 316	116 394
Total liabilities	**62 393 500**	**64 260 719**

EQUITY	30.09.2017	31.12.2016
Share capital	84 238	84 238
Other supplementary capital	5 127 899	5 127 899
Other reserve capital	909 629	860 241
Revaluation reserve	94 605	(552)
Retained earnings	237 265	49 388
retained profit	-	-
net profit for the period	237 265	49 388
Total equity	**6 453 636**	**6 121 214**
Total liabilities and equity	**68 847 136**	**70 381 933**

Interim condensed separate statement of changes in equity

	Share capital	Other supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings: Net profit for the period	Total
Balance as at 1 January 2017	**84 238**	**5 127 899**	**860 241**	**(552)**	**49 388**	**6 121 214**
Total comprehensive income for the period	**-**	**-**	**-**	**95 157**	**237 265**	**332 422**
Net profit for the period	-	-	**-**	**-**	**237 265**	**237 265**
Other comprehensive income for the period	-	-	**-**	**95 157**	**-**	**95 157**
Appropriation of retained earnings	**-**	**-**	**49 388**	**-**	**(49 388)**	**-**
Appropriation of profit	-	-	**49 388**	**-**	**(49 388)**	**-**
Balance as at 30 September 2017	**84 238**	**5 127 899**	**909 629**	**94 605**	**237 265**	**6 453 636**

	Share capital	Other 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 profit	-	-	8 263	-	(8 263)	-
Merger	**-**	**35 703**	**71 104**	**-**	**-**	**106 807**
Equity resulting 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	Other supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings	Total
					Net profit for the period	
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	**-**		**-**	**(23 213)**	**46 632**	**23 419**
Net profit for the period	-		-	-	46 632	46 632
Other comprehensive income for the period	-		-	(23 213)	-	(23 213)
Appropriation of retained earnings	**-**		**8 263**	**-**	**(8 263)**	**-**
Appropriation of profit	-		8 263	-	(8 263)	-
Merger	**-**	**40 051**	**71 104**	**-**	**-**	**111 155**
Equity resulting from merger	-	40 051	71 104	-	-	111 155
Balance as at 30 September 2016	**84 238**	**5 132 247**	**860 241**	**174 394**	**46 632**	**6 297 752**

Interim condensed separate statement of cash flows

CASH FLOWS FROM OPERATING ACTIVITIES:	3 quarters 2017 from 01.01.2017 to 30.09.2017	3 quarters 2016 from 01.01.2016 to 30.09.2016
Net profit/ (loss)	**237 265**	**46 632**
ADJUSTMENTS FOR:	**1 158 797**	**3 624 867**
Income tax expense	142 313	71 619
Depreciation and amortization	129 721	144 325
Dividend income	(25 238)	(14 537)
Interest income	(1 968 059)	(1 842 284)
Interest expense	533 639	539 640
Change in provisions	(27 539)	(2 893)
Change in loans and advances to banks	150	75 399
Change in derivative financial instruments (assets)	(71 691)	(1 592)
Change in loans and advances to customers	(401 307)	(2 973 655)
Change in amounts due to banks	260 642	(314 211)
Change in derivative financial instruments (liabilities)	37 665	(59 638)
Change in amounts due to customers	349 424	6 516 090
Change in other assets and current tax assets	(160 837)	(245 713)
Change in other liabilities and deferred tax liabilities	(135 757)	227 997
Other adjustments	54 914	243 595
Interest received	2 947 264	1 844 137
Interest paid	(506 507)	(583 412)
Net cash from operating activities	**1 396 062**	**3 671 499**

CASH FLOWS FROM INVESTING ACTIVITIES:	3 quarters 2017 from 01.01.2017 to 30.09.2017	3 quarters 2016 from 01.01.2016 to 30.09.2016
FINANCING ACTIVITIES INFLOWS	**15 280 590**	**15 847 983**
Sale of available for sale financial assets	15 232 051	15 809 513
Sale of intangible assets and property, plant and equipment	23 301	23 933
Dividends received and other investing activities inflows	25 238	14 537
INVESTING ACTIVITIES OUTFLOWS	**(14 932 904)**	**(18 648 899)**
Purchase of available for sale financial assets	(14 802 758)	(18 494 179)
Purchase of intangible assets and property, plant and equipment	(130 146)	(154 720)
Net cash from investing activities	**347 686**	**(2 800 916)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
FINANCING ACTIVITIES INFLOWS	**105 805**	**1 731 417**
Long-term loans received	105 805	1 117 517
Increase in subordinated liabilities	-	613 900
FINANCING ACTIVITIES OUTFLOWS	**(2 406 543)**	**(3 607 359)**
Repayment of long-term loans and advances to banks	(2 396 543)	(3 535 363)
Redemption of debt securities	(10 000)	(71 996)
Net cash from financing activities	**(2 300 738)**	**(1 875 942)**
TOTAL NET CASH	**(556 990)**	**(1 005 359)**
Cash and cash equivalents at the beginning of the period	**2 452 735**	**3 252 873**
Cash and cash equivalents at the end of the period, of which:	**1 895 745**	**2 247 514**
effect of exchange rate fluctuations on cash and cash equivalents held	(12 434)	(2 126)
of restricted use	1 302	1 933

EXPLANATORY INFORMATION TO THE INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

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

These interim condensed separate financial statements for the third quarter of 2017 ended 30 September 2017 have been prepared in conformity with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"), as endorsed by the European Union, and other applicable regulations.

As the interim condensed separate financial statements do not contain all the information and disclosures required for the annual financial statements, they should be read together with the interim condensed consolidated financial statements for the third quarter of 2017 and the separate financial statements of Bank BGŻ BNP Paribas S.A. for the year ended 31 December 2016 approved by the Management Board of the Bank on 14 March 2017.

The accounting principles and the accounting estimate methods adopted for purposes of preparation of the interim condensed separate financial statements of the Bank are consistent with the accounting principles used for the preparation of the interim condensed consolidated financial statements of the Group, as presented in Section 3 and Section 7.

2 RELATED PARTY TRANSACTIONS

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

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

As at 30 September 2017, 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 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 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

30.09.2017	BNP Paribas S.A.	BNP Paribas Fortis S.A.	Other entities from the capital group of Bank BNP Paribas S.A.	Key personnel	Subsidiaries	Total
ASSETS	**257 084**	**145 501**	**18 723**	**91**	**3 393**	**424 792**
Current accounts, interbank placements and loans and advances	33 127	139 569	15 056	91	3 331	**191 174**
Derivative financial instruments	223 408	5 932	-	-	-	**239 340**
Other assets	549	-	3 667	-	62	**4 278**
LIABILITIES	**3 185 490**	**24 197**	**2 466 453**	**2 991**	**163 251**	**5 842 382**
Loans and advances received	1 578 153	16 413	2 065 622	-	-	**3 660 188**
Current accounts, deposits	-	7 759	141 684	2 991	163 109	**315 543**
Subordinated liabilities	1 441 022	-	259 132	-	-	**1 700 154**
Derivative financial instruments	166 172	25	-	-	-	**166 197**
Other liabilities	143	-	15	-	142	**300**
CONTINGENT LIABILITIES						
Financial commitments granted	904 707	521 228	131 178	47	-	**1 557 160**
Commitments received	947 665	579 812	395 816	-	-	**1 923 293**
Derivative financial instruments (face value)	71 149 381	2 433 133	-	-	-	**73 582 514**
9 months ended 30.09.2017						
STATEMENT OF PROFIT OR LOSS	**55 353**	**(507)**	**(25 147)**	**(44)**	**34 821**	**64 476**
Interest income	155	162	901	3	5	**1 226**
Interest expense	(30 680)	(1 496)	(20 695)	(49)	(253)	**(53 173)**
Fee and commission income	2	294	1 014	2	8 491	**9 803**
Fee and commission expense	(406)	(27)	(401)	-	-	**(834)**
Net trading income	86 282	560	5 645	-	-	**92 487**
Other operating income	-	-	-	-	31 894	**31 894**
Other operating expenses	-	-	(11 611)	-	(5 316)	**(16 927)**

31.12.2016	BNP Paribas S.A.	BNP Paribas Fortis S.A.	Other entities from the capital group of Bank 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 and 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**
Current accounts, deposits	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**
Guarantee commitments	-	-	-	-	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)**

Remuneration of the Management Board and Supervisory Board

Management Board	30.09.2017	31.12.2016
Short-term employee benefits	17 554	18 970
Long-term benefits	4 757	5 264
Benefits due to termination of employment	1 792	-
Share-based payments	979	748
TOTAL	**25 082**	**24 982**

Supervisory Board	30.09.2017	31.12.2016
Short-term employee benefits	1 508	1 695
Long-term benefits	-	-
Benefits due to termination of employment	-	-
Share-based payments	-	-
TOTAL	**1 508**	**1 695**

3 SEPARATE CAPITAL ADEQUACY RATIO

	30.09.2017	31.12.2016
Total equity	7 616 937	7 634 483
Total risk exposure	52 781 269	51 098 527
Total capital ratio	14.43%	14.94%
Tier 1 ratio	11.22%	11.49%

4 SEASONALITY AND CYCLICALITY OF OPERATIONS

There are no major seasonal or cyclical phenomena in the operations of the Bank.

5 DEBT SECURITIES ISSUED AND REDEEMED

Issue and redemption of securities have been described in Section 29 of the interim consolidated financial statements for the third quarter of 2017.

6 DIVIDENDS PAID

The Bank did not pay any dividends for 2016.

7 APPROPRIATION OF PROFIT

Pursuant to a Resolution of the General Shareholders' Meeting of Bank BGŻ BNP Paribas of 22 June 2017, the net profit for 2016, in the amount of PLN 49 388 thousand, was allocated to the unidentified banking risk reserve.

8 CONTINGENT LIABILITIES

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

	30.09.2017	31.12.2016
CONTINGENT COMMITMENTS GRANTED	**19 143 397**	**18 846 626**
financial commitments	15 167 164	15 017 787
guarantee commitments	3 976 233	3 828 839
CONTINGENT COMMITMENTS RECEIVED	**12 036 667**	**12 308 051**
financial commitments	10 797 276	10 994 807
guarantee commitments	1 239 391	1 313 244

9 SUBSEQUENT EVENTS

26.10.2017 **Appointment of the President of the Management Board of Bank BGŻ BNP Paribas S.A.**

During its meeting held on 26 October 2017 the Supervisory Board of the Bank adopted a resolution to appoint Mr. Przemysław Gdański the Vice-President of Bank BGŻ BNP Paribas S.A. as of 1 November 2017 and to entrust him with leading the works of the Management Board until the Polish Financial Supervision Authority approves his appointment to the position of the President of the Management Board.

At the same time, the Supervisory Board of the Bank adopted a resolution to appoint Mr. Przemysław Gdański the President of the Management Board of the Bank. The resolution came into force when adopted and shall come into effect as soon as the Polish Financial Supervision Authority grants the approval in question.

30.10.2017 **Consent of the Supervisory Board of the Bank to sell 100% of shares of BGŻ BNP Paribas Faktoring sp. z o.o.**

On 30 October 2017 the Supervisory Board of the Bank adopted a resolution and gave consent to the Bank to sell 100% of its shares in BGŻ BNP Paribas Faktoring sp. z o.o. ("BGŻ BNPP Faktoring") in favor of BNP Paribas S.A. and to conclude with the BNP Paribas S.A. a conditional share purchase agreement regarding 100% of shares of BGŻ BNPP Faktoring (i.e. 20.820 shares amounting to 10.410.000,00 zlotys), representing 100% of the share capital and 100% of the votes at the entity shareholders' meeting for the aggregate price equal to 10.410.000,00 zlotys (say: ten million four hundred ten thousand zlotys).

According to the resolution of the Supervisory Board the sale of the shares shall be effective upon fulfillment of the conditions precedent, including receipt of the information from the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego), enabling Bank BGŻ BNP Paribas S.A. to conduct cross – border factoring activities in other member states of the European Union.

Taking into account the consent of the Supervisory Board, the Bank plans to enter into a conditional share purchase agreement and expects the closing of the transaction before end of 2017, subject to the fulfilment of the conditions precedent.

The purpose of the sale is the optimization of capital use and efficiency of BGŻ BNP Paribas S.A. Group. The finalization of the sale and consequent deconsolidation of BGŻ BNPP Faktoring would improve the solvency position of the Bank on a consolidated basis (TCR by approximately 0.48 pp. and Tier 1 Ratio by approximately 0.38 pp., calculation based on data as at June 30, 2017). It is expected that the sale would impact negatively consolidated net profit in the fourth quarter of 2017 (by approximately PLN 8.9 million).

Post-transaction, Bank BGŻ BNP Paribas S.A. and BGŻ BNPP Faktoring will continue their cooperation and stay committed to supporting the Bank's clients with high-value multi-product range of factoring services.

08.11.2017 **Motion to KNF for consent for recognition of 1H 2017 net profit as a part of Bank's Tier 1 capital**

The Management Board of Bank BGŻ BNP Paribas S.A. announces that on 8 November 2017 it filed a motion for consent for recognition of a standalone net profit for period from 1 January 2017 to 30 June 2017 in the amount of PLN 130,029 thousand as a part of the Bank's Tier 1 capital to the Polish Financial Supervision Authority ("KNF").

Recognition of the 1H 2017 net profit as a part of the Bank's Tier 1 capital will improve the capital adequacy ratios by 0.24 pp. (Common Equity Tier 1 Ratio) and by 0.25 pp. (Total Capital Ratio – TCR), calculation based on data as at June 30, 2017.

In case of consolidated capital adequacy ratios increase would by equal to 0.23 pp. and 0.24 pp. respectively.

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

8.11.2017	**Przemysław Gdański** Vice President, leading the works of the Management Board	signature
8.11.2017	**Jean-Charles Aranda** Member of the Management Board	signature
8.11.2017	**Katarzyna Romaszewska-Rosiak** Managing Director, Financial Accounting Department	signature

Warsaw, 8 November 2017