BANK BGŻ BNP PARIBAS S.A.
CAPITAL GROUP

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

This document is a translation of a document originally issued in Polish. The only binding version is the original Polish version.

BGŻ BNP PARIBAS

The bank for a changing world

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SELECTED CONSOLIDATED FINANCIAL DATA

Selected consolidated financial data	in PLN '000		in EUR '000	
STATEMENT OF PROFIT OR LOSS	**31.12.2017 (YTD)**	31.12.2016 (YTD)	**31.12.2017 (YTD)**	31.12.2016 (YTD)
Net interest income	**1,926,744**	1,826,152	**453,918**	417,339
Net fee and commission income	**485,979**	493,220	**114,491**	112,718
Profit before tax	**453,885**	174,507	**106,930**	39,881
Profit after tax	**279,707**	76,860	**65,896**	17,565
Total comprehensive income	**422,192**	(121,727)	**99,463**	(27,819)
Total net cash flows	**959,582**	(778,712)	**226,066**	(177,963)
RATIOS	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
Number of shares (items)	**84,238,318**	84,238,318	**84,238,318**	84,238,318
Earnings per share	**3.32**	0.91	**0.78**	0.21
BALANCE SHEET	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
Total assets	**72,749,259**	72,304,999	**17,442,101**	16,343,806
Loans and advances to customers	**52,967,568**	55,075,871	**12,699,314**	12,449,338
Total liabilities	**66,189,796**	66,158,178	**15,869,428**	14,954,380
Liabilities due to customers	**56,328,897**	55,155,014	**13,505,214**	12,467,227
Share capital	**84,238**	84,238	**20,197**	19,041
Total equity	**6,559,463**	6,146,821	**1,572,673**	1,389,426
CAPITAL ADEQUACY	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
Total own funds	**7,696,324**	7,619,694	**1,845,243**	1,722,354
Total risk exposure	**55,988,130**	52,913,987	**13,423,513**	11,960,666
Total capital ratio	**13.75%**	14.40%	**13.75%**	14.40%
Tier 1 capital ratio	**10.81%**	11.06%	**10.81%**	11.06%

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

For items of the statement of financial position, rates of the National Bank of Poland are applied:

- as at 31.12.2017: EUR 1 = PLN 4.1709
- as at 31.12.2016: EUR 1 = PLN 4.4240

For items of the statement of profit or loss and the statement of cash flows, the EUR exchange rate is calculated as the arithmetic mean of the rates published by the National Bank of Poland as at the last day of each month in the period:

- for the period from 1.01.2017 to 31.12.2017: EUR 1 = PLN 4.2447
- for the period from 1.01.2016 to 31.12.2016: EUR 1 = PLN 4.3757

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of profit or loss

	Note	12 months ended 31.12.2017	12 months ended 31.12.2016
Interest income	4	2,665,218	2,584,563
Interest expenses	4	(738,474)	(758,411)
Net interest income		**1,926,744**	**1,826,152**
Fee and commission income	5	612,240	608,012
Fee and commission expenses	5	(126,261)	(114,792)
Net fee and commission income		**485,979**	**493,220**
Dividend income	6	10,360	5,801
Net trading income	7	251,408	255,191
Result on investment activities	8	28,398	46,199
Result on fair value hedge accounting	20	3,304	(77)
Other operating income	9	131,282	130,324
Other operating expenses	10	(141,495)	(116,591)
Net impairment losses on financial assets and contingent liabilities	11	(355,299)	(398,883)
General administrative expenses	12,13	(1,506,866)	(1,674,356)
Depreciation and amortization	14	(174,064)	(206,597)
Operating result		**659,751**	**360,383**
Tax on financial institutions		**(205,866)**	**(185,876)**
Profit before tax		**453,885**	**174,507**
Income tax expense	15	(174,178)	(97,647)
Net profit for the period		**279,707**	**76,860**
attributable to equity holders of the Bank		279,707	76,860
EARNINGS PER SHARE (IN PLN PER ONE SHARE)	16		
Basic		3.32	0.91
Diluted		3.32	0.91

Consolidated statement of other comprehensive income

	12 months ended 31.12.2017	12 months ended 31.12.2016
Net profit for the period	**279,707**	**76,860**
OTHER COMPREHENSIVE INCOME		
ITEMS THAT WILL BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS UPON FULFILMENT OF CERTAIN CONDITIONS	**141,509**	**(203,094)**
Measurement of financial assets available for sale	174,113	(250,823)
Deferred income tax	(32,604)	47,729
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**976**	**4,507**
Actuary valuation of employee benefits	1,849	4,921
Deferred income tax	(873)	(414)
OTHER COMPREHENSIVE INCOME (NET)	**142,485**	**(198,587)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**422,192**	**(121,727)**
attributable to equity holders of the Group	422,192	(121,727)

Consolidated statement of financial position

ASSETS	Note	31.12.2017	31.12.2016
Cash and balances at Central Bank	17	998,035	1,302,847
Amounts due from banks	18	2,603,689	1,233,592
Derivative financial instruments	19	474,421	324,005
Differences from hedge accounting regarding the fair value of hedged items	20	32,730	18,671
Loans and advances to customers	21	52,967,568	55,075,871
Financial assets available for sale	23	13,922,540	12,497,855
Investment properties	24	54,435	54,466
Intangible assets	25	288,340	246,552
Property, plant and equipment	26	500,647	546,002
Deferred tax assets	34	512,045	529,824
Other assets	27	394,809	475,314
Total assets		**72,749,259**	**72,304,999**

LIABILITIES	Note	31.12.2017	31.12.2016
Amounts due to banks	28	3,891,235	7,308,814
Differences from hedge accounting regarding the fair value of hedged items	20	(2,992)	(4,080)
Derivative financial instruments	19	427,710	271,757
Amounts due to customers	29	56,328,897	55,155,014
Debt securities issued	30	2,471,966	398,059
Subordinated liabilities	31	1,645,102	1,768,458
Other liabilities	32	1,225,323	1,122,780
Current tax liabilities		117,699	8,313
Deferred tax liability	34	8,003	8,022
Provisions	33	76,853	121,041
Total liabilities		**66,189,796**	**66,158,178**

EQUITY	Note	31.12.2017	31.12.2016
Share capital	41	84,238	84,238
Supplementary capital	42	5,127,086	5,108,418
Other reserve capital	42	909,629	860,241
Revaluation reserve	42	141,988	(497)
Retained earnings		296,522	94,421
- retained profit		16,815	17,561
- net profit for the period		279,707	76,860
Total equity		**6,559,463**	**6,146,821**
Total liabilities and equity		**72,749,259**	**72,304,999**

Consolidated statement of changes in equity

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

					Retained earnings		
	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained profi	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)
Distribution of retained earnings	**-**	**-**	**8,263**	**-**	**5,030**	**(13,293)**	**-**
Distribution of retained earnings intended for supplementary capital	-	-	8,263	-	5,030	(13,293)	-
Merger	**-**	**16,222**	**71,104**	**-**	**(87,326)**	**-**	**-**
Equity arising from merger	-	16,222	71,104	-	(87,326)	-	-
Other (capital 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**

Consolidated statement of cash flows

CASH FLOWS FROM OPERATING ACTIVITIES:	Note	12 months ended 31.12.2017	12 months ended 31.12.2016
Net profit (loss)		**279,707**	**76,860**
ADJUSTMENTS FOR:		**2,283,858**	**5,508,541**
Income tax expenses		174,178	97,647
Depreciation and amortization		174,064	206,597
Dividend income		(10,360)	(5,801)
Interest income		(2,665,218)	(2,584,563)
Interest expense		738,474	758,411
Change in provisions		(42,331)	(38,239)
Change in amounts due from banks		(74,632)	(24,207)
Change in derivative financial instruments (assets)		(150,416)	44,142
Change in loans and advances to customers		2,054,347	(2,907,870)
Change in amounts due to banks		(1,436,058)	(781,285)
Change in derivative financial instruments (liabilities)		155,953	(79,782)
Change in amounts due to customers		1,459,487	8,908,869
Change in other assets and current tax assets		66,539	(242,918)
Change in other liabilities and deferred income tax liabilities		(211,910)	273,363
Other adjustments	46	86,059	(57,642)
Interest received		2,681,221	2,672,481
Interest paid		(715,539)	(730,662)
Net cash flows from operating activities		**2,563,565**	**5,585,401**

CASH FLOWS FROM INVESTING ACTIVITIES:	Note	12 months ended 31.12.2017	12 months ended 31.12.2016
INVESTING ACTIVITIES INFLOWS		**22,572,934**	**20,976,428**
Sale of financial assets available for sale	23	22,519,282	20,923,410
Sale of intangible assets and property, plant and equipment		32,882	47,217
Dividends received and other inflows from investing activities		10,360	5,801
Sale of shares in subsidiaries		10,410	-
INVESTING ACTIVITIES OUTFLOWS		**(23,950,531)**	**(26,057,186)**
Purchase of securities available for sale		(23,746,923)	(25,812,367)
Purchase of intangible assets and property, plant and equipment		(203,379)	(244,819)
Other investment expenses		(229)	-
Net cash flows from investing activities		**(1,377,597)**	**(5,080,758)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
FINANCING ACTIVITIES INFLOWS		**2,406,276**	**2,338,919**
Long-term loans received		225,426	1,456,519
Issue of securities		2,180,850	-
Increase in subordinated loans		-	882,400
FINANCING ACTIVITIES OUTFLOWS		**(2,632,662)**	**(3,622,274)**
Repayment of long-term loans and advances received		(2,514,100)	(3,550,278)
Redemption of debt securities		(109,000)	(71,996)
Other financing expenses		(9,562)	-
Net cash flows from financing activities		**(226,386)**	**(1,283,355)**
TOTAL NET CASH		**959,582**	**(778,712)**
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, including:	**45**	**3,443,205**	**2,483,623**
effect of exchange rate fluctuations on cash and cash equivalents		(61,222)	8,887
restricted cash and cash equivalents		845	8,550

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION ABOUT BANK BGŻ BNP PARIBAS S.A. CAPITAL GROUP

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

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

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

In 2017, the average headcount of the Bank was 7,385.63 FTEs, and for the Group - 7,633.39 FTEs.

The core business of the Bank includes:

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

• selling and buying financial instruments not admitted to organized trading, including: options, forwards and futures, swaps and contracts for differences (CFDs) and those issued by the State Treasury or National Bank of Poland on own account;

• investment advisory services regarding financial instruments issued by the State Treasury or National Bank of Poland, or other financial instruments not admitted to organized trading;

- acquisition activities as defined by regulations regarding organization and operation of pension funds;
- acting as depositary as defined by regulations regarding organization and operation of pension funds;
- safekeeping of investment fund's assets;
- operating deposit of securities;
- providing settlement and advisory services regarding financial market instruments;
- providing custody and factoring services;
- providing convoy services for transport of cash/valuables;
- providing bancassurance services within the scope allowed by the Insurance Agency Act;
- finance lease;
- trading off fiscal stamps and numismatic items;
- providing certification services as defined by regulations concerning e-signature, except for issue of qualified certificates used by banks in transactions they are parties to.

Composition of the Bank's Management Board as at 31 December 2017:

Full name	Office held in the Management Board of the Bank
Przemysław Gdański	Vice-President of the Management Board in-charge of Management Board
Daniel Astraud	Vice-President of the Management Board
Jean-Charles Aranda	Member of the Management Board
Przemysław Furlepa	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 Bank's Management Board in 2017:

- On 5 April 2017, Mr Jan Bujak submitted a resignation from the position of the Vice-President of the Bank's Management Board, with the effect from 5 April 2017.
- On the meeting held on 5 April 2017, the Supervisory Board has appointed Mr Jean-Charles Aranda to the position of a Member of the Bank's Management Board, with the effect from 5 April 2017.
- On 2 June 2017 Mr François Benaroy submitted a resignation from the position of the Vice-President of the Bank's Management Board, with the effect from 30 September 2017.
- On the meeting held on 2 June 2017, the Supervisory Board of the Bank has appointed Mr Przemysław Furlepa for a Member of the Bank's Management Board, as its Vice-President, with the effect from 1 October 2017.
- On 21 September 2017 Mr Tomasz Bogus submitted a resignation from the position of the President of the Bank's Management Board, with the effect from 31 October 2017.
- On the meeting held on 26 October 2017, the Supervisory Board appointed Mr Przemyslaw Gdański to the position of the Vice-President of the Bank's Management Board, with the effect from 1 November 2017, and entrusted him with

managing the work of the Management Board until the approval of the Polish Financial Supervision Authority (PFSA) to appoint as the President of the Management Board. At the same meeting, the Supervisory Board adopted a resolution to appoint Mr Przemysław Gdański as the President of the Bank's Management Board. The resolution enters into force on the day of its adoption with effect from the date of obtaining the consent of the PFSA issued on the basis of the Article 22b of the Banking Law Act.

- On 20 December 2017 Ms Magdalena Legęć submitted a resignation from the position of Vice-President of the Bank's Management Board, with the effect from 31 December 2017.

Composition of the Bank's Supervisory Board as at 31 December 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 Supervisory Board in 2017:

- On 18 May 2017, Mr Thomas Mennicken, a member of the Supervisory Board, submitted a resignation from the position of Member of the Supervisory Board of Bank BGŻ BNP Paribas S.A. , with the effect from the day of the Ordinary General Shareholders' Meeting of the Bank, which took place on 22 June 2017.
- On 22 June 2017, the Ordinary General Shareholders' Meeting appointed Mr Yvan De Cock as a Member of the Bank's Supervisory Board.

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

As at 31 December 2017, the Group comprised Bank BGŻ BNP Paribas S.A. as the parent and its subsidiaries:

1. Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o. ("Actus"), with its registered office at Kasprzaka 10/16 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000023062. The Bank holds 100% interest in the share capital of the company.
2. Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A. ("TFI"), with its registered office at Twarda 18 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register, under number KRS 0000031121. The Bank holds 100% of the company's shares.
3. BNP Paribas Leasing Services Sp. z o.o. ("Leasing", formerly: Fortis Lease Polska Sp. z o.o. in liquidation), with its registered office at Suwak 3 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000098813. The Bank holds 100% of the company's shares.
4. BNP Paribas Group Service Center S.A. ("GSC", formerly: Laser Services Polska S.A.), with its registered office at Suwak 3 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000022784. The Bank holds 100% of the company's shares.
5. BGZ Poland ABS1 DAC ("SPV") based in Ireland, 3RD Floor Kilmore House, Park Lane, Spencer Dock, Dublin. This is a special purpose company, with which the Bank performed a securitization transaction concerning a part of the loan portfolio. The Group does not have any capital involvement in this company. The company is controlled by Bank BGŻ BNP Paribas S.A. due to the fulfilment of the control conditions contained in IFRS 10.

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

In connection with the above transaction, the shares in the Bank's subsidiaries decreased by the value of BGŻ BNPP Faktoring, i.e. PLN 7,653 thousand. Profit from the sale of the company amounted to PLN 2,757 thousand and is presented in the statement of profit or loss under the item Result on investing activities (details are described in Note 8).

Approval of the financial statements

These consolidated financial statements have been prepared as at 31 December 2017 and approved for publication by the Management Board of the Bank on 12 March 2017.

The separate financial statements of the Bank have been prepared as at 31 December 2017 and approved for publication by the Management Board of the Bank on 12 March 2017.

Data included in the above mentioned financial statements are presented for the financial year ended 31 December 2017 with comparative data for the financial year ended 31 December 2016.

2. ACCOUNTING PRINCIPLES APPLIED FOR THE PURPOSE OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1. Basis for preparation of the consolidated financial statements

The present consolidated financial statements have been prepared based on the following measurement principles:

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

2.2. Going concern

The present consolidated financial statements have been prepared assuming that the companies within the Group will continue as a going concern in substantially the same scope, in the foreseeable future, i.e. within at least 12 months from the date of the reporting period end, considering the information presented in Notes 50 Capital adequacy management and 51 Subsequent events, concerning capital adequacy ratios as at 1 January 2018, as well as the plan to increase of the Bank's capital.

2.3. Statement of compliance with IFRS

The present consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union ("IFRS EU").

The present consolidated financial statements have been prepared in accordance with the requirements specified in 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.

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

2.3.1. Amendments to the existing standards which have been applied for the first time to the Group's financial statements for 2017

- **Amendments to IAS 7 "Statement of cash flows"** - Initiative regarding disclosures - approved in the EU on 6 November 2017 (applicable for annual periods beginning on 1 January 2017 or after that date),
- **Amendments to IAS 12 "Income tax"** - Recognition of deferred income tax assets on unrealized losses - approved in the EU on 6 November 2017 (applicable for annual periods beginning on 1 January 2017 or after that date).

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

- **IFRS 9 "Financial instruments"** - approved in the EU on 22 November 2016 (applicable for annual periods beginning on 1 January 2018 or after that date),
- **IFRS 15 "Revenue from Contracts with Customers"** with subsequent amendments „Effective date of IFRS 15" - approved in the EU on 22 September 2016 (applicable for annual periods beginning on 1 January 2018 or after that date).
- **IFRS 16 „Leasing"** – approved in the EU on 31 October 2017 (applicable for annual periods beginning on 1 January 2019 or after that date),
- **Amendments to IFRS 4 „Insurance contracts" –** Application of IFRS 9 „Financial instruments" together with IFRS 4 „Insurance contracts" – approved in the EU on 3 November 2017 (applicable for annual periods beginning on 1 January 2018 or after that date or at the moment of initial application of IFRS 9 "Financial instruments"),
- **Amendments to IFRS 15 „Revenue from Customers" –** Explanatory notes to IFRS 15 „Revenue from Contracts with Customers" – approved in the EU on 31 October 2017 (applicable for annual periods beginning on 1 January 2018 or after that date).

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

- **IFRS 14 „Regulatory Deferral Accounts"** (applicable for annual periods beginning on 1 January 2016 or after that date) – the European Commission has decided to postpone the procedure of approving the draft version of the Standard in EU territory until the issue of its final version,
- **IFRS 17 „Insurance contracts"** (applicable for annual periods beginning on 1 January 2021 or after that date),
- **Amendments to IFRS 2 „Share-based Payment" –** Classification and measurement of share-based payment (applicable for annual periods beginning on 1 January 2018 or after that date),
- **Amendments to IFRS 9 „Financial Instruments" -** Characteristics of the prepayment option with negative offset (applicable for annual periods beginning on 1 January 2019 or after that date),
- **Amendments to IFRS 10 „Consolidated Financial Statements"** and IAS 28 „Investments in Associates and Joint Ventures" – Sale or contribution of assets between an investor and its affiliate or joint venture and subsequent changes (application date is postponed until the moment of completion of research on the equity method),
- **Amendments to IAS 28 „Investments in Associates and Joint Ventures"** - Long-term shares in affiliates and joint ventures (applicable for annual periods beginning on 1 January 2019 or after that date),
- **Amendments to IAS 40 „Investment Property" –** Transfer of investment properties (applicable for annual periods beginning on 1 January 2018 or after that date),
- **Amendments to various standards „IFRS Improvements (2014-2016)"** – changes made as part of the annual procedure of implementing Improvements to IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (changes to IFRS 12 are applicable for annual periods beginning on 1 January 2017 or after that date, while the changes to IFRS 1 and IAS 28 are applicable for annual periods beginning on 1 January 2018 or after that date),

- **Amendments to various standards „IFRS Improvements (2015-2017)"** – changes made as part of the annual procedure of implementing Improvements to IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (applicable for annual periods beginning on 1 January 2019 or after that date),
- **IFRIC 22 „Foreign Currency Transactions and Advance Consideration"** (applicable for annual periods beginning on 1 January 2018 or after that date),
- **IFRIC 23 „Uncertainty over Income Tax Treatments"** (applicable for annual periods beginning on 1 January 2019 or after that date).

2.4. Implementation of IFRS 9

IFRS 9 „Financial Instruments"

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

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

Summary of key assumptions of IFRS 9

Classification and measurement

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

- financial assets measured at amortised cost,
- financial assets measured at fair value through other comprehensive income,
- financial assets measured at fair value through profit or loss account.

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

- business model relating to financial asset management, and
- the characteristics of contractual cash flows, i.e., whether contractual cash flows represent solely principal and interest repayment ("SPPI").

Irrespective of the above, there is an irrevocable option at the moment of initial recognition of the financial asset to classify it at fair value through profit or loss if such approach leads to the more relevant information eliminating or significantly reducing the inconsistency in the measurement or recognition of assets or liabilities or related gains and losses.

Bank BGŻ BNP Paribas, based on the conducted cash flow analyses and assumed financial models, did not identify any significant changes in the classification and measurement of financial assets, i.e.:

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

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

IFRS 9 does not introduce any significant changes in the scope of classification and measurement of financial liabilities, in relation to the principles introduced by IAS 39, i.e. financial liabilities as at the date of their acquisition or establishment are classified into the following categories:

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

Irrespective of the above, there is an irrevocable option to classify a financial liability at the moment of initial recognition at fair value through profit or loss, if such approach results in the more useful information, eliminating or significantly reducing the inconsistency in the measurement or recognition of assets or liabilities or related gains and losses. In relation to the liabilities thus designated, a part of the change in fair value, associated with a change in the credit risk of the liability, is recognized in other comprehensive income.

Hedge accounting

Based on the provisions of IFRS 9.7.2.21, the Bank will continue to apply the requirements of hedge accounting in accordance with IAS 39, instead of the requirements specified in IFRS 9. This decision is effective for all hedge relationships for which the Bank applies and will apply hedge accounting in the future.
In connection with the above, in the area of hedge accounting, the implementation of IFRS 9 will not affect the financial position of the Bank.

Impairment

The requirements of IFRS 9 relating to impairment are based on the model of expected credit loss, replacing the model of incurred losses from IAS 39.

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

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

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

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

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

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

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

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

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

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

The Bank estimates that the impairment allowance calculated in accordance with IFRS 9 will result in earlier recognition of credit losses as compared to the requirements of IAS 39. Disclosure of the estimated impact of changes on this account can be found on page 20.

Disclosures and comparative data

The new requirements of IFRS 9 will result in a significant change in the presentation method and scope of disclosures concerning financial instruments, especially in the first year of application of the new standard.
The Bank intends to use the provisions of IFRS 9 allowing the exemption from the obligation to transform comparative data for prior periods in relation to the changes resulting from classification and measurement (including the one related to impairment). Differences in the carrying amount of financial assets and financial liabilities resulting from the application of IFRS 9 will be included under "Retained earnings" item as at 1 January 2018.

Impact of IFRS 9 on financial situation and equity

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

Item	Measurement category – IAS 39	Measurement category – IFRS 9	Balance sheet amount in accordance with IAS 39	Impact of IFRS 9* implementation Classification and measurement	Impact of IFRS 9* implementation Impairment	Balance sheet amount in accordance with IFRS 9
ASSETS						
Loans and advances to customers	Amortised cost	Amortised cost	52,967,568	(2,941,126)	(403,933)	49,622,509
Loans and advances to customers	Amortised cost	Fair value through profit or loss	-	2,941,126	12,312	2,953,438
Financial assets available for sale	Fair value through other comprehensive income	Fair value through other comprehensive income	13,922,540	(7,087,640)	19	6,834,919
Financial assets available for sale	Fair value through other comprehensive income	Amortised cost	-	7,032,343	(1,482)	7,030,861
Financial assets available for sale	Fair value through other comprehensive income	Fair value through profit or loss	-	55,297	(4,427)	50,870
Other assets	Amortised cost	Amortised cost	394,809	-	(8,119)	386,690
LIABILITIES						
Provisions	Amortised cost	Amortised cost	76,853	-	38,193	115,046
Revaluation reserve	Fair value through other comprehensive income	Amortised cost	141,988	(26,576)	-	115,412
					(443,823)	

* excluding the impact of deferred tax

The value of other financial assets and liabilities presented in the statement of financial position did not change significantly due to the implementation of IFRS 9.

The total value of the impact of IFRS 9 implementation in the amount of PLN -443,823 thousand and the effect of deferred tax resulting from the implementation of IFRS 9 in the form of an increase in net deferred tax asset in the amount of PLN 132,724 thousand resulted in a decrease in the balance of retained earnings and revaluation reserve in the amount of PLN -311,099 thousand as at 1 January 2018.

Impact of IFRS 9 on capital adequacy

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

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

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

The provisions of IFRS 9 are not unambiguous and are subject to interpretation by both entities implementing the standard as well as by the regulator or audit firms, and the position of all interested parties is not uniform in all aspects.

The market practice of applying the standard's provisions is still changing and may be subject to change.

2.5. 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 is applicable for annual periods beginning on 1 January 2018 or after that date. The principles provided for in IFRS 15 will apply to all contracts resulting in revenues, excluding contracts covered by the scope of a separate standard. The basic principle of the new standard is the recognition of revenues in the same moment as the transfer of goods and services to the customer occurs, in the amount reflecting the price expected by the entity in return for the transfer of those goods and services.

The new principles will be applied with the use of five-step model.

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

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

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

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

In addition, in accordance with IFRS 15, costs incurred in order to obtain and secure a contract with the customer should be capitalised and deferred through the entire period of consuming benefits from this contract if the Bank expects that these costs will be recovered.
The Bank may include additional costs of concluding a contract as costs at the time they are incurred, if the depreciation period of an asset, that would otherwise have been recognized by the Bank, is one year or shorter period.

Bank BGŻ BNP Paribas Capital Group will apply IFRS 15 since 1 January 2018.

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

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

Due to the fact that Bank BGŻ BNP Paribas Capital Group offers financial instruments in the form of loans, advances and leasing, revenue from which is recognized on the basis of the effective interest rate - the revenues in these streams will not be significant from the point of view of providing a clear and reliable picture of the financial situation and the financial result.

2.6. Recognition of jointly controlled operations

Business combinations under common control do not fall within the scope of IFRS regulations. In the absence of detailed IFRS regulations in this regard, in line with the guidelines specified in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, Bank BGŻ BNP Paribas S.A. adopted an accounting policy generally applied to any business combinations under common control within the Bank’s Group, whereby such transactions are recognized at their book value.

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

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

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

2.7. Consolidation

Subsidiaries are defined as all entities over which the Group exercises control. The Group exercises control over an entity when it holds power over that entity, is exposed to or has the right to variable returns from its involvement in that entity and has the ability to influence those returns by exercising control over that entity. Subsidiaries are subject to full consolidation from the date of taking control over them by the Group. They cease to be consolidated on the day the control ceases.

Transactions, settlements and unrealized profits on transactions between companies within the Group are eliminated. Unrealized losses are also eliminated, unless the transaction provides evidence of impairment of the transferred asset. The accounting principles applied by subsidiaries when preparing for the same reporting period as the parent company's financial data for the purposes of the consolidated financial statements are consistent with the accounting principles applied by the Group.

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

The Group has not changed any accounting principles (policy) in the present consolidated financial statements.

2.9. Measurement of items denominated in foreign currencies

Functional and presentation currency

Items included in the financial statements of the companies within the Group are measured at the currency of its basic business environment in which it operates (the “functional currency”). The consolidated financial statements are presented in PLN’000, being both the functional and presentation currency of the Group.

Transactions and balances

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

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

Exchange rates of key currencies applied when preparing the present financial statements, effective as at 31 December 2017 and 31 December 2016 are presented in the below table:

	31.12.2017	31.12.2016
1 EUR	4.1709	4.4240
1 USD	3.4813	4.1793
1 GBP	4.7001	5.1445
1 CHF	3.5672	4.1173

2.10. Interest income and expenses

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

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

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

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

2.11. Net fee and commission income

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

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

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

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

Net fee and commission income includes also the remuneration obtained for offering third-party’s insurance products.

The costs of the reporting period regarding liabilities due to interest on customer accounts and liabilities from issuing own securities are recognized in the statement of profit or loss, using the effective interest rate.

Recognition of bancassurance income and expenses

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

Recognition of bancassurance income for related transactions

For related transactions including bancassurance products and financial instruments, remuneration from sales of the bancassurance products constitute an integral part of the fee for the offered financial instruments.

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

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

Recognition of bancassurance costs for related transactions

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

Recognition of income and expenses for transactions not classified as related

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

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

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

2.12. Dividend income

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

2.13. Net trading income

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

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

2.14. Result on investment activities

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

2.15. Other operating income and expenses

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

They include mainly: income and expenses arising on sale and liquidation of fixed assets, revaluation of investment property, compensations received and paid, revenue and expenses arising from other services unrelated to the core business of the Group.

2.16. Income tax expense

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

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

Deferred income tax

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

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

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

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

In 2017 and 2016 the current income tax and deferred tax liability were calculated using 19 percent tax rate.

2.17. Classification and measurement of financial assets and financial liabilities

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

The Group classifies its financial liabilities to the following categories: financial liabilities measured at fair value through profit or loss and liabilities measured at fair value through profit or loss.

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

The Group recognizes financial asset or financial liability in the statement of financial position after it is bound with the contractual provisions.

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

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

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

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

Financial asset is derecognized when contractual rights to cash flows from a financial asset expire or when the Group transfers rights to cash flows and this transfer meets the conditions for derecognition. In order to meet the conditions of derecognition, the transfer should include the transfer of substantially all the risks and rewards of the financial asset.

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

The class includes two sub-classes:

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

Financial assets and liabilities are recognized as “designated as FVTPL upon initial recognition” once the following criteria have been met: (i) such classification eliminates or significantly reduces the accounting mismatch when both measurement and principles of recognizing gains or losses are subject to separate regulations; or (ii) when these assets belong to a group of financial assets managed and evaluated in accordance with their fair value in line with documented risk management strategy; or (iii) when financial assets include embedded derivatives that should be recognized separately. As at 31 December 2017 and 31 December 2016, as well as in the years then ended, respectively, no financial assets were classified as measured at fair value through profit or loss upon initial recognition.

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

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

At the moment of initial recognition of a financial asset or financial liability, the Bank measures it at its fair value plus transaction costs, if material, in the case of a financial asset or financial liability not measured at fair value through profit or loss.

Following the initial recognition, fair value of a financial asset or liability is determined based on active market quotations of instruments, to include recent transaction prices. If a given financial asset (or unquoted security) is not listed in an active market, the Group determines its fair value using measurement methods that include the use of recent transactions concluded on arms’ length terms, reference to other basically identical instruments, analysis of discounted cash flows, option measurement models and other approaches commonly used by market participants.

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

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

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

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

2.17.3. Loans and receivables

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

They occur when the Group transfers cash directly to a debtor, not planning to trade these receivables immediately or in the short term, and the receivables are not classified as “financial assets available for sale”, or “financial assets measured at fair value through profit or loss”.

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

2.17.4. Securitization of loan portfolio

In December 2017, the Bank carried out a securitization transaction on the portfolio of cash and car loans. The transaction is a traditional and revolving securitization, involving the transfer of ownership of securitized receivables to SPV.

The company issued, based on securitized assets, bonds secured by a registered pledge on the assets of SPV.

The Bank performed a comprehensive analysis of transactions, considering that in the light of the provisions of IAS 39, the contractual terms of the securitization do not fulfil the conditions for derecognition of the securitized assets. As at the date of the transaction, the Bank received the initial remuneration from the SPV irrevocably, corresponding to the total face value of the securitized loan portfolio. The transaction uses the mechanism of deferred remuneration payable to the Bank by SPV. Deferred remuneration corresponds to the SPV result after settling the financing costs and operating costs. Due to the applied deferred remuneration mechanism, the Bank retains substantially all the risks and rewards associated with the transferred loans. The deferred remuneration of the Bank, as expected, will absorb the entire volatility of cash flows from the portfolios of securitized loans. The Bank bears this volatility risk as the payment of the deferred remuneration by SPV to the Bank is entirely subordinated to the SPV's liabilities towards investors in respect of financing.

In connection with the above, the Bank recognizes a liability for cash flows from securitization that are measured with the use of effective interest rate calculated on the basis of future SPV payments due to liabilities resulting from bonds issued. The securitization transaction is described in Note 21 *Loans and advances to customers*.

2.17.5. Financial assets held to maturity

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

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

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

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

2.17.6. Financial assets available for sale

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

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

2.17.7. Offset of financial instruments

Financial assets and liabilities are compensated and presented in the statement of financial position at net amount, if a valid and exercisable netting-off right occurs.

The Group intends to settle a financial asset and a financial liability net or simultaneously settle the amount due.

2.17.8. Repo and sell buy back transactions

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

2.17.9. Investments in subsidiaries and associates

Investments in associates are measured with the use of equity method in the consolidated financial statements by the Group.

2.18. Impairment of financial assets

2.18.1. Financial assets measured at amortised cost

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

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

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

Individually significant financial assets (ISFA) include:

a) exposures with the sum of: off-balance sheet exposure, balance sheet capital and interest pending on a given account higher than PLN 1 million as at the end of the reporting period for which the impairment is calculated (for foreign currency exposures, PLN equivalents are analysed with the use of interest rate as at the end of the reporting period);

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

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

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

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

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

The Group reviews the methodology and assumptions adopted to estimate future cash flows on a regular basis to reduce differences between estimated and actual impairment loss value. Additionally, the Group performs regular back-testing of risks parameters used to estimate impairment on a collective basis.

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

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

2.18.2. Forborne receivables

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

If forbearance granted significantly alters key terms and conditions or future projected cash flows compared to the projected terms and conditions and future cash flows generated by an existing financial asset, the existing asset is derecognized from the balance sheet and a new one is recognized instead at fair value as at the initial recognition date, while the difference between the existing and new asset is charged to the statement of profit or loss. The recognition is irrespective of a change or absence of change in the legal transaction form and is based on its economic contents.

2.18.3. Financial assets available for sale

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

2.19. Fixed assets held for sale

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

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

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

Fixed assets held for sale include fixed assets repossessed for debt, meeting the requirements of IFRS 5 as described above.

2.20. Investment property

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

Investment property is recognized in assets when and only when:

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

Upon initial recognition, investment properties are measured at the acquisition price including transaction costs.

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

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

Real estate and land repossessed for debt are recognized as investment properties, unless they meet the criteria allowing their classification as fixed assets held for sale.

2.21. Intangible assets

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

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

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

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

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

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

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

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

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

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

2.22. Property, plant and equipment

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

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

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

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

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

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

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

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

2.23. Hedge accounting

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

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

Fair value hedge

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

Changes in the fair value measurement of derivatives designated as hedging instruments under hedge accounting are entirely recognized in the statement of profit or loss under the same item as results of changes in the value of the hedged items, i.e. in the *Result on fair value hedge accounting*.

2.24. Financial liabilities measured at amortised cost

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

2.25. Provisions

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

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

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

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

2.26. Finance leases

Group as a lessor

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

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

Group as a lessee

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

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

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

2.27. Operating leases

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

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

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

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

- fulfilment of the contract is dependent on the use of a specific asset or assets;
- the contract conveys a right to use the asset.

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

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

2.28. Financial guarantees

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

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

2.29. Employee benefits

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

Employees of the Group are entitled to the following benefits:

2.29.1. Retirement, disability and death benefits

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

2.29.2. Liabilities due to unused holiday leave

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

2.29.3. Benefits arising from the variable remuneration program

The Group has implemented the variable remuneration program addressed to the individuals occupying managerial positions that exert a considerable influence on the Bank’s risk profile in line with the guidance included in Resolution No. 258/2011 of Polish Financial Supervision Authority.
Performance evaluation of individuals included in the program underlies the calculation of the variable remuneration.

Benefits provided under the program have two forms:

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

The cash portion is paid:

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

With regard to the first form of benefits, during the deferral period, the variable remuneration is verified in accordance with the adopted program assumptions.
The cash payments under the program are recognized in line with the projected unit credit method and settled over the vesting period (i.e. both in the evaluation period understood as the year in service to which the benefit pertains and in the period of deferring relevant portions of the benefit). The benefit value is recognized as a liability to employees in correspondence with the statement of profit or loss.
For benefits granted in the form of phantom shares, the annual share retention term applies to both the portion granted following the annual performance evaluation and to the deferred portion on terms similar to the cash remuneration (i.e. one-year, two-year and three-year periods). During the retention period, employees granted with the benefit cannot exercise rights arising from the phantom shares.

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

2.29.4. Liabilities arising from the retention program

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

2.30. Share capital

2.30.1. Costs of shares issuance

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

2.30.2. Own shares

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

2.31. Supplementary capital

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

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

2.32. Other reserve capital

A general risk fund for unidentified risk may be established in the Bank, using the general banking risk fund in whole or in part. The fund may be used solely to absorb balance sheet losses incurred by the Bank.

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

2.33. General banking risk fund created from net profit

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

2.34. Custody operations

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

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

2.35. Cash and cash equivalents

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

3. ESTIMATES

The 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 financial assets available for sale which are not measured at fair value are tested for impairment. Financial assets are tested so as to verify whether any objective impairment triggers exist.

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

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

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

Impairment assessment for individually significant assets

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

Collective (group) assessment

The following assets are tested collectively:

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

The Bank recognizes a collective impairment allowance for exposures with identified objective impairment trigger. 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 impairment trigger 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 impairment trigger identified and exposures which are individually significant and insignificant without an objective impairment trigger identified, is determined with the application of statistical methods for defined exposure portfolios which are homogenous from the perspective of credit risk. Homogeneous exposure portfolios are defined based on customer segment, type of credit products and, for purposes of IBNR estimates, exposure delinquency classes which do not exceed 90 days and, for institutional customers with a rating assigned by the Bank internally, the credit rating assigned to the customer. The criteria applied by the Bank to define homogeneous portfolios are aimed at grouping exposures so that the credit risk profile is reflected as accurately as practicable and, consequently, so as to estimate the level of impairment allowances on financial assets as objectively and adequately as possible.

The PD parameters are updated twice a year, in line with the value estimation principles adopted by the Bank. The aforesaid parameters are determined based on statistical analyses of historical data as well as observable monthly migration of credit exposures. LGD, CCF and LIP are reviewed and updated annually. As regards CCF, the Bank's analysis focuses on the percentage of off-balance sheet liabilities converted into on-balance sheet exposures during the loss identification period (LIP). LIP parameters are determined based on analyses of the period between the occurrence of an event driving the impairment allowance in relation to the obligor and the date when the impairment status is actually assigned to the debtor. The length of LIP depends on the characteristics of the product as well as effectiveness and frequency of the credit exposure monitoring process carried out by the Bank. In selected portfolios, LGD is determined for each exposure individually, based on its type and collateral value. For the remaining exposures, it is determined at the level of a given homogenous portfolio.

When classifying exposures into those with identified objective impairment trigger and those without them, the Bank takes into account a quarantine period, where a credit exposure with an objective impairment trigger identified may be reclassified as an exposure without an objective impairment trigger 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 models of risk parameters used for purposes of estimating impairment allowances are covered by the model management process, which specifies the principles of their development, approval and monitoring (including model back-testing). The models and risk parameters are back-tested and impairment allowances/provisions determined using the collective method are back-tested at least on an annual basis. Additionally, there is a validation unit in the Bank, which is independent of the owners and users of the models. The tasks of the unit include: annual validation of risk parameters considered to be significant. The process of validation covers both qualitative and quantitative approach. The process of estimating impairment allowances is subject to periodic functional control and verified independently by the Bank's internal audit.

b) Fair value of derivative instruments

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

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

c) Securities

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

d) Impairment of fixed assets

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

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 – Group as a lessor

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

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

4. NET INTEREST INCOME

	12 months ended 31.12.2017	12 months ended 31.12.2016
INTEREST INCOME		
Amounts due from banks	29,356	28,086
Overdrafts to customers	364,729	367,980
Loans and advances to customers, including:	1,875,169	1,848,346
corporate	431,584	434,845
households	1,323,879	1,326,685
public sector institutions	5,008	5,101
other entities	114,698	81,715
Derivative instruments as part of fair value hedge accounting	80,978	78,754
Debt securities, including:	314,986	261,397
available for sale	314,986	261,397
	2,665,218	**2,584,563**
INTEREST EXPENSE		
Amounts due to banks	(79,015)	(105,429)
Debt securities issued	(14,043)	(12,781)
Amounts due to customers, including:	(570,922)	(560,405)
corporate	(205,457)	(160,303)
households	(299,335)	(313,348)
public sector institutions	(21,634)	(18,288)
other entities	(44,496)	(68,466)
Derivative instruments as part of fair value hedge accounting	(73,377)	(79,796)
Repo transactions	(1,117)	-
	(738,474)	**(758,411)**
Net interest income	**1,926,744**	**1,826,152**

In 2017 the total interest income calculated using effective interest rate with regard to financial assets not measured at fair value through profit or loss was PLN 2,584,240 thousand (PLN 2,505,809 thousand for the 12 months ended 31 December 2016) while interest expenses calculated using effective interest rate with regard to financial liabilities not measured at fair value through profit or loss was PLN 665,097 thousand (PLN 689,945 thousand for the 12 months ended 31 December 2016).

Interest income includes interest on impaired financial assets evaluated individually and collectively. The interest amount recognized in the interest income for 2017 was PLN 109,246 thousand as compared to PLN 209,110 thousand* for 2016.

*Value of interest, for which the Bank identified impairment for 2016, could not be compared to 2017 due to the different calculation method.

5. NET FEE AND COMMISSION INCOME

	12 months ended 31.12.2017	12 months ended 31.12.2016
FEE AND COMMISSION INCOME		
loans and advances	188,432	196,667
settlements and account maintenance	158,682	180,851
guarantees	29,430	27,957
brokerage operations	34,576	17,413
payment cards	90,692	78,861
insurance activity	42,096	52,452
asset management	16,117	9,092
other	52,215	44,719
	612,240	**608,012**
FEE AND COMMISSION EXPENSES		
loans and advances received	(132)	(6,940)
payment cards	(67,103)	(54,802)
insurance activity	(21,170)	(7,751)
related to partners' network	(7,431)	(11,195)
other	(30,425)	(34,104)
	(126,261)	**(114,792)**
Net fee and commission income	**485,979**	**493,220**

Net commission income for 2017 includes PLN 34,576 thousand generated from custody operations as compared to PLN 17,413 thousand for 2016.

Net commission income includes income from commissions related to assets and liabilities not measured at fair value through profit or loss; for 2017 in the amount of PLN 389,210 thousand, while for 2016 in the amount of PLN 359,176 thousand, as well as commission expenses in the amount of PLN 21,302 thousand for 2017 and of PLN 14,691 thousand for 2016.

6. DIVIDEND INCOME

	12 months ended 31.12.2017	12 months ended 31.12.2016
Available for sale securities	4,714	5,801
Shares in subsidiaries	5,646	-
Total dividend income	**10,360**	**5,801**

7. NET TRADING INCOME

	12 months ended 31.12.2017	12 months ended 31.12.2016
Derivative instruments and result on foreign exchange transactions	251,408	255,191
Net trading income	**251,408**	**255,191**

8. RESULT ON INVESTMENT ACTIVITIES

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

	12 months ended 31.12.2017	12 months ended 31.12.2016
Financial assets available for sale*	25,543	46,199
Shares**	2,855	-
Total	**28,398**	**46,199**

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

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

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

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

**Including profit on the sale of BGŻ BNP Faktoring Sp. z o. o. shares in the amount of PLN 2,757 thousand.

The statement of profit or loss of BGŻ BNP Faktoring Sp. z o.o. is presented in the below table:

	12 months ended 31.12.2017	12 months ended 31.12.2016
Interest income	39,954	23,840
Interest expenses	(22,955)	(13,444)
Net interest income	16,999	10,396
Fee and commission income	22,829	18,295
Fee and commission expenses	(6,838)	(5,200)
Net fee and commission income	15,991	13,095
Net trading income	(1,789)	1,394
Net impairment allowances on financial assets and contingent liabilities	(4,847)	(2,749)
General administrative expenses	(15,701)	(13,077)
Depreciation and amortization	(499)	(1,192)
Operating result	10,154	7,867
Tax on financial institutions		
Profit before tax	10,154	7,867
Income tax expenses	(3,219)	(1,891)
Net profit for the period	6,935	5,976

The statement of financial position of BGŻ BNP Faktoring Sp. z o.o. is presented in the below table:

ASSETS	31.12.2017	31.12.2016
Amounts due from banks	217,463	115,714
Loans and advances to customers	2,667,401	1,782,818
Intangible assets	1,797	1,635
Property, plant and equipment	31	48
Deferred tax assets	1,607	
Other assets	1,692	905
Total assets	**2,889,991**	**1,901,120**
LIABILITIES	31.12.2017	31.12.2016
Amounts due to banks	2,836,566	1,880,474
Other liabilities	35,659	4,260
Current tax liabilities	421	
Total liabilities	**2,872,646**	**1,884,734**
EQUITY	31.12.2017	31.12.2016
Share capital	10,410	10,410
Retained earnings	6,935	5,976
retained profit	-	-
net profit for the period	6,935	5,976
Total equity	**17,345**	**16,386**
Total liabilities and equity	**2,889,991**	**1,901,120**

9. OTHER OPERATING INCOME

	12 months ended 31.12.2017	12 months ended 31.12.2016
Sale or liquidation of property, plant and equipment and intangible assets	25,083	9,210
Sale of goods and services	4,102	18,455
Release of provisions for litigation and claims and other liabilities	10,923	15,757
Recovery of debt collection costs	16,710	7,820
Recovery of overdue debts, redeemed receivables, non-collectible debts and payment of receivables that were excluded from the consolidated statement of financial position	2,520	28,636
Income from leasing operations	26,520	22,889
Other operating income	45,424	27,557
Total other operating income	**131,282**	**130,324**

10. OTHER OPERATING EXPENSES

	12 months ended 31.12.2017	12 months ended 31.12.2016
Loss on sale or liquidation of property, plant and equipment and intangible assets	(26,709)	(28,273)
Impairment allowances on other receivables	(10,244)	(727)
Provisions for restructuring of assets, litigation and claim and other liabilities	(8,607)	(8,812)
Debt collection	(33,567)	(27,479)
Donations made	(2,686)	(3,561)
Costs of leasing operations	(23,233)	(23,123)
Investment property measurement	(31)	(21)
Costs of compensations, penalties and fines	-	(11,450)
Other operating expenses	(36,418)	(13,145)
Total other operating expenses	**(141,495)**	**(116,591)**

11. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND CONTINGENT LIABILITIES

	12 months ended 31.12.2017	12 months ended 31.12.2016
Amounts due from banks	(2,424)	(1,090)
Loans and advances to customers	(348,286)	(402,147)
Contingent commitments granted	7,203	4,354
Securities	(11,792)	-
Total net impairment losses on financial assets and contingent liabilities	**(355,299)**	**(398,883)**

12. GENERAL ADMINISTRATIVE EXPENSES

	12 months ended 31.12.2017	12 months ended 31.12.2016
Personnel expenses (Note 13)	(832,005)	(901,432)
Marketing	(92,379)	(92,664)
IT and telecom expenses	(131,450)	(144,518)
Rental expenses	(163,294)	(181,323)
Other non-personnel expenses	(153,445)	(184,302)
Business travels	(11,073)	(9,425)
ATM and cash handling expenses	(3,448)	(3,544)
Costs of outsourcing services related to leasing operations	(19,453)	(23,497)
Bank Guarantee Fund fee	(95,483)	(128,913)
Polish Financial Supervision Authority fee	(4,836)	(4,738)
Total general administrative expenses	**(1,506,866)**	**(1,674,356)**

13. PERSONNEL EXPENSES

	12 months ended 31.12.2017	12 months ended 31.12.2016
Payroll expenses	(678,136)	(702,620)
Payroll charges	(117,442)	(108,728)
Employee benefits	(16,419)	(24,968)
Costs of restructuring provision	(2,489)	(29,867)
Costs of provision for future liabilities arising from unused annual leave and retirement benefits	(7,338)	(11,511)
Appropriations to Social Benefits Fund	(8,875)	(8,921)
Other	(1,306)	(14,817)
Total personnel expenses	**(832,005)**	**(901,432)**

14. DEPRECIATION AND AMORTIZATION

	12 months ended 31.12.2017	12 months ended 31.12.2016
Property, plant and equipment	(87,557)	(82,080)
Intangible assets	(86,507)	(124,517)
Total depreciation and amortization	**(174,064)**	**(206,597)**

15. INCOME TAX EXPENSE

	12 months ended 31.12.2017	12 months ended 31.12.2016
Current income tax	(189,917)	(114,956)
Deferred income tax	15,739	17,309
Total income tax expense	**(174,178)**	**(97,647)**
Profit before income tax	453,885	174,507
Statutory tax rate	19%	19%
Income taxes on gross profit	**(86,238)**	**(33,156)**
Receivables written-off	(32,057)	(14,478)
Non-tax-deductible tangible costs/income	(650)	(1,540)
PFRON	(1,119)	(1,241)
Prudential fee to the Bank Guarantee Fund	(18,142)	(7,482)
Impairment allowance on receivables	(3,603)	(1,384)
Tax on financial institutions	(39,115)	(35,321)
Other differences	6,746	(3,045)
Total income tax expense	**(174,178)**	**(97,647)**

16. EARNINGS PER SHARE

BASIC:	12 months ended 31.12.2017	12 months ended 31.12.2016
Attributable to equity holders of the Bank	279,707	76,860
Weighted average number of ordinary shares (items)	84,238,318	84,238,318
Basic earnings per share (in PLN per share)	3.32	0.91
Diluted earnings per share (in PLN per share)	3.32	0.91

Diluted earnings are equal to the basic earnings per share, since there are no factors that cause dilution.

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

17. CASH AND BALANCES AT CENTRAL BANK

	31.12.2017	31.12.2016
Cash and other balances	918,927	1,062,599
Account in the National Bank of Poland	79,108	240,248
Total cash and balances at Central Bank	**998,035**	**1,302,847**

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

The funds on the statutory reserve account bear interest equal to 0.9 of the rediscount rate charged on bills of exchange. As at 31 December 2017 interest on statutory reserve accounts was 1.58% (1.35% as at 31 December 2016).

The balance of cash in hand and at Central Bank includes the statutory reserve maintained with the National Bank of Poland. The declared reserve level to be maintained in December 2017 was PLN 1,905,544 thousand (as compared to PLN 1,866,604 thousand in December 2016).

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

18. AMOUNTS DUE FROM BANKS

	31.12.2017	31.12.2016
Current accounts	1,732,861	236,548
Interbank deposits	800,105	918,746
Loans and advances	23,053	40,089
Other receivables	52,147	40,262
Total amounts due from banks (gross)	**2,608,166**	**1,235,645**
Impairment allowances on amounts due from banks	(4,477)	(2,053)
Total amounts due from banks (net)	**2,603,689**	**1,233,592**

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

	12 months ended 31.12.2017	12 months ended 31.12.2016
Impairment allowances on amounts due from banks at the beginning of the period	**(2,053)**	**(1,056)**
Recognition of impairment allowances	(5,974)	(3,686)
Release of impairment allowances	3,550	2,596
Other changes	-	93
Impairment allowances on amounts due from banks at the end of the period	**(4,477)**	**(2,053)**

Amounts due from banks evaluated on an individual and collective basis

31.12.2017	Impaired exposures evaluated individually	Evaluated collectively	Total
Current accounts	-	1,732,861	1,732,861
Interbank deposits	-	800,105	800,105
Loans and advances	-	23,053	23,053
Other receivables	-	52,147	52,147
Total amounts due from banks (gross)	**-**	**2,608,166**	**2,608,166**
31.12.2016			
Current accounts	-	236,548	236,548
Interbank deposits	-	918,746	918,746
Loans and advances	-	40,089	40,089
Other receivables	-	40,262	40,262
Total amounts due from banks (gross)	**-**	**1,235,645**	**1,235,645**

Impairment allowances on amounts due from banks evaluated on an individual and collective basis

	31.12.2017	31.12.2016
Evaluated individually	-	-
Evaluated collectively	(4,477)	(2,053)
Total impairment	**(4,477)**	**(2,053)**

Gross amounts due from banks by their maturity

	31.12.2017	31.12.2016
Up to 1 month	2,533,021	1,116,371
From 1 month to 3 months	240	21,610
From 3 months to 1 year	15,027	14,041
From 1 year to 5 years	8,002	23,028
Over 5 years	51,876	34,551
Overdue loans	-	26,044
Total amounts due from banks by maturity	**2,608,166**	**1,235,645**

19. DERIVATIVE FINANCIAL INSTRUMENTS

Fair value of derivatives is presented in the below table:

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

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 Swap (FX Swap)	11,940,472	49,927	26,147
Currency Interest Rate Swaps (CIRS)	1,844,744	4,958	5,487
OTC currency options	1,954,720	8,252	8,486
Total currency derivatives:	**21,482,400**	**100,978**	**65,636**
INTEREST RATE DERIVATIVES:			
Interest Rate Swap	23,118,463	204,282	188,685
Forward Rate Agreements (FRA)	13,700,000	2,166	1,489
OTC interest rate options	3,026,815	12,552	12,508
Total interest rate derivatives:	**39,845,278**	**219,000**	**202,682**
OTHER DERIVATIVES			
OTC options	335,880	3,116	3,129
OTC commodity swaps	67,744	384	310
Currency Spot (FX Spot)	1,037,793	527	-
Other options	8,500	-	-
Total other derivatives:	1,449,917	4,027	3,439
TOTAL TRADING DERIVATIVES:	**62,777,595**	**324,005**	**271,757**
including: valued using models	*62,777,595*	*324,005*	*271,757*

Fair value of derivatives by their maturity

31.12.2017	Fair value of asset						Fair value of liability					
	Total	<=1 month	>1 month <=3 months	>3 months <=12 months	>1 year <=5 years	>5 years	Total	<=1 month	>1 month <=3 months	>3 months <=12 months	>1 year <=5 years	>5 years
TRADING DERIVATIVES (HELD FOR TRADING)												
CURRENCY DERIVATIVES:												
Foreign Exchange Forward (FX Forward + NDF)	**34,264**	10,404	7,485	14,928	1,447	-	**65,128**	7,753	8,648	23,516	25,211	-
Currency Swap (FX Swap)	**108,078**	42,670	41,740	17,443	6,225	-	**68,971**	21,777	35,153	12,041	-	-
Currency Interest Rate Swaps (CIRS)	**131,149**	-	24	4,694	96,903	29,528	**101,365**	-	-	-	84,986	16,379
OTC currency options	**5,969**	518	807	2,808	1,836	-	**5,985**	519	808	2,810	1,848	-
Total currency derivatives:	**279,460**	**53,592**	**50,056**	**39,873**	**106,411**	**29,528**	**241,449**	**30,049**	**44,609**	**38,367**	**112,045**	**16,379**
INTEREST RATE DERIVATIVES:												
Interest Rate Swap	**173,999**	698	6,911	3,900	106,719	55,771	166,172	5,620	5,411	7,790	100,035	47,316
Forward Rate Agreements (FRA)	**97**	-	-	97	-	-	**63**	-	-	63	-	-
OTC interest rate options	**13,071**	-	6,716	5,148	1,160	47	**13,142**	-	6,787	5,148	1,160	47
Total interest rate derivatives:	**187,167**	**698**	**13,627**	**9,145**	**107,879**	**55,818**	**179,377**	**5,620**	**12,198**	**13,001**	**101,195**	**47,363**
OTHER DERIVATIVES												
OTC options	**4,010**	-	-	685	3,325	-	**4,004**	-	-	1,316	2,688	-
OTC commodity swaps	**2,858**	1,227	75	1,556	-	-	**2,880**	1,236	72	1,572	-	-
Currency Spot (FX Spot)	**295**	295	-	-	-	-	**-**	-	-	-	-	-
Other options	**631**	-	-	631	-	-	**-**	-	-	-	-	-
Total other derivatives:	**7,794**	**1,522**	**75**	**2,872**	**3,325**	**-**	**6,884**	**1,236**	**72**	**2,888**	**2,688**	**-**
TOTAL TRADING DERIVATIVES:	**474,421**	**55,812**	**63,758**	**51,890**	**217,615**	**85,346**	**427,710**	**36,905**	**56,879**	**54,256**	**215,928**	**63,742**

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

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

20. HEDGE ACCOUNTING

As at 31 December 2017, the Group used fair value hedge (**macro fair value hedge**).

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

IRS	Nominal value	Fair value	
		Assets	Liabilities
31.12.2017	5,308,397	26,399	-
31.12.2016	4,019,360	18,671	-

The below table presents derivative hedging instruments at their nominal value as at 31 December 2017 by residual maturity dates:

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

	31.12.2016							
	Fair value		Nominal value					
Hedging derivatives	positive	negative	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Forward rate agreements								
Swap (IRS)	18,671	-	17,696	-	1,971,200	1,875,624	154,840	4,019,360
Hedging derivatives - total	**18,671**	**-**	**17,696**	**-**	**1,971,200**	**1,875,624**	**154,840**	**4,019,360**

Additionally, as at 31 December 2017, the Group applies fair value hedge accounting (**micro fair value hedge).**

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

		Fair value	
IRS	Nominal value	Assets	Liabilities
31.12.2017	750,000	-	3,287

The below table presents derivative hedging instruments at their nominal value as at 31 December 2017 by residual maturity dates:

Hedging derivatives	31.12.2017							
	Fair value		Nominal value					
	positive	negative	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Forward rate agreements								
Swap (IRS)	-	3,287	-	-	-	750,000	-	750,000
Hedging derivatives - total	**-**	**3,287**	**-**	**-**	**-**	**750,000**	**-**	**750,000**

Amounts recognized in the profit or loss account under fair value hedge accounting:

	31.12.2017	31.12.2016
Net interest income on hedging derivative instruments	80,978	78,754
Net interest income on hedged instruments	(73,377)	(79,796)
Change in fair value of hedging transactions recognized in the Result on hedge accounting	3,304	(77)
including: change in fair value of hedging instruments	*(2,451)*	*(5,851)*
change in fair value of hedged instruments	*5,755*	*5,774*

21. LOANS AND ADVANCES TO CUSTOMERS

	31.12.2017	31.12.2016
OVERDRAFTS:	**8,676,125**	**8,114,472**
corporate	4,615,526	4,188,362
households:	4,050,776	3,918,198
retail customers	174,843	183,507
individual entrepreneurs	431,127	428,561
farmers	3,444,806	3,306,130
public sector institutions	1,379	475
other entities	8,444	7,437
LOANS AND ADVANCES:	**47,076,223**	**49,962,755**
corporate:	12,758,353	15,127,379
investment loans	7,463,839	7,198,133
revolving loans	2,942,520	3,557,759
other	2,351,994	4,371,487
households:	30,246,761	31,476,050
retail customers, including:	20,764,213	21,885,691
mortgage loans	13,628,114	15,005,546
individual entrepreneurs	1,923,343	2,251,724
farmers	7,559,205	7,338,635
public sector institutions	170,794	185,097
other entities	852,796	392,790
Lease receivables	3,047,519	2,781,439
Total gross loans and advances	**55,752,348**	**58,077,227**
Impairment allowances (negative value)	(2,784,780)	(3,001,356)
Total net loans and advances	**52,967,568**	**55,075,871**

Impairment allowances on loans and advances to customers

	31.12.2017	31.12.2016
OVERDRAFTS:	**(436,623)**	**(433,071)**
corporate	(282,483)	(292,401)
households:	(153,568)	(140,033)
retail customers	(16,355)	(21,068)
individual entrepreneurs	(65,656)	(66,233)
farmers	(71,557)	(52,732)
public sector institutions	(1)	-
other entities	(571)	(637)
LOANS AND ADVANCES:	**(2,348,157)**	**(2,568,285)**
corporate	(811,200)	(943,480)
investment loans	(252,920)	(284,646)
revolving loans	(419,232)	(481,415)
other	(139,048)	(177,419)
households:	(1,437,777)	(1,525,360)
retail customers, including:	(926,140)	(1,084,337)
mortgage loans	(315,298)	(364,406)
individual entrepreneurs	(244,373)	(235,033)
farmers	(267,264)	(205,990)
public sector institutions	(189)	(215)
other entities	(4,893)	(3,933)
Lease receivables	(94,098)	(95,297)
Total impairment allowances	**(2,784,780)**	**(3,001,356)**

Gross loans and advances to customers evaluated on an individual and collective basis

31.12.2017	Impaired exposures evaluated individually	Evaluated collectively	TOTAL
OVERDRAFTS:	**293,269**	**8,382,856**	**8,676,125**
corporate	231,713	4,383,813	4,615,526
households:	60,235	3,990,541	4,050,776
retail customers	16	174,827	174,843
individual entrepreneurs	12,634	418,493	431,127
farmers	47,585	3,397,221	3,444,806
public sector institutions	-	1,379	1,379
other entities	1,321	7,123	8,444
LOANS AND ADVANCES:	**1,785,677**	**45,290,546**	**47,076,223**
corporate	1,253,654	11,504,699	12,758,353
households:	424,353	29,822,408	30,246,761
retail customers	69,799	20,694,414	20,764,213
individual entrepreneurs	90,341	1,833,002	1,923,343
farmers	264,213	7,294,992	7,559,205
public sector institutions	-	170,794	170,794
other entities	3,358	849,438	852,796
Lease receivables	104,312	2,943,207	3,047,519
Total gross loans and advances	**2,078,946**	**53,673,402**	**55,752,348**
31.12.2016			
OVERDRAFTS:	**331,154**	**7,783,318**	**8,114,472**
corporate	286,968	3,901,394	4,188,362
households:	42,910	3,875,288	3,918,198
retail customers	5,153	178,354	183,507
individual entrepreneurs	12,125	416,436	428,561
farmers	25,632	3,280,498	3,306,130
public sector institutions	-	475	475
other entities	1,276	6,161	7,437
LOANS AND ADVANCES:	**1,867,518**	**48,095,237**	**49,962,755**
corporate	1,499,998	13,627,381	15,127,379
households:	364,045	31,112,005	31,476,050
retail customers	66,944	21,818,747	21,885,691
individual entrepreneurs	96,989	2,154,735	2,251,724
farmers	200,112	7,138,523	7,338,635
public sector institutions	-	185,097	185,097
other entities	3,475	389,315	392,790
Lease receivables	-	2,781,439	2,781,439
Total gross loans and advances	**2,198,672**	**55,878,555**	**58,077,227**

Impairment allowances on loans and advances to customers evaluated on an individual and collective basis:

31.12.2017	Impaired exposures evaluated individually	Evaluated collectively*	TOTAL
OVERDRAFTS:	**(216,323)**	**(220,300)**	**(436,623)**
corporate	(187,526)	(94,957)	(282,483)
households:	(28,784)	(124,784)	(153,568)
retail customers	(16)	(16,339)	(16,355)
individual entrepreneurs	(9,890)	(55,766)	(65,656)
farmers	(18,878)	(52,679)	(71,557)
public sector institutions	-	(1)	(1)
other entities	(13)	(558)	(571)
LOANS AND ADVANCES:	**(976,308)**	**(1,371,849)**	**(2,348,157)**
corporate	(690,277)	(120,923)	(811,200)
households:	(217,941)	(1,219,836)	(1,437,777)
retail customers	(34,688)	(891,452)	(926,140)
individual entrepreneurs	(61,916)	(182,457)	(244,373)
farmers	(121,337)	(145,927)	(267,264)
public sector institutions	-	(189)	(189)
other entities	(1,521)	(3,372)	(4,893)
Lease receivables	(66,569)	(27,529)	(94,098)
Total impairment allowances	**(1,192,631)**	**(1,592,149)**	**(2,784,780)**

31.12.2016			
OVERDRAFTS:	**(220,519)**	**(212,552)**	**(433,071)**
corporate	(201,208)	(91,193)	(292,401)
households:	(19,298)	(120,735)	(140,033)
retail customers	(4,153)	(16,915)	(21,068)
individual entrepreneurs	(6,382)	(59,851)	(66,233)
farmers	(8,763)	(43,969)	(52,732)
public sector institutions	-	-	-
other entities	(13)	(624)	(637)
LOANS AND ADVANCES:	**(974,986)**	**(1,593,299)**	**(2,568,285)**
corporate	(795,256)	(148,224)	(943,480)
households:	(178,019)	(1,347,341)	(1,525,360)
retail customers	(32,194)	(1,052,143)	(1,084,337)
individual entrepreneurs	(55,321)	(179,712)	(235,033)
farmers	(90,504)	(115,486)	(205,990)
public sector institutions	-	(215)	(215)
other entities	(1,711)	(2,222)	(3,933)
Lease receivables	-	(95,297)	(95,297)
Total impairment allowances	**(1,195,505)**	**(1,805,851)**	**(3,001,356)**

* Impairment allowances on non-impaired and impaired loans and advances evaluated on a collective basis.

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

	12 months ended 31.12.2017	12 months ended 31.12.2016
Opening balance of impairment allowances	**(3,001,356)**	**(3,006,099)**
Recognition of impairment allowances*	(1,020,806)	(1,959,065)
Release of impairment allowances*	672,520	1,556,918
Write-off	548,116	415,495
Impairment allowances acquired as a result of merger	-	29,988
Other changes (including exchange differences)	16,746	(38,593)
Closing balance of impairment allowances	**(2,784,780)**	**(3,001,356)**

*Recognition and release of impairment allowances on loans and advances are presented based on turnovers due to functional limitations of the system. The presentation above does not have any effect on the Bank's net profit.

Gross loans and advances by maturity

	31.12.2017	31.12.2016
Up to 1 month	12,827,277	11,013,137
From 1 month to 3 months	288,670	449,926
From 3 months to 1 year	2,617,901	2,373,044
From 1 year to 5 years	12,696,811	11,177,175
Over 5 years	26,105,178	27,891,004
Overdue loans	1,216,511	5,172,941
Total loans and advances by maturity	**55,752,348**	**58,077,227**

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

Loans by currency	31.12.2017	31.12.2016
CHF	5,350,126	6,733,995
EUR	65,037	76,696
PLN	8,209,418	8,190,068
USD	3,533	4,787
Total	**13,628,114**	**15,005,546**

Value of CHF loan portfolio

	31.12.2017		31.12.2016	
Gross loan portfolio, including:	Total portfolio	including CHF exposures	Total portfolio	including CHF exposures
OVERDRAFTS:	**8,676,125**	**5**	**8,114,472**	**4**
corporate	4,615,526	-	4,188,362	-
households:	4,050,776	5	3,918,198	4
retail customers	174,843	5	183,507	4
individual entrepreneurs	431,127	-	428,561	-
farmers	3,444,806	-	3,306,130	-
public sector institutions	1,379	-	475	-
other entities	8,444	-	7,437	-
LOANS AND ADVANCES:	**47,076,223**	**5,596,958**	**49,962,755**	**7,090,253**
corporate	12,758,353	53,834	15,127,379	89,739
investment loans	7,463,839	10,690	7,198,133	20,551
revolving loans	2,942,520	32,588	3,557,759	53,984
other	2,351,994	10,556	4,371,487	15,204
households:	30,246,761	5,467,012	31,476,050	6,901,923
retail customers, including:	20,764,213	5,426,710	21,885,691	6,837,907
mortgage loans	13,628,114	5,350,126	15,005,546	6,733,995
individual entrepreneurs	1,923,343	33,996	2,251,724	53,782
farmers	7,559,205	6,306	7,338,635	10,234
public sector institutions	170,794	-	185,097	-
other entities	852,796	1,790	392,790	2,593
Lease receivables	3,047,519	74,322	2,781,439	95,998
Total gross loans and advances	**55,752,348**	**5,596,963**	**58,077,227**	**7,090,257**

Value of impairment allowances for CHF loans

	31.12.2017		31.12.2016	
Gross loan portfolio, including:	Total portfolio	including CHF exposures	Total portfolio	including CHF exposures
OVERDRAFTS:	**(436,623)**	**(3)**	**(433,071)**	**-**
corporate	(282,483)	-	(292,401)	-
households:	(153,568)	(3)	(140,033)	-
retail customers	(16,355)	(3)	(21,068)	-
individual entrepreneurs	(65,656)	-	(66,233)	-
farmers	(71,557)	-	(52,732)	-
public sector institutions	(1)	-	-	-
other entities	(571)	-	(637)	-
LOANS AND ADVANCES:	**(2,348,157)**	**(244,872)**	**(2,568,285)**	**(306,212)**
corporate	(811,200)	(3,998)	(943,480)	(12,553)
investment loans	(252,920)	(613)	(284,646)	(797)
revolving loans	(419,232)	(263)	(481,415)	(8,145)
other	(139,048)	(3,122)	(177,419)	(3,611)
households:	(1,437,777)	(226,166)	(1,525,360)	(279,004)
retail customers, including:	(926,140)	(217,462)	(1,084,337)	(267,181)
mortgage loans	(315,298)	(206,799)	(364,406)	(254,577)
individual entrepreneurs	(244,373)	(7,614)	(235,033)	(9,985)
farmers	(267,264)	(1,090)	(205,990)	(1,838)
public sector institutions	(189)	-	(215)	-
other entities	(4,893)	-	(3,933)	-
Lease receivables	(94,098)	(14,708)	(95,297)	(14,655)
Total impairment allowances	**(2,784,780)**	**(244,875)**	**(3,001,356)**	**(306,212)**

In 2017, the Bank concluded 9 agreements regarding the sale of loan portfolio. The amount of receivables (covered in a significant portion by impairment allowances, or written down in full from the Bank's balance sheet) sold under agreements amounted to PLN 651,152 thousand (including principal, interest and other side receivables). The contractual price for the sale of these portfolios has been set at PLN 138,119 thousand. The net effect on the Bank's results from the sale of portfolios which amounted to PLN 34,881 thousand and is presented in the *Result on impairment allowances on financial assets and provisions for contingent liabilities*.

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

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

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

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

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

The Bank acts as a servicing entity in the transaction.

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

	Balance sheet amount		Fair value*	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Assets	2,194,397	-	2,194,397	-
Liabilities	2,303,210	-	2,303,210	-

*The fair value of assets and liabilities due to the securitization process is equal to the carrying amount due to immaterial amounts resulted from a short period from the date of concluding the securitization transaction

22. FINANCE LEASE RECEIVABLES

Finance lease receivables

	31.12.2017	31.12.2016
Gross finance lease receivables	3,313,730	2,989,846
Unrealized financial income	(266,211)	(208,407)
Present value of minimum lease payments	**3,047,519**	**2,781,439**
Impairment allowances	(94,098)	(95,297)
Total finance lease receivables	**2,953,421**	**2,686,142**

Gross finance lease receivables by maturity

	31.12.2017	31.12.2016
Up to 1 year	977,257	858,963
From 1 year to 5 years	1,952,965	1,687,605
Over 5 years	383,508	443,278
Total gross finance lease receivables	**3,313,730**	**2,989,846**

Present value of minimum lease payments

	31.12.2017	31.12.2016
Up to 1 year	750,015	784,912
From 1 year to 5 years	1,930,382	1,571,435
Over 5 years	346,037	425,092
Present value of minimum lease payments	**3,026,434**	**2,781,439**

23. FINANCIAL ASSETS AVAILABLE FOR SALE

	31.12.2017	31.12.2016
Debt securities available for sale:	13,870,298	12,448,691
issued by central banks – NBP bills	2,099,429	999,959
issued by governments – Treasury-bonds	11,703,293	11,373,673
issued by non-financial entities – bonds	62,574	70,072
issued by local governments – municipal bonds	5,002	4,987
Equity securities available for sale: (stock and shares)	51,591	47,603
Share units	651	1,561
Total financial assets available for sale	**13,922,540**	**12,497,855**
including:		
measured using the market quotation method	*11,703,944*	*11,374,313*
measured using models	*2,218,596*	*1,123,542*

Change in the balance of financial assets available for sale is presented in the table below:

	12 months ended 31 12.2017	12 months ended 31 12.2016
Balance as at 1 January	**12,497,855**	**7,845,074**
Purchase of securities	23,746,923	25,812,367
Sales of securities	(22,519,282)	(20,923,410)
Change in fair value through other comprehensive income measurement	174,113	(249,816)
Change in fair value through profit or loss	(2,513)	-
Change in impairment allowances	(11,792)	-
Change in interest receivable due to foreign exchange differences, discounts and premiums	37,236	13,382
Other changes	-	258
As at 31 December at carrying amount	**13,922,540**	**12,497,855**

In accordance with the Banking Guarantee Fund ("BFG") Act of 14 December 1994, as at 31 December 2017, Bank BGŻ BNP Paribas S.A. held Treasury bonds recognized in the statement of financial position in the amount of PLN 318,038 thousand (with the nominal value of PLN 320,000 thousand), securing the guaranteed funds under BFG (in 2016, in the amount of PLN 274,449 thousand, with the nominal value of PLN 285,000 thousand).

Gross value of financial assets available for sale by maturity

	31.12.2017	31.12.2016
Without determined maturity	52,242	49,164
Up to 1 month	2,099,429	999,959
From 1 month to 3 months	-	-
From 3 months to 1 year	1,947,023	1,964,058
From 1 year to 5 years	4,453,985	5,281,466
Over 5 years	5,369,861	4,203,208
Total financial assets available for sale	**13,922,540**	**12,497,855**

24. INVESTMENT PROPERTIES

As at 31 December 2017, the Group had an investment property in the form of an undeveloped land with an area of 46.85 ha in Wrocław Marszowice.

Fair value of the property in the amount of PLN 54,435 thousand was estimated on the basis of an appraisal report prepared on 30 November 2017 by an external independent property appraiser for the amount of PLN 60,518 thousand and taking into account additional risks associated with the investment property in the valuation.

	12 months ended 31.12.2017	12 months ended 31.12.2016
Opening balance	**54,466**	**54,627**
Valuation update	(31)	(161)
Closing balance, including	**54,435**	**54,466**
acquisition price	12,246	12,246
revaluation to fair value	42,189	42,220

25. INTANGIBLE ASSETS

	31.12.2017	31.12.2016
Licenses	219,590	195,934
Other intangible assets	4,996	6,153
Expenditure on intangible assets	63,754	44,465
Total intangible assets	**288,340**	**246,552**

12 months ended 31.12.2017	Licenses	Other intangible assets	Expenditure on intangible assets	Total
GROSS BOOK VALUE				
As at 1 January	**730,283**	**18,985**	**46,159**	**795,427**
Increases:	*109,170*	*2,730*	*118,666*	*230,566*
reclassification from expenditure	94,584	1,800	-	96,384
reclassification from property, plant and equipment	367	-	-	367
purchase	14,219	930	118,666	133,815
Decreases:	*(344,967)*	*(9,471)*	*(99,928)*	*(454,366)*
reclassification from expenditure	-	-	(96,384)	(96,384)
sale, liquidation, donation, shortage	(344,967)	(6,293)	(3,134)	(354,394)
other	-	(3,178)	(410)	(3,588)
AS AT 31 DECEMBER	**494,486**	**12,244**	**64,897**	**571,627**
ACCUMULATED DEPRECIATION (-)				
As at 1 January	**534,349**	**12,832**	**-**	**547,181**
Balance changes:	*(259,453)*	*(5,584)*	-	*(265,037)*
depreciation for the financial year	84,249	1,976	-	86,225
sale, liquidation, donation, shortage	(343,702)	(6,017)	-	(349,719)
other	-	(1,543)	-	(1,543)
As at 31 December	**274,896**	**7,248**	**-**	**282,144**
IMPAIRMENT ALLOWANCES (-)				
As at 1 January	**-**	**-**	**1,694**	**1,694**
Balance changes:	-	-	*(551)*	*(551)*
impairment allowance update	-	-	(551)	(551)
As at 31 December	**-**	**-**	**1,143**	**1,143**
NET BOOK VALUE				
As at 1 January	**195,934**	**6,153**	**44,465**	**246,552**
As at 31 December	**219,590**	**4,996**	**63,754**	**288,340**

12 months ended 31.12.2016	Licenses	Other intangible assets	Expenditure on intangible assets	Total
GROSS BOOK VALUE				
As at 1 January	**720,045**	**22,063**	**32,561**	**774,669**
Increases:	*108,870*	*3,004*	*120,572*	*232,446*
reclassification from expenditure	95,021	1,290	-	96,311
purchase	13,849	1,714	120,572	136,135
Decreases:	*(98,632)*	*(6,082)*	*(106,974)*	*(211,688)*
reclassification from expenditure	-	-	(88,693)	(88,693)
sale, liquidation, donation, shortage	(98,632)	(6,082)	(14,534)	(119,248)
other	-	-	(3,747)	(3,747)
AS AT 31 DECEMBER	**730,283**	**18,985**	**46,159**	**795,427**
ACCUMULATED DEPRECIATION (-)				
As at 1 January	**502,020**	**14,665**	**-**	**516,685**
Balance changes:	*32,329*	*(1,833)*	-	*30,496*
depreciation for the financial year	109,129	2,644	-	111,773
sale, liquidation, donation, shortage	(76,800)	(4,477)	-	(81,277)
As at 31 December	**534,349**	**12,832**	**-**	**547,181**
IMPAIRMENT ALLOWANCES (-)				
As at 1 January	**-**	**-**	**557**	**557**
Balance changes:	-	-	*1,137*	*1,137*
impairment allowance update	-	-	1,137	1,137
As at 31 December	**-**	**-**	**1,694**	**1,694**
NET BOOK VALUE				
As at 1 January	**218,025**	**7,398**	**32,004**	**257,427**
As at 31 December	**195,934**	**6,153**	**44,465**	**246,552**

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

As at 31 December 2017 and 31 December 2016, the Group had no material contractual liabilities related to acquisition of intangible assets.

26. PROPERTY, PLANT AND EQUIPMENT

	31.12.2017	31.12.2016
Non-current assets, including:	488,482	528,009
land and buildings	225,119	242,890
IT equipment	122,943	130,451
office equipment	26,717	30,102
other, including leasehold improvements	113,703	124,566
Fixed assets under construction	12,165	17,993
Total property, plant and equipment	**500,647**	**546,002**

Changes in the balances of property, plant and equipment in 2016 and 2017 are presented in the below table

12 months ended 31.12.2017	Land and buildings	Property, plant and equipment	Fixed assets under construction	Total
GROSS BOOK VALUE				
As at 1 January	**440,425**	**1,006,775**	**17,993**	**1,465,193**
Increases:	*4,269*	*84,998*	*31,572*	*120,839*
reclassification from fixed assets under construction	3,862	32,722	-	36,584
purchase	407	51,784	31,572	83,763
other	-	492	-	492
Decreases:	*(14,581)*	*(169,842)*	*(37,400)*	*(221,823)*
reclassification from fixed assets under construction	-	-	(36,584)	(36,584)
reclassification from fixed assets	(14,581)	(169,536)	-	(184,117)
other	-	(306)	(816)	(1,122)
As at 31 December	**430,113**	**921,931**	**12,165**	**1,364,209**
ACCUMULATED DEPRECIATION (-)				
As at 1 January	**193,298**	**721,148**	**-**	**914,446**
Balance changes:	*5,259*	*(63,030)*		*(57,771)*
depreciation for the financial year	10,529	77,372	-	87,901
sale, liquidation, donation, shortage	(5,270)	(140,144)	-	(145,414)
other	-	(258)	-	(258)
As at 31 December	**198,557**	**658,118**	**-**	**856,675**
IMPAIRMENT ALLOWANCES (-)				
As at 1 January	**4,237**	**508**	**-**	**4,745**
Balance changes:	*2,439*	*(297)*	-	*2,142*
impairment allowance update	2,439	(297)	-	2,142
As at 31 December	**6,676**	**211**	**-**	**6,887**
NET BOOK VALUE				
As at 1 January	**242,890**	**285,119**	**17,993**	**546,002**
As at 31 December	**224,880**	**263,602**	**12,165**	**500,647**

12 months ended 31.12.2016	Land and buildings	Property, plant and equipment	Fixed assets under construction	Total
GROSS BOOK VALUE				
As at 1 January	**438,412**	**995,763**	**41,743**	**1,475,918**
Increases:	*5,583*	*120,605*	*77,910*	*204,098*
reclassification from fixed assets under construction	5,583	84,064	-	89,647
purchase	-	32,794	77,910	110,704
other	-	3,747	-	3,747
Decreases:	*(3,570)*	*(109,593)*	*(101,660)*	*(214,823)*
reclassification from fixed assets under construction	-	-	(96,651)	(96,651)
reclassification from fixed assets	(3,570)	(109,593)	(5,009)	(118,172)
As at 31 December	**440,425**	**1,006,775**	**17,993**	**1,465,193**
ACCUMULATED DEPRECIATION (-)				
As at 1 January	**184,190**	**751,441**	**-**	**935,631**
Balance changes:	*9,108*	*(30,293)*	-	*(21,185)*
depreciation for the financial year	10,655	70,351	-	81,006
sale, liquidation, donation, shortage	(1,547)	(100,644)	-	(102,191)
As at 31 December	**193,298**	**721,148**	**-**	**914,446**
IMPAIRMENT ALLOWANCES (-)				
As at 1 January	**2,065**	**1,021**	**-**	**3,086**
Balance changes:	*2,172*	*(513)*	-	*1,659*
impairment allowance update	1,809	(513)	-	1,296
As at 31 December	363	-	-	363
Balance changes:	**4,237**	**508**	**-**	**4,745**
NET BOOK VALUE				
As at 1 January	**252,157**	**243,301**	**41,743**	**537,201**
As at 31 December	**242,890**	**285,119**	**17,993**	**546,002**

As at 31 December 2017 and 31 December 2016, the Group had no material contractual liabilities related to acquisition of property, plant and equipment.

27. OTHER ASSETS

OTHER ASSETS:	31.12.2017	31.12.2016
sundry debtors	161,860	214,630
settlements with securitization company	87,699	-
interbank and intersystem settlements	460	17,240
prepaid expenses	34,767	45,605
accrued income	86,454	64,192
card settlements	1,460	9,780
tax and other regulatory receivables	70,461	147,606
insurance liabilities	5,604	5,474
other lease liabilities	18,733	22,936
other	10,041	3,019
Total other assets (gross)	**477,539**	**530,482**
Impairment allowances on other receivables from other debtors	(82,730)	(55,168)
Total other assets (net)	**394,809**	**475,314**

28. AMOUNTS DUE TO BANKS

	31.12.2017	31.12.2016
Current accounts	285,008	199,895
Interbank deposits	18,131	127,507
Loans and advances received	3,476,702	6,957,003
Other liabilities	111,394	24,409
Total amounts due to banks	**3,891,235**	**7,308,814**

Amounts due to banks by their maturity

	31.12.2017	31.12.2016
Up to 1 month	315,411	2,488,365
From 1 month to 3 months	20,519	1,111,419
From 3 months to 1 year	507,906	823,391
From 1 year to 5 years	1,695,114	1,154,164
Over 5 years	1,352,285	1,731,475
Total amounts due to banks	**3,891,235**	**7,308,814**

29. AMOUNTS DUE TO CUSTOMERS

	31.12.2017	31.12.2016
OTHER FINANCIAL INSTITUTIONS:	**3,109,991**	**3,990,812**
Current accounts	465,431	212,503
Term deposits	1,168,269	1,754,338
Loans and advances received	1,475,684	2,023,662
Other liabilities, including:	607	309
due to cash collateral	584	266
other	23	43
RETAIL CUSTOMERS:	**27,649,983**	**27,527,173**
Current accounts	14,812,376	14,725,418
Term deposits	12,690,377	12,680,228
Other liabilities, including:	147,230	121,527
due to cash collateral	34,352	45,511
other	112,878	76,016
CORPORATE CUSTOMERS:	**24,662,821**	**22,819,005**
Current accounts	14,414,954	12,090,445
Term deposits	9,912,792	10,451,327
Other liabilities, including:	335,075	277,233
due to cash collateral	292,678	245,867
other	42,397	31,366
INCLUDING FARMERS:	**1,698,793**	**1,630,880**
Current accounts	1,540,706	1,423,807
Term deposits	142,209	198,073
Other liabilities, including:	15,878	9,000
due to cash collateral	5,777	3,521
other	10,101	5,479
PUBLIC SECTOR CUSTOMERS:	**906,102**	**818,024**
Current accounts	642,122	585,195
Term deposits	262,046	229,848
Other liabilities, including:	1,934	2,981
due to cash collateral	23	23
other	1,911	2,958
Total amounts due to customers	**56,328,897**	**55,155,014**

Amounts due to customers by their maturity

	31.12.2017	31.12.2016
Up to 1 month	40,743,575	31,295,171
From 1 month to 3 months	6,504,661	14,759,663
From 3 months to 1 year	6,815,594	6,361,112
From 1 year to 5 years	801,570	748,220
Over 5 years	1,463,497	1,990,848
Total amounts due to customers	**56,328,897**	**55,155,014**

30. DEBT SECURITIES ISSUED

Changes in the balance of debt securities issued

	12 months ended 31.12.2017	12 months ended 31.12.2016
Opening balance	**398,059**	**469,083**
Issuance of securities of securitization company	2,180,850	-
Redemption of certificates of deposit	(109,000)	(71,996)
Changes in discount, interests, commission on securities, foreign currency exchange differences	2,057	972
Balance of debt securities issued at the end of the period	**2,471,966**	**398,059**

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

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

The Debt Securities Issue Program is aimed at financing the current 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 31 December 2017, the par value of certificates of deposit issued was PLN 285,000 thousand as compared to PLN 394,000 thousand as at 31 December 2016.

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

31. SUBORDINATED LIABILITIES

As at 31 December 2017, the carrying amount of subordinated liabilities was PLN 1,645,102 thousand (PLN 1,768,458 thousand as at 31 December 2016).

Change in the balance of subordinated liabilities	12 months ended 31.12.2017	12 months ended 31.12.2016
Opening balance	**1,768,458**	**847,568**
Loans taken up	-	882,400
Change in the balance of interest	(345)	2,029
Exchange differences	(123,011)	36,461
Closing balance	**1,645,102**	**1,768,458**

On 15 December 2017, the Bank received the PFSA's approval to include the following amounts, resulting from the signed annexes to the subordinated loan agreements, in Tier II capital of the Bank:

- EUR 60 million (equivalent to PLN 253.3 million according to the average exchange rate of the National Bank of Poland as of 15 December 2017: EUR 1 = PLN 4.2217) constituting a subordinated liability due to a subordinated loan granted in accordance with the terms of the subordinated loan agreement dated 15 November 2012, amended by the annex of 20 November 2017, extending the repayment date of the above mentioned loans until 20 December 2027, concluded between the Bank and BNP Paribas S.A. based in Paris;
- CHF 60 million (equivalent to PLN 217.4 million according to the average exchange rate of the National Bank of Poland as of 15 December 2017 - CHF = PLN 3.6227) constituting a subordinated liability due to a subordinated loan granted in accordance with the terms of the subordinated loan agreement dated 15 November 2012, amended by the annex of 20 November 2017, extending the repayment date of the above mentioned loans until 20 December 2027, concluded between the Bank and BNP Paribas S.A. based in Paris.

32. OTHER LIABILITIES

	31.12.2017	31.12.2016
Interbank and intersystem settlements	342,148	345,720
Sundry creditors	170,158	140,144
Payment card settlements	35,898	42,922
Provisions for non-personnel expenses	159,650	139,959
Provisions for other employees-related liabilities	134,096	131,665
Provision for unused annual holidays	28,990	29,653
Deferred income	75,722	83,187
Escrow account liabilities	138,871	63,098
Other regulatory liabilities	55,045	103,973
Insurance liabilities	20,392	17,577
Other lease liabilities	39,452	16,233
Other	24,901	8,649
Total other liabilities	**1,225,323**	**1,122,780**

33. PROVISIONS

	31.12.2017	31.12.2016
Provision for restructuring	10,479	29,523
Provision for retirement benefits and similar obligations	12,940	13,332
Provision for contingent financial liabilities and guarantees granted	35,419	42,659
Provisions for litigation and claims	7,109	26,687
Other provisions	10,906	8,840
Total provisions	**76,853**	**121,041**

Provisions for restructuring	12 months ended 31.12.2017	12 months ended 31.12.2016
Opening balance	**29,523**	**60,824**
Provisions recognition	1,602	29,867
Provisions utilization	(20,884)	(59,674)
Provisions release	-	(2,080)
Other changes	238	586
Closing balance	**10,479**	**29,523**

Provision for retirement benefits and similar obligations	12 months ended 31.12.2017	12 months ended 31.12.2016
Opening balance	**13,332**	**25,879**
Provisions recognition	1,702	5,205
Provisions release	(2,094)	(17,752)
Closing balance	**12,940**	**13,332**

Provisions for contingent financial liabilities and guarantees granted	12 months ended 31.12.2017	12 months ended 31.12.2016
Opening balance	**42,659**	**46,784**
Provisions recognition	32,277	53,981
Provisions release	(40,383)	(52,820)
Other changes	866	(5,286)
Closing balance	**35,419**	**42,659**

Provisions for litigation and claims	12 months ended 31.12.2017	12 months ended 31.12.2016
Opening balance	**26,687**	**20,913**
Provisions recognition	7,046	11,455
Provisions utilization	(23,894)	(4,945)
Provisions release	(2,060)	(1,772)
Other changes	(670)	1,036
Closing balance	**7,109**	**26,687**

Other provisions	12 months ended 31.12.2017	12 months ended 31.12.2016
Opening balance	**8,840**	**9,754**
Provisions recognition	11,764	6,146
Provisions release	(5,747)	(5,668)
Other changes	(3,951)	(1,392)
Closing balance	**10,906**	**8,840**

1. As at 31 December 2017, the total value in dispute of legal cases amounted to PLN 646,404 thousand, including:
   - value in dispute in cases concerning payments against the Bank (i.e. except actions to prevent enforcement claims and proceedings on invalidity of legal actions) amounted to PLN 172,407 thousand, while as at 31 December 2016 it was PLN 137,318 thousand,
   - value in dispute against the Bank concerning invalidity of legal actions amounted to PLN 138 thousand, while as at 31 December 2016 it was 31,472 thousand,
   - value in disputes, in which the Bank is plaintiff, amounted to PLN 473,858 thousand, while as at 31 December 2016 it was 320,438 thousand,

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

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

   Corporate claims against the Bank (interchange fee)

   By 31 December 2017 the Bank received 26 requests for settlement from companies using payment cards. The total amount of these claims was PLN 986.06 million, including PLN 975.99 million where the Bank had joint and several responsibility with other banks. The claims were related to the interchange fees determined under agreements for restricting competition and the Bank executed the decision of the President of UOKiK referred to above.

Proceedings instigated by the Bank's customers being parties to CHF denominated loan agreements
As at 31 December 2017, the Bank was a respondent in forty seven (47) court cases in which the Bank's customers demand to declare the mortgage loan contract is invalid in terms of granting a foreign currency loan, denominated or indexed to CHF by determining that the Bank granted a loan in PLN without denomination to a foreign currency, or compensation for abuse of the entity's right by the Bank, including the principles of social coexistence and misleading the customer. In the last quarter, the Bank received 12 (twelve) new claims. The total value of the claims pursued in the above mentioned cases is PLN 13.96 million. Based on the previous assessment of the validity of the claims, the Bank has created a provision in the amount of PLN 93.27 thousand for 15 claims.

3. The Group recognizes provisions for retirement, disability and death benefits ("benefits") in accordance with IAS 19. The provision for benefits is calculated using the projected unit credit method by an independent actuary as the present value of the Bank's future liabilities to employees based on the number of employees and their remuneration as at the valuation date. The provisions are calculated based on numerous assumptions concerning both macroeconomic conditions and employee turnover, the risk of mortality and other. The base for the provision for employee benefits is the estimated amount of the benefits which the Bank undertakes to pay under the Remuneration Policy in place at the Bank. The estimated amount of the benefits is a product of the following:
   - the estimated benefit assessment basis, in accordance with the Collective Labour Agreement;
   - the estimated rise in the benefit assessment basis between the valuation date and the payment date;
   - a percentage ratio depending on the job tenure (in accordance with the Remuneration Policy);
   - the degree to which the vesting conditions have been satisfied, determined separately for each employee and proportional to his/her length of service with the Bank.

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

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

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

Sensitivity analysis

The following table presents the potential effect of changes in the relevant actuarial assumptions by 1 p.p. on the liabilities arising from retirement, disability ad death benefits as at 31 December 2017 and 31 December 2016.

	increase by 1 p.p.	decrease by 1 p.p.
31.12.2017		
discount rate	(1,208)	1,428
wage growth rate	1,424	(1,227)
31.12.2016		
discount rate	(1,291)	1,527
wage growth rate	1,526	(1,313)

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

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

	31.12.2017	31.12.2016
Opening balance	**13,237**	**25,879**
current employment costs	1,220	3,188
net interest on net liability	420	708
actuarial gain or loss	(1,857)	(4,799)
past service costs	-	(11,193)
benefits paid	(236)	(451)
provision acquired as a result of merger	-	-
Closing balance	**12,784**	**13,332**

34. DEFERRED INCOME TAX

Changes in deferred income tax in the financial year:

Deferred tax assets	Deferred tax basis as at 31.12.2017	Deferred tax basis as at 31.12.2016	Charge arising from changes in asset for 2017
Outstanding interest accrued on liabilities, including CD interest and discount	210,075	235,169	(4,742)
Fair value measurement of derivative instruments and securities	259,184	46,598	40,391
Impairment allowances on financial assets and provisions for contingent liabilities (non-deductible), which are probable to occur	1,799,307	1,921,994	(23,311)
Fair value adjustment due to credit risk of derivative instruments after maturity	17,250	31,466	(2,701)
Revenue collected in advance and accounted for based on amortized cost using the effective interest method	429,452	418,522	2,077
Provision for retirement benefits and provision for restructuring	32,315	57,226	(4,706)
Other provisions for personnel costs	146,433	148,624	(74)
Provisions for non-personnel expenses	185,784	153,349	7,093
Impairment allowance on fixed and intangible assets	7,844	6,261	301
Impairment allowance on shares in subsidiaries and associates	23,467	23,467	-
Tax on civil law transactions – acquisition of shares in subsidiaries	77	77	-
Impairment allowance on bonds and shares	11,792	-	2,240
Compensations paid	8,755	12,820	(772)
Impairment allowance on lease receivables	68,697	60,622	1,535
Impairment allowance on available for sale assets related to leasing operations	5,715	7,009	(246)
Surplus of the tax value of leased fixed assets over the book value of receivables	584,925	347,304	51,549
Lease down-payments	18,244	11,267	1,937
Deferred income from leasing operations	9,681	6,851	686
Impairment allowances on other assets	4,435	4,193	46

Valuation of securities available for sale	24,902	9,284	2,971
Other deductible temporary differences	16,582	19,920	(1,691)
Total:	**3,864,916**	**3,522,023**	**72,583**

Asset basis recognized in profit or loss (in the current and preceding years) and charge arising from changes in asset	3,840,014	3,512,739	69,611
Basis for assets recognized in correspondence with revaluation reserve and charge arising from changes in asset	24,902	9,284	2,972

Unrecognized deferred tax asset is related to impairment allowances on loans and advances whose non-recoverability will not become probable in the future. The related unrecognized temporary differences amounted to PLN 45,181 thousand as at 31 December 2017 as compared to PLN 46,784 thousand as at 31 December 2016.

Deferred tax liability	Deferred tax basis as at 31.12.2017	Deferred tax basis as at 31.12.2016	Charge arising from changes in liability for 2017
Accrued revenue from interest on amounts due	(532,079)	(531,670)	(141)
Fair value measurement of derivative instruments and securities	(260,372)	(62,664)	(37,565)
Transaction costs of loans and advances	-	(41)	8
Valuation of securities available for sale	(196,497)	(4,722)	(36,438)
Difference between accounting and tax depreciation of the Group's own fixed assets	(144,715)	(99,634)	(8,565)
Other accrued revenue	(1,353)	(1,363)	-
R&D expenses	(5,030)	-	(956)
Unrealized liabilities related to hedged items and hedging instruments	(12,610)	(22,751)	1,927
Deferred costs of leasing operations	(16,613)	(12,532)	(1,168)
Other taxable temporary differences	(42,798)	(40,318)	(8,035)
Total:	**(1,212,067)**	**(775,695)**	**(90,933)**
Liability basis recognized in profit or loss (in the current and preceding years) and charge arising from changes in liability	(1,015,570)	(770,886)	(54,494)
Basis for liability charged to revaluation reserve and charge arising from changes in liability	(196,497)	(4,809)	(36,439)

PRESENTED AS

Deferred tax assets	**734,335**	**669,184**
Deferred tax liability	**(230,293)**	**(147,382)**
Total	**504,042**	**521,802**
Deferred tax assets, net	512,045	529,824
Deferred tax liabilities, net	(8,003)	(8,022)

35. DISCONTINUED OPERATIONS

The Group did not discontinue any operations in 2017 or 2016.

36. SHARE-BASED PAYMENTS

The Group has a Policy on remuneration for employees that exert a considerable influence on the risk profile of Bank BGŻ BNP Paribas S.A.

The principles and assumptions underlying the aforesaid Policy guarantee the existence of a reasonable, balanced and controllable remuneration policy, consistent with the acceptable risk level, the standards and values of Bank BGŻ BNP Paribas S.A. and the applicable laws and regulations, in particular Resolution No. 258/2011 of the Polish Financial Supervision Authority as well as the recommendations formulated in CRD 4. Since January 2018, the Policy has been adapted to the provisions contained in the Ordinance of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed method of estimating internal capital in banks.

Variable remuneration granted to the Bank's employees that exert a considerable influence on the risk profile is divided into two portions, namely a financial instrument (phantom shares) and cash. Both these portions of remuneration are deferred for three years if the total amount of variable remuneration is higher than PLN 50 thousand.

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

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

Financial instruments – changes in the plan for 2016 and 2017

	2017		2016	
	Financial instrument		Financial instrument	
	number	value (PLN '000)	number	value (PLN '000)
Opening balance	**84,646**	**6,252**	**71,616**	**5,594**
granted in current period	34,573	1,656	46,786	2,363
exercised in current period	(33,877)	(1,623)	(22,499)	(1,136)
lost	-	-	(8,406)	(425)
expired	-	-	(2,851)	(144)
Closing balance	**85,342**	**6,285**	**84,646**	**6,252**

In 2017 payments of PLN 1.62 million were made due to exercising rights to deferred phantom shares (under the program for 2012, 2013 and 2014).

The table below presents the terms of the Stock Purchase Plan for 2017

Transaction type in line with IFRS 2	Share-based payments settled in cash
Plan issued on	21 June 2012 - the Resolution of the Supervisory Board approving the Remuneration Policy
The first day of granting phantom shares	15 March 2017
The last day of granting phantom shares	15 March 2017
Plan settlement	On the settlement day each participant will receive cash in the amount calculated as the product of the number of phantom shares and the median price of shares in Bank BGŻ BNP Paribas at the end of each working day (i.e. closing rate) from the year preceding the year of unit realization (January - December).
Median share price of Bank BGŻ BNP Paribas S.A.	PLN 47.9
Conditions for share granting	Individual performance appraisal Financial performance of the Bank Analysis of the probability of situations which could reduce the deferred portion of the variable pay. Meeting conditions of employment at the Bank.

37. CONTINGENT LIABILITIES

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

	31.12.2017	31.12.2016
CONTINGENT COMMITMENTS GRANTED	**19,466,753**	**18,766,871**
financial commitments	15,126,896	14,998,032
guarantees	4,339,857	3,768,839
CONTINGENT COMMITMENTS RECEIVED	**12,009,299**	**12,308,059**
financial commitments	10,871,719	10,994,815
guarantees	1,137,580	1,313,244

Liabilities granted and received by the Bank – by their maturity

	31.12.2017	31.12.2016
Up to 1 month	9,398,093	9,667,016
From 1 month to 3 months	1,096,883	1,120,263
From 3 months to 1 year	3,803,102	3,255,610
From 1 year to 5 years	2,802,577	3,648,355
Over 5 years	2,366,098	1,075,627
Total commitments granted	**19,466,753**	**18,766,871**
Up to 1 month	55,546	33,476
From 1 month to 3 months	206,278	66,107
From 3 months to 1 year	929,132	2,172,469
From 1 year to 5 years	247,115	406,916
Over 5 years	10,571,228	9,629,091
Total commitments received	**12,009,299**	**12,308,059**

The Group had the following assets pledged as collaterals for payment of its own and third-party liabilities:

Assets pledged as collaterals	31.12.2017	31.12.2016
GUARANTEED AMOUNT PROTECTION FUND - BANK GUARANTEE FUND (BFG)		
nominal value of collateral	318,038	285,000
type of collateral	Treasury bonds	Treasury bonds
maturity	25.01.2024	25.01.2024
carrying amount of collateral	320,000	274,449
COLLATERAL OF BM BGŻ BNP PARIBAS S.A. TRANSACTIONS IN SECURITIES DEPOSITED WITH THE NATIONAL DEPOSITORY FOR SECURITIES (KDPW) AS PART OF THE STOCK EXCHANGE GUARANTEE FUND		
cash	3,265	8,550
COLLATERAL FOR DERIVATIVE TRANSACTION SETTLEMENT		
nominal value of collateral	51,853	34,551
type of collateral	call deposits (amounts due from banks)	call deposits (amounts due from banks)
COLLATERAL OF SPV SETTLEMENTS FOR SECURITIZATION		
nominal value of collateral	2,211,208	-
type of collateral	receivables that are the subject of a securitization transaction	-

38. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

At the end of 2017 particular instruments were allocated to the following measurement levels:

1. level 1: treasury bonds, (fair value determined directly by reference to published active market quotations);
2. level 2: interest rate options in EUR and GBP, FX options, base interest rate and FX swaps maturing within 10 years, FRA maturing within 1 year, FX Forward, NDF and FX swaps maturing within 1 year, commodity swaps, interest rate swaps maturing within 10 years, structured instruments (fair value determined using measurement techniques which are based on available, verifiable market data), money bills, CATALYST-listed corporate bonds (fair value determined using measurement techniques which are based on available, verifiable market data or based on prices available on a limited-liquidity market);
3. level 3: interest rate options in PLN, FX options maturing over 1 year, FX Forward, NDF and FX swaps maturing over 1 year, base interest rate and FX swaps maturing over 10 years, interest rate swaps with residual maturity exceeding 10 years, structured instruments (fair value determined using measurement techniques (models) which are not based on available, verifiable market data), corporate bonds other than CATALYST-listed ones, shares which are not listed on the WSE (fair value determined using measurement techniques (models) which are not based on available, verifiable market data, i.e. in cases other than those described in 1 and 2).

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

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

31.12.2016	Level 1	Level 2	Level 3	Total
ASSETS 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 properties	-	-	54,466	54,466
LIABILITIES 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 the measurement techniques (e.g. models).

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

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

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

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

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

	Derivative financial instruments – assets	Available for sale financial assets	Investment properties	Derivative financial instruments – liabilities	Hedging instruments - liabilities
Balance as at 01.01.2017	**23,252**	**56,166**	**54,466**	**(14,681)**	**-**
Total gains/losses recognized in:	21,979	4,237	(31)	(30,725)	*(9,618)*
statement of profit or loss	*21,979*	*34*	*(31)*	(30,725)	*(9,618)*
statement of other comprehensive income	-	*4,203*	-	-	-
Purchase	-	3,300	-	-	-
Sale	-	(137)	-	-	-
Transfer	-	22,076	-	-	-
Impairment allowance	-	(11,792)	-	-	-
Balance as at 31.12.2017	**45,231**	**73,850**	**54,435**	**(45,406)**	**(9,618)**
Unrealized gains/losses recognized in profit or loss related to assets and liabilities at the end of the period	**21,979**	**34**	**(31)**	**(30,725)**	**(9,618)**

	Derivative financial instruments – assets	Available for sale financial assets	Investment properties	Derivative financial instruments – liabilities
Balance as at 01.01.2016	**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 31.12.2016	**23,252**	**56,166**	**54,466**	**(14,681)**
Unrealized gains/losses recognized in profit or loss related to assets and liabilities 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 analysed. If no new transaction was entered into during the past six months, the margin for the entire portfolio of specific type loans is used as the basis. In particular, for foreign currency mortgage loans, the margin for the entire portfolio of a specific type of mortgage loans serves as the basis for determination of a margin reflecting credit risk as no new transactions are concluded.

At the end of 2017, receivables and liabilities were allocated to the following measurement levels:

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

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

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

31.12.2016	Book value	Fair value	Level
FINANCIAL ASSETS			
Amounts due 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
Subordinated loan	1,768,458	2,069,547	3

a) Amounts due from banks and amounts due to banks

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

b) Loans and advances to customers

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

c) Investments in associates

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

d) Liabilities due to subordinated loan

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

e) Amounts due to customers

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

f) Debt securities issued

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

The following table presents information on offsetting financial instruments as at 31 December 2017 and 31 December 2016.

31.12.2017	Gross value presented in financial assets/liabilities	Gross value for balance sheet offsetting under IAS 32	Net value presented in financial assets/liabilities	Offsetting value under concluded contracts	Cash collateral value	Net value
FINANCIAL ASSETS						
Trading derivatives	506,856	-	506,856	(260,256)	(18,399)	228,202
Total	**506,856**	**-**	**506,856**	**(260,256)**	**(18,399)**	**228,202**
FINANCIAL LIABILITIES						
Trading derivatives	437,328	-	437,328	(260,256)	(103,732)	73,340
Total	**437,328**	**-**	**437,328**	**(260,256)**	**(103,732)**	**73,340**

31.12.2016						
FINANCIAL ASSETS						
Trading derivatives	324,005	-	324,005	(194,142)	(28,693)	101,170
Total	**324,005**	**-**	**324,005**	**(194,142)**	**(28,693)**	**101,170**
FINANCIAL LIABILITIES						
Trading derivatives	271,757	-	271,757	(194,142)	(26,074)	51,541
Total	**271,757**	**-**	**271,757**	**(194,142)**	**(26,074)**	**51,541**

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

39. LEASING

Finance leases - liabilities

The Group is a lessee under finance lease agreements related to branch equipment. The items leased under finance lease agreements are recognized by the Group as fixed assets.

Finance lease liabilities	31.12.2017	31.12.2016
Total minimum lease payments	32	247
Unrealized financial expenses	(14)	(108)
Present value of minimum lease payments	**18**	**139**

Total minimum lease payments by maturity	31.12.2017	31.12.2016
up to 1 year	31	213
from 1 year to 5 years	1	34
Total	**32**	**247**

Present value of minimum lease payments by maturity	31.12.2017	31.12.2016
up to 1 year	17	120
from 1 year to 5 years	1	19
Total	**18**	**139**

Operating leases

Group as a lessee

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

Lease payments by maturity	31.12.2017	31.12.2016
up to 1 year	156,073	119,910
from 1 year to 5 years	236,121	311,957
over 5 years	-	10,235
Total	**392,194**	**442,102**

Group as a lessor

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

Lease payments by maturity	31.12.2017	31.12.2016
up to 1 year	8,130	3,406
from 1 year to 5 years	4,509	201
over 5 years	47	73
Total	**12,686**	**3,680**

40. CUSTODY OPERATIONS

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

The Brokerage Office offers a wide range of investment funds managed by recognized Polish investment funds. As at the end of December 2017, the Brokerage Office had sold participation units in more than 300 funds managed by 17 investment funds. As at 31 December 2017, the value of investment funds assets sold by Bank BGŻ BNP Paribas totalled PLN 2.95 billion.

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

As at 31 December 2017 and as at the date of signing the report for 2017, i.e. 12 March 2018, the structure of the shareholders of BGŻ BNP Paribas S.A., including those holding at least 5% of the total number of votes at the General Shareholders' Meeting was as follows:

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

There were no changes in shareholding structure in 2017.
As at 31 December 2017, the Bank's share capital amounted to PLN 84,238 thousand.
The share capital is divided into 84,238,318 shares with the par value of PLN 1.00, including: 15,088,100 A series shares, 7,807,300 B series shares, 247,329 C series shares, 3,220,932 D series shares, 10,640,643 E series shares, 6,132,460 F series shares, 8,000,000 G series shares, 5,002,000 H series shares and 28,099,554 I series shares.
The Bank's shares are ordinary bearer and registered shares (as at 31 December 2017, there were 13,024,915 registered shares, including 4 shares from B series).
No special control rights are attached to the ordinary bearer shares.
Four B series registered shares in the Bank are preference shares with respect to payment of the full par value per share in the event of the Bank's liquidation, once the creditors' claims have been satisfied, with priority over payments per ordinary shares, which, after the rights attached to the preference shares have been exercised, may be insufficient to cover the total par value of those shares.
The Bank's Statute does not impose any limitations as to exercising the voting rights or set forth any provisions whereby the equity rights attached to securities would be separated from the holding itself. One right to vote at the General Shareholders' Meeting of the Bank is attached to each share. The Bank's Statute does not impose any limitations as to transferring the title to the securities issued by the Bank.
As at 31 December 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 were no change in this respect from the date of presenting the report for three quarters of 2017, i.e. 9 November 2017.

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

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

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

42. SUPPLEMENTARY CAPITAL AND OTHER CAPITALS

The following table presents changes in reserve capitals:

Supplementary capital	12 months ended 31.12.2017	12 months ended 31.12.2016
Opening balance	**5,108,418**	**5,092,196**
Capital resulting from merger	-	16,222
Other changes	18,668	-
Closing balance	**5,127,086**	**5,108,418**

Other reserve capital	12 months ended 31.12.2017	12 months ended 31.12.2016
General banking risk fund	627,154	577,766
Revaluation reserve	141,988	(497)
Other reserve capital	282,475	282,475
Total	**1,051,617**	**859,744**

General banking risk fund created from net profit	12 months ended 31.12.2017	12 months ended 31.12.2016
Opening balance	**577,766**	**498,399**
Distribution of retained earnings	49,388	8,263
Capital resulting from merger	-	71,104
Closing balance	**627,154**	**577,766**

Revaluation reserve	12 months ended 31.12.2017	12 months ended 31.12.2016
Opening balance	**(497)**	**198,090**
Net gain/loss on changes in fair value of available for sale financial assets	174,113	(250,823)
Actuarial valuation of employee benefits	1,849	4,921
Deferred income tax	(33,477)	47,315
Closing balance	**141,988**	**(497)**

Other reserve capital	12 months ended 31.12.2017	12 months ended 31.12.2016
Opening balance	**282,475**	**282,475**
Distribution of retained earnings	-	-
Closing balance	**282,475**	**282,475**

Retained earnings	12 months ended 31.12.2017	12 months ended 31.12.2016
Opening balance	**17,561**	**99,663**
Transfer from profit of the current period	27,472	5,030
Capital resulting from merger	-	(87,326)
Other	(28,218)	194
Closing balance	**16,815**	**17,561**

Changes in revaluation reserve related to financial assets available for sale

	2017		2016	
	Gross value	Deferred income tax	Gross value	Deferred income tax
Opening balance	**(7,980)**	**1,590**	**242,842**	**(46,140)**
gains/losses on revaluation of financial assets available for sale recognized in equity	148,570	(27,751)	(205,145)	39,051
reclassification due to sale of financial assets from the available for sale portfolio to profit or loss	25,543	(4,853)	(45,677)	8,679
Closing balance	**166,133**	**(31,014)**	**(7,980)**	**1,590**

43. DIVIDENDS PAID

The Group did not pay any dividends for 2016. The Management Board of the Bank will not recommend dividend payment for 2017.

44. DISTRIBUTION OF RETAINED EARNINGS

Pursuant to the Resolution of the General Shareholders' Meeting of Bank BGŻ BNP Paribas of 22 June 2016, the net profit for 2015, in the amount of PLN 49,388 thousand, was allocated to the general risk fund for unidentified banking risk.

45. CASH AND CASH EQUIVALENTS

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

	31.12.2017	31.12.2016
Cash and balances at Central Bank (Note 18)	998,035	1,302,847
Current accounts of banks and other receivables	1,645,170	264,176
Interbank deposits	800,000	913,600
Loans and advances	-	3,000
Total cash and cash equivalents	**3,443,205**	**2,483,623**

46. ADDITIONAL INFORMATION REGARDING THE STATEMENT OF CASH FLOWS

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

Change in amounts due from banks	12 months ended 31.12.2017	12 months ended 31.12.2016
Change arising from the balance sheet	1,370,059	(738,161)
Elimination of a change in cash and cash equivalents	(1,295,427)	713,954
Total change in amounts due from banks	**74,632**	**(24,207)**

Change in amounts due to banks	12 months ended 31.12.2017	12 months ended 31.12.2016
Change arising from the balance sheet	(3,433,730)	(2,580,055)
Repayment of long-term loans received	2,223,098	3,255,289
Long-term loans granted by other banks	(225,426)	(1,456,519)
Total change in amounts due to other banks	**(1,436,058)**	**(781,285)**

Change in amounts due to customers	12 months ended 31.12.2017	12 months ended 31.12.2016
Change arising from the balance sheet	1,168,485	8,613,880
Repayment of long-term loans received	291,002	294,989
Total change in amounts due to customers	**1,459,487**	**8,908,869**

Cash flows from operating activities – other adjustments	12 months ended 31.12.2017	12 months ended 31.12.2016
FX differences from subordinated loans	(123,011)	36,461
Tax on financial institutions	205,866	185,876
Capital of Sygma	-	(306,896)
Result of Sygma for the period from January to May 2016	-	19,481
Hedge accounting	(12,971)	-
Valuation of securities through profit or loss	2,513	-
Allowance for securities	11,792	-
Other adjustments	1,870	7,436
Cash flows from operating activities – total other adjustments	**86,059**	**(57,642)**

47. RELATED PARTY TRANSACTIONS

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

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

As at 31 December 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 Kasprzaka 10/16 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000023062. The Bank holds 100% interest in the share capital of the company.
2. Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A. ("TFI") with its registered office at Twarda 18 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register, under number KRS 0000031121. The Bank holds 100% of the company's shares.
3. BNP Paribas Leasing Services Sp. z o.o. ("Leasing", formerly: Fortis Lease Polska Sp. z o.o. in liquidation) with the registered office at Suwak 3 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000098813. The Bank holds 100% of the company's shares.
4. BNP Paribas Group Service Center S.A. ("GSC", formerly: Laser Services Polska S.A.) with the registered office at Suwak 3 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000022784. The Bank holds 100% of the company's shares.
5. BGŻ Poland ABS1 DAC ("SPV") based in Ireland, 3RD Floor Kilmore House, Park Lane, Spencer Dock, Dublin. A special purpose company, with which the Bank performed a securitization transaction concerning a part of the loan portfolio. The Bank does not have any capital involvement in this company. The company is controlled by BGŻ BNP Paribas S.A. Capital Group in connection with the fulfilment of the control conditions contained in IFRS 10.

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

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

31.12.2017	BNP Paribas S.A.	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Total
ASSETS	**1,730,525**	**32,927**	**5,661,299**	**38**	**7,424,789**
Receivables on current accounts, loans and deposits	1,466,676	16,861	902,976	3	**2,386,516**
Derivative financial instruments	263,483	16,066	-	-	**279,549**
Other assets	366	-	4,758,323	35	**4,758,724**
LIABILITIES	**2,901,637**	**33,249**	**5,186,468**	**4,113**	**8,125,467**
Loans and advances received	1,324,886	33,080	1,306,853	-	**2,664,819**
Current accounts and deposits	-	-	1,752,397	4,113	**1,756,510**
Subordinated liabilities	1,398,737	-	250,822	-	**1,649,559**
Derivative financial instruments	177,919	169	-	-	**178,088**
Other liabilities	95	-	1,876,396	-	**1,876,491**
CONTINGENT LIABILITIES					
Financial commitments granted	197	18	134	44	**393**
Commitments received	459	78	341	-	**878**
Derivative financial instruments (nominal value)	71,725	313	55	-	**72,093**

12 months ended 31.12.2017					
STATEMENT OF PROFIT OR LOSS	**13,655**	**(2,232)**	**19,969,766**	**(7)**	**19,981,182**
Interest income	335	882	1,289	-	**2,506**
Interest expense	(39,158)	(2,100)	(39,321)	(7)	**(80,586)**
Fee and commission income	-	356	17,963,054	-	**17,963,410**
Fee and commission expense	(510)	(28)	(455)	-	**(993)**
Dividend income	-	-	33,462	-	**33,462**
Net trading income	86,611	(1,342)	510	-	**85,779**
Other operating income	-	-	2,111,410	-	**2,111,410**
Other operating expenses	(33,623)	-	(47,212)	-	**(80,835)**
General administrative expenses	-	-	(52,971)	-	**(52,971)**

31.12.2016	BNP Paribas S.A.	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Total
ASSETS	**791,066**	**370,497**	**13,156**	**14**	**1,174,733**
Receivables on current accounts, loans and deposits	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 and 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**
Guarantees granted	-	-	-	-	**-**
Commitments received	105,078	282,550	1,864,501	-	**2,252,129**
Derivative financial instruments (nominal 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	31.12.2017	31.12.2016
Short-term employee benefits	14,563	18,970
Long-term benefits	5,907	5,264
Benefits due to termination of employment	3,698	-
Post-employment benefits	3,101	-
Share-based payments	1,279	748
TOTAL	**28,548**	**24,982**

Supervisory Board	31.12.2017	31.12.2016
Short-term employee benefits	2,011	1,695
Long-term benefits	-	-
Benefits due to termination of employment	-	-
Share-based payments	-	-
TOTAL	**2,011**	**1,695**

48. OPERATING SEGMENTS

Segment reporting

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

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

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

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

Description of operating segments

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

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

The scope of financial services offered by the Retail and Business Banking Segment includes maintenance of current and deposit accounts, acceptance of term deposits, granting mortgage loans, cash loans, mortgage advances, overdrafts, loans to microenterprises, issuing debit and credit cards, cross-border cash transfers, foreign exchange transactions, sale of insurance products as well as other services of lesser importance to the Group's income. Additionally, the performance of the Retail and Business Banking Segment includes: balances and performance of direct banking (BGŻ Optima), performance of brokerage services and distribution of investment fund units.

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

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

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

SME Banking provides services to:

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

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

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

Corporate Banking customers are classified into 4 key groups:

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

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

Services are provided by 9 Business Centres located in large cities across Poland, which are separate from the Bank's branch network. Operating services are provided to all institutional segment customers by the Bank's Branches, via telephone (TeleBGŻ) and online (eBGŻ Firma, Biznes Planet and Connexis). Selected products are also sold by financial intermediaries active both at the country and local level.

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

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

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

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

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

31.12.2017 *	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	1,195,143	235,234	270,807	10,272	215,289	**1,926,744**	371,300	459,033
external interest income	1,427,011	417,048	376,970	21,652	422,537	**2,665,218**	662,958	664,186
external interest expenses	(356,962)	(67,144)	(155,072)	-	(159,296)	**(738,474)**	(58,939)	(17,646)
internal interest income	741,332	132,348	264,892	-	(1,138,572)	**-**	128,538	-
internal interest expenses	(616,238)	(247,018)	(215,983)	(11,381)	1,090,619	**-**	(361,256)	(187,507)
Net fee and commission income	287,140	83,997	116,278	3,322	(4,758)	**485,979**	138,157	52,755
Dividend income	53	1,336	4,257	-	4,714	**10,360**	-	-
Net trading income	38,171	22,080	81,606	75,064	34,487	**251,408**	23,188	(36)
Result on investment activities	98	-	1,930	-	26,369	**28,398**	-	-
Result on hedge accounting	-	-	-	-	3,304	**3,304**	-	-
Other operating income and expenses	(7,627)	(3,024)	843	186	(589)	**(10,213)**	(7,664)	(10,472)
Net impairment losses on financial assets and contingent liabilities	(228,855)	(74,984)	(36,145)	-	(15,316)	**(355,299)**	(97,235)	(79,584)
Total operating expenses	(764,709)	(98,912)	(121,243)	(29,917)	(492,086)	**(1,506,866)**	(10,659)	(235,289)
Depreciation and amortization	(60,298)	(996)	(5,605)	(2,738)	(104,428)	**(174,064)**	(176)	(6,022)
Expense allocation (internal)	(330,359)	(86,440)	(81,557)	(7,825)	506,183	**-**	-	(68,890)
Operating result	**128,756**	**78,290**	**231,171**	**48,364**	**173,168**	**659,751**	**416,912**	**111,494**
Tax on financial institutions	(108,972)	(40,612)	(45,203)	(1,194)	(9,884)	**(205,866)**	-	(27,425)
Segment profit before income tax	**19,784**	**37,678**	**185,968**	**47,170**	**163,284**	**453,885**	**416,912**	**84,069**
Income tax expense	**-**	**-**	**-**	**-**	**-**	**(174,178)**	**-**	**-**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**279,707**	**-**	**-**
STATEMENT OF FINANCIAL POSITION AS AT 31.12.2016								
Segment assets	28,791,700	10,973,502	13,250,422	424,098	19,309,539	**72,749,259**	15,282,400	7,605,322
Segment liabilities	30,226,848	6,322,469	14,833,125	-	14,807,353	**66,189,796**	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.

31.12.2016 *	Retail and Business Banking	SME Banking	Corporate Banking	CIB	Other Operations	Total	including Agro customers	including Personal Finance
STATEMENT OF PROFIT OR LOSS								
Net interest income	1,106,587	232,902	245,757	3,215	237,690	**1,826,153**	349,480	466,994
external interest income	1,411,041	436,264	369,013	8,809	359,435	**2,584,563**	641,124	655,992
external interest expenses	(361,452)	(59,445)	(149,344)	-	(188,171)	**(758,411)**	(42,834)	(17,903)
internal interest income	652,134	107,574	228,995	-	1,109,961	**2,098,664**	95,945	-
internal interest expenses	(595,136)	(251,490)	(202,908)	(5,594)	(1,043,536)	**(2,098,664)**	(344,756)	(171,095)
Net fee and commission income	285,326	90,846	117,075	89	(116)	**493,220**	122,333	61,565
Dividend income	-	-	1,647	-	4,155	**5,801**	119	-
Net trading income	41,691	25,954	79,952	68,043	39,551	**255,191**	28,329	582
Result on investment activities	522	-	(3)	-	45,680	**46,199**	-	-
Result on hedge accounting	-	-	-	-	(77)	**(77)**	-	-
Other operating income and expenses	25,399	7,591	5,968	164	(25,387)	**13,733**	1,985	20,372
Net impairment losses on financial assets and contingent liabilities	(266,898)	(90,091)	(41,356)	100	(640)	**(398,883)**	(90,951)	(110,221)
Total operating expenses	(792,816)	(112,930)	(149,203)	(28,738)	(590,670)	**(1,674,356)**	(10,770)	(233,905)
Depreciation and amortization	(78,589)	(1,406)	(8,355)	(1,151)	(117,097)	**(206,597)**	(335)	(14,580)
Expense allocation (internal)	(340,793)	(100,285)	(64,538)	(5,401)	511,017	**-**	-	(54,068)
Operating result	**(19,570)**	**52,582**	**186,944**	**36,321**	**104,107**	**360,385**	**400,190**	**136,740**
Tax on financial institutions	(98,737)	(37,786)	(40,626)	(763)	(7,963)	**(185,876)**	400,190	(22,249)
Segment profit before income tax	**(118,307)**	**14,795**	**146,317**	**35,558**	**96,144**	**174,509**	**-**	**114,491**
Income tax expense	-	-	-	-	-	**(97,647)**	-	-
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**76,863**	**-**	**-**
STATEMENT OF FINANCIAL POSITION AS AT 31.12.2016								
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.

49. FINANCIAL RISK MANAGEMENT

Risk management in the Capital Group is concentrated directly in the Bank, due to the fact that the Bank's assets constitute 97% of the Group's assets (according to data as at 31 December 2017. In view of the above, all data regarding individual risks are presented for the Bank, except for the comparison of the carrying amount to the fair value of financial assets and liabilities and notes regarding credit risk.

49.1. Financial instruments strategy

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

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

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

49.2. Credit risk

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

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

Credit risk management principles adopted by the Bank include:

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

Concentration risk

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

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

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

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

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

High concentration of the Bank's credit exposures to each entity or group of entities with equity or organizational relationships is one of the potential sources of credit risk. For purposes of its reduction, the Regulation No. 575/2013 specifies the Bank's maximum exposure limit. Under Article 395 of the Regulation No. 575/2013: the institution does not assume any exposure to the client or related clients, the value of which, taking into account the effect of limiting credit risk in accordance with Articles 399-403, exceeds 25% of the value of its recognized capital. If a client is an institution or if a group of related clients include at least one institution, the value does not exceed 25% of its recognized capital or of the amount of EUR 150 million, depending on which one of these two amounts is higher, provided that the sum of the exposure to all related non-institutional customers, after taking into account the effect of credit risk mitigation under Articles 399-403, does not exceed 25% of the value of the institution's recognized capital.

The Bank's concentration limits are monitored in accordance with Article 387 of the Regulation No. 575/2013. The limits, defined in Article 395 of the Regulation No. 575/2013, had not been exceeded as at the end of 2017. As at the end of December 2017, no exposures exceeding 10% of equity had been identified. As at the end of 2017, the Bank's exposure to customers/groups of customers with equity or organizational relationships had not exceeded the concentration limit. The total of exposures equal to or exceeding 10% of the Bank's equity was 17.9%.

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

- selected sectors / industries;
- exposures denominated in foreign currencies;
- customer segments (intra-bank customer segmentation);
- loans secured with a given type of collateral;
- geographical regions;
- average probability of default;
- exposures with a specified rating (the Bank's internal rating scale);
- exposures with a specified debt-to-income ratio;
- exposures with a specified loan-to-value ratio.

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

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

Systemic measures that limit concentration risk include:

- reduction of further transactions with a given customer or a group of related customers;
- sale of selected assets/loan portfolios;
- securitization of assets;
- establishing of new collateral types (e.g. credit derivatives, guarantees, sub-participation, and insurance contracts) for existing or new credit exposures.

A concentration analysis by industry, conducted by the Bank, focuses on all credit exposures of the Bank to institutional customers. The Bank defines industries based on Polish statistical classification of economic activities (NACE/PKD 2007). The Bank's exposure to industries analysed at the end of 2017 (similarly as at the end of 2016) is concentrated in the following industries: *Agriculture, Forestry, Hunting and Fishing; Manufacture of Food Products, Beverages and Tobacco Products*. In 2016, they accounted for 42.3% of industrial exposure, while in 2017, the exposure to these three industries reached 43.3%.

In 2016, the largest share of non-performing loans in industry (68.1%) was due to *Coal and Peat Mining*, *Mining of crude oil and natural gas*; *Production of gas fuels*; *Production of coke and refined petroleum products, and (27.9%) Construction of civil or water engineering and specialized objects*.

In 2017, the largest share of non-performing loans in industry (76.1%) was due to *Coal and Peat Mining*, *Mining of crude oil and natural gas*; *Production of gas fuels*; *Production of coke and refined petroleum products, and (30.1%) Hotels and restaurants; Arts, entertainment and recreation, and (23.4%) Construction of civil or water engineering and specialized objects.*

The below table presents the share of impaired loans in 2016 and 2017.

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

Industry	Exposure		Share of impaired loans	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Agriculture, Forestry, Hunting and Fishing; Production of Food Products, Beverages and Tobacco Products.	14,545,956	14,807,101	5.5%	5.1%
Production of motor vehicles, motorcycles and tyres	414,488	492,279	1.4%	2.2%
Construction of civil engineering and specialist structures	1,147,910	1,002,686	23.4%	27.9%
Professional activities, including science and engineering; administration services and auxiliary services	1,178,521	1,254,955	6.5%	6.7%
Production of chemicals and chemical products	355,112	346,005	0.6%	1.2%
Telecommunications; Postal and courier services	442,023	54,562	0.2%	2.9%
Coal and peat mining; oil and gas extraction; production of gas fuels; production of coke and oil refining products.	398,615	449,148	76.1%	68.1%
Production of machinery and equipment (except for computers and electronic products)	1,416,669	1,588,043	13.8%	11.1%
Financial activities	665,101	358,730	1.7%	2.9%
Health care; production of basic pharmaceutical products and medicines	391,706	486,397	4.2%	2.8%
Hotels and restaurants; Culture, entertainment and recreation activities	269,805	465,461	30.1%	19.7%
Production of furniture and household appliances; Production of apparel, textiles and leather	547,411	461,605	17.7%	21.0%
Activities related to software and IT consultancy; information processing services; Production of computers, electronic and optical devices	194,143	226,691	6.4%	6.1%
Insurance	18,404	20,490	13.4%	11.0%
Extraction and production of other materials and ores	2,331,454	2,341,425	4.8%	11.2%
Editorial and printing activities; Media production	234,205	257,150	3.9%	4.3%
Education; Social assistance; Other services	136,547	142,149	15.8%	13.8%
Residential and non-residential construction; Services provided on real property market	2,438,335	2,339,751	7.2%	7.2%
Retail trade	1,802,620	2,279,955	8.2%	6.8%
Public administration; economic and social policy	154,673	172,188	0.0%	0.0%
Transport and warehousing	1,198,780	1,448,337	4.9%	5.8%
Generation and supply of electricity, gas, steam, hot water; Water supply, Sewage and waste management	458,586	561,862	4.9%	3.1%
Wholesale trade	2,859,101	3,433,993	13.2%	11.8%
Total	33,600,165	34,990,963	8.3%	8.5%

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

** Loans with identified objective impairment triggers

Amounts due by delinquency

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

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

*Loan portfolio structure by impairment and delinquency as at 31 December 2017 (net exposure)**

	not impaired					
31.12.2017	0 days	1-30 days	31-60 days	61-90 days	impaired	total
Mortgage loans	12,881,054	229,463	20,850	3,413	325,311	13,460,091
Cash loans	4,566,286	300,272	25,250	11,815	163,240	5,066,863
Car loans	1,017,087	45,594	5,058	1,288	17,917	1,086,944
Credit cards	521,766	105,916	11,404	2,236	53,710	695,032
Investment loans	16,168,951	91,731	20,152	7,080	683,368	16,971,282
Overdraft limit	8,025,209	43,427	7,843	3,768	213,322	8,293,569
Revolving loan	3,695,971	22,072	3,620	4,028	174,341	3,900,032
Leasing	2,644,605	267,480	17,945	5,290	42,072	2,977,392
Factoring	-	-	-	-	-	-
Other	554,860	16,280	2,309	441	270,454	844,344
Total	**50,075,789**	**1,122,235**	**114,431**	**39,359**	**1,943,735**	**53,295,549**

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

*Loan portfolio structure by impairment and delinquency as at 31 December 2016 (net exposure)**

	not impaired					
31.12.2016	0 days	1-30 days	31-60 days	61-90 days	impaired	total
Mortgage loans	14,024,776	387,888	38,720	11,313	366,910	14,829,609
Cash loans	4,360,254	152,777	32,482	11,367	185,632	4,742,512
Car loans	1,028,013	38,075	5,198	2,044	22,649	1,095,980
Credit cards	644,154	21,963	3,797	1,249	54,713	725,877
Investment loans	16,028,354	70,668	20,407	221	663,397	16,783,046
Overdraft limit	7,455,883	44,217	11,199	6,219	241,187	7,758,705
Revolving loan	3,254,583	96,811	4,929	1,953	309,675	3,667,952
Leasing	2,292,258	251,933	74,958	21,160	46,663	2,686,972
Factoring	1,784,144	-	-	-	324	1,784,467
Other	1,133,694	2,848	1,083	458	265,398	1,403,480
Total	**52,006,112**	**1,067,181**	**192,774**	**55,984**	**2,156,548**	**55,478,599**

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

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

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

	31.12.2017		31.12.2016	
Internal rating*	value	share	value	share
1	-	0.0%	444	0.0%
2	917	0.0%	949	0.0%
3	27,292	0.1%	48,246	0.2%
4	686,279	3.4%	641,858	3.0%
5	984,172	4.8%	1,285,727	6.0%
6	7,051,214	34.6%	6,477,009	30.3%
7	7,986,078	39.2%	9,026,107	42.1%
8	2,762,631	13.6%	2,855,324	13.3%
9	542,987	2.7%	536,602	2.5%
10	322,178	1.6%	539,830	2.5%
11-12	2,189	0.0%	13,221	0.1%

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

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

The legal collaterals accepted by the Bank for loan transactions are monitored by way of their valuation on the basis of documents filed by the obligors. Additionally, the Bank relies on historical information such as statistics on the use of collateral, when assessing such collateral.

The Bank's exposures for credit risk related to loans and advances according to the criterion of occurrence of impairment triggers

IMPAIRED EXPOSURES	31.12.2017	31.12.2016
Gross carrying amount	4,122,924	4,484,357
Impairment allowance	(2,494,662)	(2,686,095)
Total net value	**1,628,262**	**1,798,262**
EXPOSURES WITH IMPAIRMENT TRIGGERS, FOR WHICH IMPAIRMENT IS NOT IDENTIFIED		
GROSS CARRYING AMOUNT, INCLUDING:	-	-
EXPOSURES FOR WHICH THE VALUE OF COLLATERAL IS INCLUDED IN THE DISCOUNTED EXPECTED FUTURE CASH FLOWS, INCLUDING:	-	-
IBNR PROVISION	-	-
Total net value	-	-
EXPOSURES WITH NO IMPAIRMENT TRIGGERS		
Gross carrying amount	51,629,424	53,592,870
IBNR provision	(290,118)	(315,261)
Total net value	**51,339,306**	**53,277,609**

Mortgage loans denominated in foreign currencies

Due to the significance of the portfolio of mortgage denominated in foreign currencies loans for retail customers, the Bank discloses a number of additional diverse information regarding the portfolio exposure.

Mortgage loans to retail customers account for ca. 25% of the entire loan portfolio of the Bank (gross carrying amount), with 39.7% being loans in foreign currencies the major part of which (98.8%) are denominated in CHF (the Swiss franc). The total gross carrying amount of mortgage loans in foreign currencies is slightly higher than PLN 5.4 billion.

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

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

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

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

Exposure structure and average current LTV by impairment and delinquency

days past due	gross carrying amount	average LTV weighted by gross carrying amount
0-30 days	5,019,639	79.90%
31-60 days	10,468	94.41%
61-90 days	1,118	61.41%
over 90 days	393,803	100.22%
Total	5,425,028	81.40%

recognition of impairment	gross carrying amount	average LTV weighted by gross carrying amount
NO	5,031,225	79.93%
YES	393,803	100.22%
Total	5,425,028	81.40%

The average current LTV for the entire foreign currency mortgage loan portfolio exceeds the average current LTV for mortgage loans in the Polish currency (77%).

Exposure structure and average current LTV by loan granting year (mortgage loans in foreign currencies)

**non-impaired loans*

agreement year	number of loans granted	gross carrying amount	average LTV weighted by gross carrying amount
2005 and before	3,288	393,635	41,26%
2006	5,923	1,255,404	59,62%
2007	5,078	1,653,073	88,14%
2008	6,471	1,853,834	100,18%
2009	702	147,635	66,18%
2010 and after	349	121,448	76,78%
Total	**21,811**	**5,425,028**	**81,40%**

agreement year	gross exposure*
2005 and before	372,963
2006	1,200,473
2007	1,542,318
2008	1,688,534
2009	138,769
2010 and after	88,168
Total	**5,031,225**

Forbearance practices

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

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

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

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

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

A material economic loss is defined by the Bank as:

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

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

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

Value of forborne exposures

31.12.2017	Total portfolio	including forbearance exposures	including modification of terms	including refinancing
GROSS LOAN PORTFOLIO, INCLUDING:				
OVERDRAFTS:	**8,676,125**	**1,981**	**1,981**	**-**
corporate	4,615,526	1,981	1,981	-
households:	4,050,776	-	-	-
retail customers	174,843	-	-	-
individual entrepreneurs	431,127	-	-	-
farmers	3,444,806	-	-	-
public sector institutions	1,379	-	-	-
other entities	8,444	-	-	-
LOANS AND ADVANCES:	**47,076,223**	**816,756**	**587,040**	**229,716**
corporate:	12,758,353	494,436	404,646	89,790
investment loans	7,463,839	116,596	75,570	41,026
revolving loans	2,942,520	355,274	310,406	44,868
other	2,351,994	22,566	18,670	3,896
households:	30,246,761	322,320	182,394	139,926
retail customers, including:	20,764,213	235,137	153,198	81,939
mortgage loans	13,628,114	196,037	127,203	68,834
individual entrepreneurs	1,923,343	45,359	17,693	27,666
farmers	7,559,205	41,824	11,503	30,321
public sector institutions	170,794	-	-	-
other entities	852,796	-	-	-
Lease receivables	3,047,519	-	-	-
Total gross loans and advances	**55,752,348**	**818,737**	**589,021**	**229,716**

31.12.2016	Total portfolio	including forbearance exposures	including modification of terms	including refinancing
GROSS LOAN PORTFOLIO, INCLUDING:				
OVERDRAFTS:	**8,114,472**	**5,107**	**162**	**4,945**
corporate	4,188,362	5,107	162	4,945
households:	3,918,198	-	-	-
retail customers	183,507	-	-	-
individual entrepreneurs	428,561	-	-	-
farmers	3,306,130	-	-	-
public sector institutions	475	-	-	-
other entities	7,437	-	-	-
LOANS AND ADVANCES:	**49,962,755**	**625,481**	**308,351**	**317,130**
corporate:	15,127,379	258,981	116,981	142,000
investment loans	7,198,133	58,504	16,203	42,301
revolving loans	3,557,759	175,645	78,911	96,734
other	4,371,487	24,832	21,867	2,965
households:	31,476,050	366,500	191,370	175,130
retail customers, including:	21,885,691	281,147	177,661	103,486
mortgage loans	15,005,546	229,705	145,376	84,329
individual entrepreneurs	2,251,724	51,625	12,277	39,348
farmers	7,338,635	33,728	1,432	32,296
public sector institutions	185,097	-	-	-
other entities	392,790	-	-	-
Lease receivables	2,781,439	-	-	-
Total gross loans and advances	**58,077,227**	**630,588**	**308,513**	**322,075**

Impairment allowances on forborne exposures

31.12.2017	Total portfolio	including forbearance exposures	including modification of terms	including refinancing
IMPAIRMENT ALLOWANCE, INCLUDING:				
OVERDRAFTS:	**(436,623)**	**(968)**	**(968)**	**-**
corporate	(282,483)	(968)	(968)	-
households:	(153,568)	-	-	-
retail customers	(16,355)	-	-	-
individual entrepreneurs	(65,656)	-	-	-
farmers	(71,557)	-	-	-
public sector institutions	(1)	-	-	-
other entities	(571)	-	-	-
LOANS AND ADVANCES:	**(2,348,157)**	**(299,858)**	**(170,252)**	**(129,606)**
corporate:	(811,200)	(155,481)	(95,492)	(59,989)
investment loans	(252,920)	(48,767)	(28,452)	(20,315)
revolving loans	(419,232)	(98,102)	(60,608)	(37,494)
other	(139,048)	(8,612)	(6,432)	(2,180)
households:	(1,437,777)	(144,377)	(74,760)	(69,617)
retail customers, including:	(926,140)	(100,661)	(60,627)	(40,034)
mortgage loans	(315,298)	(74,356)	(42,706)	(31,650)
individual entrepreneurs	(244,373)	(27,783)	(12,385)	(15,398)
farmers	(267,264)	(15,933)	(1,748)	(14,185)
public sector institutions	(189)	-	-	-
other entities	(4,893)	-	-	-
Lease receivables	(94,098)	-	-	-
Total impairment allowance	**(2,784,780)**	**(300,826)**	**(171,220)**	**(129,606)**

31.12.2016	Total portfolio	including forbearance exposures	including modification of terms	including refinancing
IMPAIRMENT ALLOWANCE, INCLUDING:				
OVERDRAFTS:	**(433,071)**	**(164)**	**(101)**	**(63)**
corporate	(292,401)	(164)	(101)	(63)
households:	(140,033)	-	-	-
retail customers	(21,068)	-	-	-
individual entrepreneurs	(66,233)	-	-	-
farmers	(52,732)	-	-	-
public sector institutions	-	-	-	-
other entities	(637)	-	-	-
LOANS AND ADVANCES:	**(2,568,285)**	**(306,837)**	**(146,645)**	**(160,192)**
corporate:	(943,480)	(142,107)	(64,250)	(77,857)
investment loans	(284,646)	(30,926)	(12,011)	(18,915)
revolving loans	(481,415)	(100,055)	(41,552)	(58,503)
other	(177,419)	(11,126)	(10,687)	(439)
households:	(1,525,360)	(164,730)	(82,395)	(82,335)
retail customers, including:	(1,084,337)	(122,157)	(73,918)	(48,239)
mortgage loans	(364,406)	(87,594)	(52,944)	(34,650)
individual entrepreneurs	(235,033)	(28,398)	(7,990)	(20,408)
farmers	(205,990)	(14,175)	(487)	(13,688)
public sector institutions	(215)	-	-	-
other entities	(3,933)	-	-	-
Lease receivables	(95,297)	-	-	-
Total impairment allowance	**(3,001,356)**	**(307,001)**	**(146,746)**	**(160,255)**

Structure of forborne exposures by impairment

	31.12.2017		31.12.2016	
	Total	including: forborne exposures	Total	including: forborne exposures
NON-IMPAIRED EXPOSURES				
Gross exposure	50,852,116	20,463	53,592,870	31,144
IBNR provision	(278,626)	-	(315,261)	(331)
Net exposure	**50,573,490**	**20,463**	**53,277,609**	**30,813**
IMPAIRED EXPOSURES*				
Gross exposure, including:	4,114,987	798,274	4,484,357	595,474
exposures tested individually	2,078,945	530,544	2,312,017	277,986
exposures tested collectively	2,036,042	267,730	2,172,340	317,488
Impairment allowances, including:	(2,493,274)	(300,826)	(2,686,095)	(303,134)
exposures tested individually	(1,192,632)	(177,941)	(1,195,505)	(154,078)
exposures tested collectively	(1,300,642)	(122,885)	(1,490,590)	(149,056)
Net exposure	**1,621,713**	**497,448**	**1,798,262**	**292,340**
Total net loans and advances	**52,195,203**	**517,911**	**55,075,871**	**323,153**

* Exposures with identified objective impairment triggers

Structure of forborne exposures by impairment and days past due

	31.12.2017	31.12.2016
NET CARRYING AMOUNT OF NON-IMPAIRED EXPOSURES, INCLUDING:	**20,463**	**30,813**
0 days	15,506	18,413
1-30 days	1,396	2,263
31-60 days	3,561	10,137
61-90 days	-	-
over 90 days	-	-
NET CARRYING AMOUNT OF IMPAIRED EXPOSURES*	**497,448**	**292,774**
0 days	319,862	83,100
1-30 days	22,237	26,782
31-60 days	23,702	24,525
61-90 days	5,576	2,291
over 90 days	126,071	156,076
Net exposure total	**517,911**	**323,587**

* Exposures with identified objective impairment triggers

49.3. Market risk and ALM (Asset Liability Management)

Market risk management organization

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

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

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

Interest rate risk in the banking book (ALM Treasury)

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

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

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

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

On a quarterly basis, the Bank analyses the interest rate risk in the banking book at the consolidated level, taking into account individual subsidiaries whose balance sheet total exceeds 2% of the value of the Bank's assets and other subsidiaries if their total balance sheet total exceeds 3% of the Bank's assets.

Competitive conditions of the local financial market and customer expectations are the main factors shaping the Bank's product policy, in particular the use of variable interest rates for medium- and long-term credit products and financing of these assets with short deposits and interest-free accounts.

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

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

The following tables present the Bank's real interest rate gap on a consolidated basis as at 31 December 2017 and 31 December 2016 (PLN '000):

Interest rate gap as at 31.12.2017	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and balances at Central Bank	998,035	-	-	-	-	998,035
Amounts due from banks	2,583,505	23,287	0	0	-	2,606,792
Debt securities held for trading	-	-	-	-	-	-
Loans and advances to customers	20,528,548	20,024,689	8,268,185	4,296,292	103,627	53,221,341
Investment securities:						
- available for sale	2,600,000	-	1,940,000	4,100,000	5,033,000	13,673,000
- other debt securities	-	-	-	-	-	-
Other assets	427,381	76,555	333,383	889,021	-	1,726,340
Total assets:	**27,137,469**	**20,124,531**	**10,541,568**	**9,285,313**	**5,136,627**	**72,225,508**
Amounts due to banks	(4,047,731)	(1,484,311)	(1,399)	-	-	(5,533,441)
Amounts due to customers	(23,915,008)	(8,330,109)	(11,522,417)	(9,220,277)	(3,802,158)	(56,789,969)
Other amounts due	(586,963)	(932,751)	(412,867)	(2,835)	(2,546)	(1,937,962)
Other liabilities	(1,746,582)	-	-	-	-	(1,746,582)
Total liabilities:	**(30,296,284)**	**(10,747,171)**	**(11,936,683)**	**(9,223,112)**	**(3,804,704)**	**(66,007,954)**
Net off-balance sheet liabilities	(1,789,472)	(3,157,341)	271,032	3,723,542	996,301	44,061
Interest rate gap	**(4,948,287)**	**6,220,019**	**(1,124,083)**	**3,785,743**	**2,328,224**	

Interest rate gap as at 31.12.2016	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and balances at Central Bank	1,302,838	-	-	-	-	1,302,838
Amounts due from banks	1,359,379	-	-	-	-	1,359,379
Debt securities held for trading	-	-	-	-	-	-
Loans and advances to customers	23,188,163	19,713,874	8,415,039	3,750,836	-	55,067,912
Investment securities:						
- available for sale	2,534,986	-	1,930,000	4,039,000	3,930,000	12,433,986
- other debt securities	-	-	-	-	-	-
Other assets	622,518	78,180	351,809	938,157	-	1,990,664
Total assets:	**29,007,884**	**19,792,054**	**10,696,848**	**8,727,993**	**3,930,000**	**72,154,779**
Amounts due to banks	(5,537,364)	(3,541,374)	-	-	-	(9,078,737)
Amounts due to customers	(25,140,747)	(6,660,750)	(10,140,254)	(7,555,134)	(3,492,574)	(52,989,458)
Other amounts due	(846,852)	(983,481)	(667,453)	(4,771)	(4,318)	(2,506,875)
Other liabilities	(1,291,625)	-	-	-	(31,797)	(1,323,422)
Total liabilities:	**(32,816,588)**	**(11,185,605)**	**(10,807,707)**	**(7,559,905)**	**(3,528,689)**	**(65,898,492)**
Net off-balance sheet liabilities	(660,194)	(3,370,112)	2,125,820	1,775,624	154,840	25,977
Interest rate gap	**(4,468,898)**	**5,236,337**	**2,014,961**	**2,943,712**	**556,151**	

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

Annual net interest income sensitivity to an immediate shift of market rates by 50 bps (in PLN'000) is presented in the below tables:

Immediate change in interest rates by 50 bps:	31.12.2017	31.12.2016
- up	30,059	5,536
- down	(18,198)	2,409

Market risk in the trading book

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

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

Sensitivity of items to shifts in the yield curve and VaR are the key measures of the interest rate risk in the trading portfolio. Additionally, the Bank conducts sensitivity analyses, where the changes in interest rates are more considerable than those typically observed (stress tests).
In 2017, the interest rate risk for PLN items, measured by sensitivity to shifts in the yield curve in the trading portfolio, was lower (by PLN 16 thousand on average) than in 2016 (PLN 27 thousand). The following table presents the interest rate risk in the trading book based on BPV (*Basis Point Value*) in PLN '000:

	2017		2016	
BPV[1]	PLN	EUR	PLN	EUR
31.12	*-6*	*-15*	*23*	*-11*
average	*-16*	*-12*	*-27*	*-4*
max	*58*	*46*	*52*	*25*
min	*-120*	*-47*	*-124*	*-26*

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

The Bank's currency risk is measured using Value at Risk (VaR), which is a measure of the change in the market value of an asset or an asset portfolio with specific assumptions concerning the market parameters, at a specific time and with defined probability. For purposes of currency risk monitoring, it is assumed that VaR is determined with a 99% confidence level and that a position is maintained for one day. The VaR methodology is validated on a quarterly basis by means of an analysis which involves a comparison of the forecast figures and those determined on the basis of actual changes in foreign exchange rates, assuming that the currency position is maintained (back-testing). The comparative period covers the last 250 business days. The VaR model was back-tested in 2017 and the verification results indicate that there is no necessity to make any adjustments.

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

	31.12.2017	31.12.2016
FX VAR[1]	**225**	**225**
average	*112*	*108*
max	*831*	*750*
min	*27*	*18*

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

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

	31.12.2017		31.12.2016	
Currency position items	Assets	Liabilities	Assets	Liabilities
USD	179,327	976,871	516,040	1,115,735
GBP	91,282	169,533	101,116	159,927
CHF	5,365,818	3,264,284	6,848,106	5,181,200
EUR	7,100,966	6,567,655	7,091,771	6,376,468
Other convertible currencies	171,515	119,855	73,769	153,155
PLN	59,840,351	61,651,061	57,674,197	59,318,514
Total	**72,749,259**	**72,749,259**	**72,304,999**	**72,304,999**

49.4. Liquidity risk

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

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

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

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

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

On a quarterly basis, the Bank analyses liquidity risk at the consolidated level, taking into account individual subsidiaries whose balance sheet total exceeds 2% of the value of the Bank's assets and other subsidiaries, if their total balance sheet total exceeds 3% of the Bank's assets.

Risk measures

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

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

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

Liquidity risk

In 2017, the Bank's financial liquidity was maintained at a safe level. The Bank's funds were sufficient for payment of all its liabilities upon maturity. The portfolio of the most liquid securities was maintained at a high level, which was sufficient to offset a potential outflow of funds placed with the Bank by the major depositors in whole.

As at the end of 2017, the Bank's surplus liquidity on the consolidated level amounted to PLN 13.47 billion.

	31.12.2017	31.12.2016
Cash at Central Bank (over the reserve requirement)	(1,837,228)	(1,629,628)
Cash at other banks up to 30 days	2,584,169	1,303,133
Highly-liquid securities	12,718,975	11,396,210
Surplus liquidity up to 30 days	**13,465,916**	**11,069,715**

The surplus liquidity has significantly increased as compared to the end of 2016, mainly due to the fact of obtaining additional long term financing from a process of loan portfolio securitization performed in December 2017, as well as due to a higher share in stable sources of financing in the funds from customers.

Throughout 2017, in particular as at 31 December 2017, the Bank complied with the requirements applicable to the supervisory measures (consolidated data):

	31.12.2017	31.12.2016
M1 (in PLN '000)	6,296,806	2,832,497
M2	1.59	1.24
M3	7.56	6.93
M4	1.16	1.09
limit	**1.00**	**1.00**

	31.12.2017	31.12.2016	limit
Liquidity Coverage Ratio	153%	122%	**80%**

In 2017, the Bank continued initiatives aimed at optimization of its sources of funding with a view to reducing excessive, costly and not particularly stable surplus funding. Activities aimed to obtain stable deposits base (up by PLN 1.0 billion), decrease in the share of long-term loans from the BNP Paribas Group and its subsidiaries (used mainly for financing foreign currency assets, including the CHF mortgage loan portfolio, a portion of corporate loans in EUR and also assets in PLN – decrease by PLN 3.01 billion), increase of securities issue (increase by PLN 2.07 billion), enabled the Bank to increase a protection against liquidity loss.

The Bank's sources of funding remained on a high level throughout 2017:

	31.12.2017		31.12.2016	
	balance	stable (%)	balance	stable (%)
long-term loans from the Group	4,741,766	100.0%	7,755,148	100.0%
other long-term loans	1,003,362	100.0%	956,839	100.0%
debt securities issued	2,465,850	100.0%	394,000	100.0%
retail	33,091,186	90.0%	32,808,708	90.7%
corporate	20,861,364	81.1%	19,170,941	83.8%
financial entities*	1,464,590	76.2%	1,267,567	81.8%
banks and other unstable sources	881,815	0.0%	3,136,914	0.0%
Total	**64,509,933**	**86.9%**	**65,490,117**	**85.5%**

* included in the "Long term Plan for acquiring and maintaining external funds from stable financial entities"

Inflows and outflows – expected under the agreements concluded by the Bank – is presented as contractual liquidity gap:

Consolidated contractual liquidity gap 31.12.2017 (in PLN '000)	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
ASSETS					
Loans and advances to customers	10,802,967	1,206,823	6,098,742	18,305,748	15,780,923
Debt securities	2,103,300		1,940,000	4,303,500	5,383,000
Interbank deposits	800,000	-	-	-	-
Cash and balances at Central Bank	998,035	-	-	-	-
Fixed assets		-	-	-	788,256
Other assets	2,218,741	-	-	-	468,617
Off-balance sheet liabilities, including:	12,033,249	7,810	4,385	24,407	1,242
derivatives	*25,650*	*7,810*	*4,385*	*24,407*	*1,242*
EQUITY AND LIABILITIES					
Retail deposits	22,496,406	4,155,248	5,789,106	650,431	2
Corporate deposits	17,980,506	2,577,192	1,073,846	163,026	107,550
Interbank deposits	18,120				
Loans from financial institutions	23,449	84,522	522,854	2,445,132	1,024,070
Debt securities issue	256,493	198,275	491,239	1,364,086	155,757
Equity and subordinated liabilities			298,389		7,907,972
Other equity and liabilities	1,593,217			-	-
Off-balance sheet liabilities, including:	18,943,133	69	458,104		-
derivatives	*(458,000)*	*69*	*458,104*		-
Total receivables	**28,956,292**	**1,214,633**	**8,043,127**	**22,633,655**	**22,422,038**
Total liabilities	**61,311,324**	**7,015,306**	**8,633,538**	**4,622,675**	**9,195,351**
Liquidity gap	**(32,355,032)**	**(5,800,673)**	**(590,411)**	**18,010,980**	**13,226,687**

Consolidated contractual liquidity gap 31.12.2016 (in PLN '000)	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
ASSETS					
Loans and advances to customers	12,218,272	1,870,316	5,744,243	17,592,458	17,537,247
Debt securities	1,073,500	-	1,930,000	5,114,000	4,280,000
Interbank deposits	1,029,314	-	-	-	-
Cash and balances at Central Bank	1,302,847	-	-	-	-
Fixed assets	-	-	-	-	791,734
Other assets	833,417	-	-	-	523,296
Off-balance sheet liabilities, including:	12,330,984	5,746	17,153	939	-
derivatives	*8,522*	*5,746*	*17,153*	*939*	-
EQUITY AND LIABILITIES					
Retail deposits	23,001,438	3,864,840	5,391,336	551,057	37
Corporate deposits	17,525,609	1,471,462	1,110,830	161,048	24,986
Interbank deposits	2,007,974	-	-	-	-
Loans from financial institutions	161,236	1,298,118	1,131,596	2,436,558	1,919,043
Certificates of deposit	-	2,500	101,500	285,000	-
Equity and subordinated liabilities	-	-	49,388	-	7,906,058
Other equity and liabilities	1,481,154	-	-	-	-
Off-balance sheet liabilities, including:	19,529,117	-	(664)	282	-
derivatives	*5,150*	-	*(664)*	*282*	-
Total receivables	**28,788,334**	**1,876,062**	**7,691,396**	**22,707,397**	**23,132,277**
Total liabilities	**63,706,528**	**6,636,920**	**7,783,986**	**3,433,945**	**9,850,124**
Liquidity gap	**(34,918,194)**	**(4,760,858)**	**(92,591)**	**19,273,452**	**13,282,153**

49.5. Country and counterparty risk

Country risk

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

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

As at 31 December 2017, treasury transactions (including deposits and derivatives) represented nearly a half (44%) of the Bank's exposure towards countries, foreign lending operations of the Bank accounted for 32%, while the remaining part, i.e. 32%, was related to international trade transactions (letters of credit and guarantees). France accounted for 63%, the Netherlands for 9%, Great Britain for 7%, Belgium for 7%, Switzerland for 5% of the exposure. The remaining exposure was related to Germany, Luxembourg, Italy and China.

Counterparty risk

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

At the end of December 2017, the counterparty risk was calculated for the following types of transactions contained in the trading portfolio of the Bank: foreign exchange transactions, interest rate swap transactions, FX options, interest rate options and commodity derivatives.

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

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

At the end of December 2017, the Bank's exposure to the counterparty risk due to concluded derivative transactions was PLN 591 million. Corporate clients constituted 66% of the exposure, while the remaining 34% were banks.

49.6. Operational risk

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

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

Procedures

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

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

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

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

Internal environment

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

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

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

Risk management

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

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

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

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

Internal control system

The internal control system principles have been formulated in the Internal Control Policy of the Bank BGZ BNP Paribas S.A., which was approved by the Management Board of the Bank and accepted by the Supervisory Board. The document specifies 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 periodically monitors the efficiency of the operational risk management system and its appropriateness for its current risk profile. The organization of the operational risk management system is reviewed as part of periodic control exercised by the Internal Audit Division, which is not directly involved in the operational risk management process but provides professional and unbiased opinions supporting achievement of the Bank's objectives. The operational risk management system is overseen and its appropriateness and efficiency are assessed by the Supervisory Board.

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

50. CAPITAL ADEQUACY MANAGEMENT

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

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

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

PFSA recommendation concerning additional capital requirement for the Group

On 15 November 2017, the Bank received a recommendation from the Polish Financial Supervision Authority concerning the Bank's maintenance of equity necessary to satisfy an additional capital requirement at the level of 0.60 p.p. in order to hedge the risk resulting from foreign currency mortgage loans granted to households, with Tier 1 capital accounting for at least 75% (i.e. 0.45 p.p.) of such equity.

On 29 December 2017, the Bank received the decision of the Polish Financial Supervision Authority, in which PFSA recommended the Bank to maintain (on separate and consolidated basis) a buffer of other systemically-important institution in the amount equivalent to 0.25% of the total amount of risk exposure.

The Bank's minimum consolidated capital ratios resulting from CRR law and administration decisions issued by PFSA in 2017 are as follows:

- Tier 1=7.95%
- Total Capital Ratio = 10.10%

The Bank's minimum capital ratios, taking into account additional capital requirement recommended by PFSA in its letter of 23 October 2015 are as follows:

- Tier 1 = 10.95%
- Total Capital Ratio = 14.10%

The Bank's capital ratios taking into account the additional capital requirement in the context of the dividend policy (criteria for distribution of up to 50% of profit for 2017) are as follows:

- Tier 1=12.45%
- Total Capital Ratio = 15.60%

On 31 December 2017 the Bank's solvency ratios are as follows:

Tier 1 = 10.81%

Total Capital Ratio = 13.75%

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

As at the date of receipt of PFSA recommendations and until 31 December 2017, the Group maintained equity sufficient to satisfy the aforesaid regulatory capital requirements.

At the same time the value of Tier 1 ratio and TCR on consolidated basis as of 31 December 2017 are beneath the level resulting from PFSA letter of 23 October 2015 and administration decisions issued by PFSA in 2017.

On 1 December 2017, the Regulation of the Minister of Development and Finance of 25 May 2017 on higher risk weight for exposures secured by mortgages on real estate entered into force (Journal of Laws of 2017, item 1068). The provisions of the Regulation assign to the exposures in foreign currencies which are mortgage secured on real estate a risk weight of 150%, while to the mortgage secured on commercial real estates - a risk weight of 100%.

On 31 December 2017 the Bank disposed of owned shares in subsidiary company BGŻ BNP Paribas Factoring Sp. z o.o. in favour of BNP Paribas S.A. The transaction improved the capital adequacy ratios on the consolidated basis.

As of 19 December 2017, the Bank finalized a securitization transaction agreement - sale of the loans arising from cash loan agreements and car loan agreements concluded by the Bank with Borrowers. These loans were sold to BGZ Poland ABS1 Designated Activity Company, a company incorporated under Irish law.

Impact of the securitization transaction on capital adequacy ratios as at 31 December 2017 at the separate level developed in the following way: Tier 1 capital ratio increased by 28 bps, while the total capital ratio increased by 36 bps.

51. SUBSEQUENT EVENTS

23.01.2018 **Extraordinary Shareholders' Meeting of Bank BGŻ BNP Paribas S.A**:

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

6.02.2018 **Capital adequacy ratios as at 1 January 2018**

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

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

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

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

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

9.02.2018 **Changes in the composition of the Management Board of the Bank**

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

12.03.2018	**Przemysław Gdański** *Vice-President of the Management Board supervising the Management Board activities*	signature
12.03.2018	**Jean-Charles Aranda** Management Board Member	signature
12.03.2018	**Daniel Astraud** Vice-President of the Management Board	signature
12.03.2018	**Philippe Paul Bézieau** Vice-President of the Management Board	signature
12.03.2018	**Blagoy Bochev** Vice-President of the Management Board	signature
12.03.2018	**Przemysław Furlepa** Vice-President of the Management Board	signature
12.03.2018	**Wojciech Kembłowski** *Vice-President of the Management Board*	signature
12.03.2018	**Jaromir Pelczarski** *Vice-President of the Management Board*	signature
12.03.2018	**Jerzy Śledziewski** *Vice-President of the Management Board*	signature
12.03.2018	**Bartosz Urbaniak** *Member of the Management Board*	signature
12.03.2018	**Katarzyna Romaszewska-Rosiak** *Managing Director of Financial Accounting Division*	signature

Warsaw, 12 March 2018