

Press release

Warsaw, 14 March 2018

Bank BGŻ BNP Paribas Group financial results for 2017 – significant improvement in net profit following completion of integration processes

Bank BGŻ BNP Paribas Group generated PLN 279.7 million in net profit in 2017, nearly three times more than in 2016. The Group's result was affected by lower integration costs.

- We completed 2017 as a single, fully integrated bank. The recent years have been a period of combining several institutions, we were largely focused on internal processes, which generated high integration costs. In 2017 we finalized the merger processes, which meant that these costs were already much lower, and the synergies achieved brought further reductions in costs. The total cost base was more than 10% lower. These factors contributed to significant improvement in the Group's results. But that does not mean we can rest on our laurels. To the contrary, we are now working intensively on a transformation of our Bank across multiple fronts, aiming at improving on both income and expenses. Our current position reflects neither our ambitions nor the potential of the integrated Bank - said Przemysław Gdański, the vice president responsible for the work of the management board of Bank BGŻ BNP Paribas.

Income from banking activity generated by the Group in 2017 was PLN 2,696.0 million, up 2.1% year-on-year. The annual revenue dynamic was impacted by the sale and deconsolidation effect of the subsidiary BGŻ BNP Paribas Faktoring Sp. z o.o. (excluding the deconsolidation effect, the income from banking activity would have been 3.1% higher). The Group's interest income in 2017 rose by 5.5% yoy, to PLN 100.6 million, thanks to an increase in revenue of 3.1% accompanied by a decline in interest costs of 2.6%. Fee and commission income were down 1.5% from 2016, to PLN 486.0 million. The Group's general administrative expenses together with depreciation in 2017 were PLN 1,680.9 million, 10.6% lower than the prior year. Employment costs fell by 7.7%, primarily as a result of a reduction in headcount by 439. Other administrative costs fell by 12.7%, mainly as a result of lower The Bank Guarantee Fund costs and optimization of real estate maintenance costs and IT costs. Excluding integration costs, the cost-to-income ratio fell in 2017 to 61.0%, from 64.6% in 2016 and 74.2% in 2015.

- The past year was a time of huge changes at the Bank, and I am not referring only to the integration, although finalization of the merger with Sygma Bank undoubtedly was a major event. Other major processes include primarily launch of digitalization of services, including introduction of a new mobile application with Android Pay and Blik functionality, expansion of the offer for customers from various segments, and launch of a pilot programme for new cashless and digital branches. Last year we also launched automation of processes which is market-leading in terms of the scale of the implementation. In 2018 we want to continue the process of transformation of the Bank, which will help us to become an institution identified with modern and efficient operations, focused on the expectations of customers and professional service quality- Przemysław Gdański added.

The Group's balance sheet total at the end of December 2017 was PLN 72.7 billion, up 0.6% yoy. Gross credit and loans to clients fell in 2017 by 4.0%, to PLN 55.8 billion, primarily as a result of the sale and deconsolidation of the subsidiary BGŻ BNP Paribas Faktoring Sp. z o.o., as well as the strengthening zloty and revaluation of the portfolio of residential credit denominated in foreign currency (excluding these events the credit portfolio would have grown by 1.7%).

The weight of credit and loans with recognised impairment in value fell to 7.4% at the end of 2017, from 7.7% at the end of 2016. The balance of impairment losses and provisions for contingent liabilities was down PLN 43.6 million, i.e. 10.9%, from the previous year, and the Bank noted a reduction in the average cost of credit risk by 10 basis points (to 0.6% at the end of 2017).

At the end of 2017 the Group's equity was PLN 6.6 billion. The Group's total capital ratio at the end of the year was 13.75%. The Group's Tier 1 ratio stood at 10.81%.



- In 2017 we took a number of essential measures aiming at improving the capital ratios, among other things obtaining approval from the Polish Financial Supervision Authority (KNF) to apply the net profit from the 1st half of 2017 to the Bank's core Tier 1 capital, as well as approval to include rolled-over subordinated loans in the calculation of the Tier 2 capital. We also carried out the transaction of securitizing the portfolio of consumer and car loans and sale and deconsolidation of the subsidiary BGZ BNP Paribas Faktoring Sp. z o. o. Despite these measures, in consolidated terms, as at 1 January 2018 the level of the Tier 1 and total capital ratios fell below the minimal regulatory requirements. In this situation, with the full support of the BNP Paribas Group, we are undertaking measures to increase the share capital by conducting a new issue of shares, which should result in fulfilment of the regulatory requirements upon achievement of the Bank's business targets assumed to date. We plan to conduct a capital increase at the turn of second and third quarter of 2018 on condition of obtaining the approvals required by law - **commented Jean-Charles Aranda, member of Bank BGZ BNP Paribas' management board responsible for the finance area.**

As at 31 December 2017 the Bank had 476 retail and business branches and 102 customer service points and was serving 2.7 million customers.

Selected financial data*

Selected items from the statement of profit and loss (PLN '000)	31.12.2017	31.12.2016	Change y/y
Interest income	1,926,744	1,826,152	+5.5%
Fee and commission income	485,979	493,220	-1.5%
Impairment losses on financial assets and provisions for contingent liabilities	-355,299	-398,883	-10.9%
General administrative expenses	-1,506,866	-1,674,356	-10.0%
Depreciation	-174,064	-206,597	-15.7%
Operating result	659,751	360,383	+83.1%
Tax on financial institutions	-205,866	-185,876	+10.8%
Gross profit	453,885	174,507	+160.1
Income tax	-174,178	-97,647	+78.4%
Net profit	279,707	76,860	+263.9%
<i>Net profit excluding integration costs</i>	<i>308,576</i>	<i>223,797</i>	<i>+37.9%</i>
Selected items from the balance sheet (PLN '000)	31.12.2017	31.12.2016	Change y/y
Total assets	72,749,259	72,304,999	+0.6%
Credit and loans to clients	52,967,568	55,075,871	-3.8%
Total liabilities	66,189,796	66,158,178	0.0%
Liabilities to clients	56,328,897	55,155,014	+2.1%
Capital adequacy	31.12.2017	31.12.2016	Change y/y
Total capital ratio	13.75%	14.40%	-0.65 pp
Tier 1 ratio	10.81%	11.06%	-0.25 pp

*Comparability of results and balance sheet amounts during the analyzed periods affected by the exclusion from 2017 data of the subsidiary BGZ BNP Paribas Faktoring Sp. z o.o. sold in December