



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

for the period of 6 months ended 30 June 2018

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



BGZ BNP PARIBAS

The bank for a changing world

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SELECTED FINANCIAL DATA

Selected consolidated financial data

	in PLN '000		in EUR '000	
STATEMENT OF PROFIT OR LOSS	30.06.2018	30.06.2017	30.06.2018	30.06.2017
	(YTD)	(YTD)	(YTD)	(YTD)
Net interest income	945,490	948,290	223,019	223,264
Net fee and commission income	252,657	252,039	59,596	59,340
Profit before tax	269,670	208,124	63,609	49,000
Profit after tax	188,601	120,779	44,487	28,436
Total comprehensive income	168,870	234,197	39,833	55,139
Total net cash flows	(2,377,132)	69,000	(560,710)	16,245
RATIOS	30.06.2018	30.06.2017	30.06.2018	30.06.2017
Number of shares (items)	84,238,318	84,238,318	84,238,318	84,238,318
Earnings per share	2.24	1.43	0.53	0.34
BALANCE SHEET	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Total assets	71,355,941	72,749,259	16,360,038	17,442,101
Loans and advances to customers measured at amortised cost	50,620,652	52,967,568	11,605,982	12,699,314
Loans and advances to customers measured at fair value through profit or loss	2,636,772	-	604,542	-
Total liabilities	64,945,636	66,189,796	14,890,324	15,869,428
Liabilities due to customers	54,012,858	56,328,897	12,383,726	13,505,214
Share capital	84,238	84,238	19,314	20,197
Total equity	6,410,305	6,559,463	1,469,714	1,572,673
CAPITAL ADEQUACY	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Total own funds	7,866,555	7,696,324	1,803,594	1,845,243
Total risk exposure	57,028,035	55,988,130	13,075,026	13,423,513
Total capital ratio	13.79%	13.75%	13.79%	13.75%
Tier 1 capital ratio	10.81%	10.81%	10.81%	10.81%

Selected separate financial data	in PLN '000		in EUR '000	
	30.06.2018 (YTD)	30.06.2017 (YTD)	30.06.2018 (YTD)	30.06.2017 (YTD)
STATEMENT OF PROFIT OR LOSS				
Net interest income	933,638	938,512	220,224	220,962
Net fee and commission income	238,692	228,685	56,302	53,841
Profit before tax	275,300	214,979	64,937	50,614
Profit after tax	194,073	130,029	45,777	30,614
Total comprehensive income	174,347	243,443	41,124	57,316
Total net cash flows	(2,376 823)	86,786	(560,638)	20,433
RATIOS	30.06.2018	30.06.2017	30.06.2018	30.06.2017
Number of shares (items)	84,238,318	84,238,318	84,238,318	84,238,318
Earnings per share	2.30	1.54	0.54	0.36
BALANCE SHEET	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Total assets	69,813,233	71,897,892	16,006,336	17,237,980
Loans and advances to customers measured at amortised cost	49,262,280	52,195,203	11,294,543	12,514,134
Loans and advances to customers measured at fair value through profit or loss	2,636,772	-	604,542	-
Total liabilities	63,388,690	65,336,633	14,533,357	15,664,876
Liabilities due to customers	56,336,384	58,658,067	12,916,449	14,063,647
Share capital	84,238	84,238	19,314	20,197
Total equity	6,424,543	6,561,259	1,472,978	1,573,104
CAPITAL ADEQUACY	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Total own funds	7,908,896	7,699,319	1,813,302	1,845,961
Total risk exposure	55,865,552	55,307,981	12,808,500	13,260,443
Total capital ratio	14.16%	13.92%	14.16%	13.92%
Tier 1 capital ratio	11.11%	10.95%	11.11%	10.95%

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

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

- as at 30.06.2018 - EUR 1 = PLN 4.3616
- as at 31.12.2017 - EUR 1 = PLN 4.1709

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

- for the period from 1.01.2018 to 30.06.2018 - EUR 1 = PLN 4.2395
- for the period from 1.01.2017 to 30.06.2017 - EUR 1 = PLN 4.2474

I INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Interim condensed consolidated statement of profit or loss

	Note	2Q 2018 from 01.04.2018 to 30.06.2018	HY 2018 from 01.01.2018 to 30.06.2018	2Q 2017 from 01.04.2017 to 30.06.2017	HY 2017 from 01.01.2017 to 30.06.2017
Interest income	8	713,312	1,348,342	665,207	1,317,560
Interest expenses	8	(217,734)	(402,852)	(183,732)	(369,270)
Net interest income		495,578	945,490	481,475	948,290
Fee and commission income	9	171,739	321,650	159,486	307,991
Fee and commission expenses	9	(39,756)	(68,993)	(35,272)	(55,952)
Net fee and commission income		131,983	252,657	124,214	252,039
Dividend income		784	809	4,670	4,693
Net trading income	10	63,178	138,590	60,797	126,458
Result on investment activities	11	(1,667)	6,726	20,111	21,095
Result on fair value hedge accounting		1,307	2,823	822	1,643
Net impairment losses on financial assets and contingent liabilities	12	(54,989)	(117,343)	(92,024)	(178,023)
General administrative expenses	13	(393,209)	(773,297)	(384,193)	(773,152)
Depreciation and amortization	14	(41,729)	(82,662)	(44,093)	(91,984)
Other operating income	15	13,990	52,673	41,919	65,716
Other operating expenses	16	(16,914)	(56,925)	(33,549)	(65,096)
Operating result		198,312	369,541	180,149	311,679
Tax on financial institutions		(49,836)	(99,871)	(51,480)	(103,555)
Profit before tax		148,476	269,670	128,669	208,124
Income tax expense	17	(45,333)	(81,069)	(47,453)	(87,345)
Net profit for the period		103,143	188,601	81,216	120,779
attributable to equity holders of the Bank		103,143	188,601	81,216	120,779
EARNINGS PER SHARE (IN PLN PER ONE SHARE)					
Basic		1.22	2.24	0.96	1.43
Diluted		1.22	2.24	0.96	1.43

Interim condensed consolidated statement of comprehensive income

	2Q 2018 from 01.04.2018 to 30.06.2018	HY 2018 from 01.01.2018 to 30.06.2018	2Q 2017 from 01.04.2017 to 30.06.2017	HY 2017 from 01.01.2017 to 30.06.2017
Net profit for the period	103,143	188,601	81,216	120,779
OTHER COMPREHENSIVE INCOME				
ITEMS THAT WILL BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS UPON FULFILMENT OF CERTAIN CONDITIONS				
Measurement of financial assets measured through other comprehensive income	(32,458)	(23,128)	48,122	140,230
Deferred income tax	6,136	3,806	(9,143)	(26,644)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	(273)	(409)	143	(168)
Actuary valuation of employee benefits	(347)	(521)	226	436
Deferred income tax	74	112	(83)	(604)
OTHER COMPREHENSIVE INCOME (NET)	(26,595)	(19,731)	39,122	113,418
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	76,548	168,870	120,338	234,197
attributable to equity holders of the Group	76,548	168,870	120,338	234,197

Interim condensed consolidated statement of financial position

ASSETS	Note	30.06.2018	31.12.2017
Cash and balances at Central Bank	18	914,056	998,035
Amounts due from banks	19	386,581	2,603,689
Derivative financial instruments	20	455,563	474,421
Differences from hedge accounting regarding the fair value of hedged items	21	42,401	32,730
Loans and advances to customers measured at amortised cost	22	50,620,652	52,967,568
Loans and advances to customers measured at fair value through profit or loss	23	2,636,772	-
Financial assets available for sale	24	-	13,922,540
Securities measured at amortised cost	25	9,413,855	-
Financial instruments measured at fair value through profit or loss	26	134,997	-
Securities measured at fair value through other comprehensive income	27	4,768,541	-
Investment properties		54,435	54,435
Intangible assets	28	306,452	288,340
Property, plant and equipment	29	479,903	500,647
Deferred tax assets		612,039	512,045
Current tax assets		15,400	-
Other assets	30	514,294	394,809
Total assets		71,355,941	72,749,259

LIABILITIES	Note	30.06.2018	31.12.2017
Amounts due to banks	31	4,550,137	3,891,235
Differences from hedge accounting regarding the fair value of hedged items	21	7,948	(2,992)
Derivative financial instruments	20	432,470	427,710
Amounts due to customers	32	54,012,858	56,328,897
Debt securities issued	33	2,181,744	2,471,966
Subordinated liabilities	34	1,706,237	1,645,102
Other liabilities	35	1,908,356	1,225,323
Current tax liabilities		18,018	117,699
Deferred tax liability		8,026	8,003
Provisions	36	119,842	76,853
Total liabilities		64,945,636	66,189,796

EQUITY	Note	30.06.2018	31.12.2017
Share capital	43	84,238	84,238
Supplementary capital		5,127,086	5,127,086
Other reserve capital		1,208,018	909,629
Revaluation reserve		122,257	141,988
Retained earnings		(131,294)	296,522
retained profit		(319,895)	16,815
net profit for the period		188,601	279,707
Total equity		6,410,305	6,559,463
Total liabilities and equity		71,355,941	72,749,259

Interim condensed consolidated statement of changes in equity

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings		Total
					Retained profit	Net profit for the period	
Balance as at 1 January 2018 (data approved)	84,238	5,127,086	909,629	141,988	16,815	279,707	6,559,463
Change related to the implementation of IFRS 9	-	-	-	-	(318,028)	-	(318,028)
Balance as at 1 January 2018 (data restated)	84,238	5,127,086	909,629	141,988	(301,213)	279,707	6,241,435
Total comprehensive income for the period	-	-	-	(19,731)	-	188,601	168,870
Net profit for the period	-	-	-	-	-	188,601	188,601
Other comprehensive income for the period	-	-	-	(19,731)	-	-	(19,731)
Distribution of retained earnings	-	-	298,389	-	(18,682)	(279,707)	-
Distribution of retained earnings intended for supplementary capital	-	-	298,389	-	(18,682)	(279,707)	-
Other (capital of subsidiaries)	-	-	-	-	-	-	-
Balance as at 30 June 2018	84,238	5,127,086	1,208,018	122,257	(319,895)	188,601	6,410,305

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

Interim condensed consolidated statement of changes in equity (continued)

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings		Total
					Retained profit	Net profit for the period	
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	-	-	-	113,418	-	120,779	234,197
Net profit for the period	-	-	-	-	-	120,779	120,779
Other comprehensive income for the period	-	-	-	113,418	-	-	113,418
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)	-	19,481	-	-	(19,481)	-	-
Balance as at 30 June 2017	84,238	5,127,899	909,629	112,921	25,552	120,779	6,381,018

Interim condensed consolidated statement of cash flows

	Nota	HY 2018 from 01.01.2018 to 30.06.2018	HY 2017 from 01.01.2017 to 30.06.2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net profit (loss)		188,601	120,779
ADJUSTMENTS FOR:		(2,116,529)	449,557
Income tax expenses		81,069	87,345
Depreciation and amortization		82,662	91,984
Dividend income		(809)	(4,693)
Interest income		(1,348,342)	(1,317,560)
Interest expense		402,852	369,270
Change in provisions		42,433	(34,542)
Change in amounts due from banks		(75,040)	(32,416)
Change in derivative financial instruments (assets)		18,858	(70,172)
Change in loans and advances to customers measured at amortised cost		1,768,085	(1,027,079)
Change in loans and advances to customers measured at fair value through profit or loss		(2,636,772)	-
Change in amounts due to banks		721,006	1,419,473
Change in derivative financial instruments (liabilities)		4,760	123,237
Change in amounts due to customers		(2,174,141)	56,090
Change in other assets and current tax assets		(215,527)	74,750
Change in other liabilities and deferred income tax liabilities		583,375	(65,655)
Other adjustments	38	(184,733)	(217,176)
Interest received		1,213,884	1,346,028
Interest paid		(400,149)	(349,327)
Net cash flows from operating activities		(1,927,928)	570,336

	Note	HY 2018 from 01.01.2018 to 30.06.2018	HY 2017 from 01.01.2017 to 30.06.2017
CASH FLOWS FROM INVESTING ACTIVITIES:			
INVESTING ACTIVITIES INFLOWS		12,923,816	12,882,199
Sale and repurchase of debt securities		12,922,243	12,867,017
Sale of intangible assets and property, plant and equipment		764	10,489
Dividends received and other inflows from investing activities		809	4,693
INVESTING ACTIVITIES OUTFLOWS		(12,881,735)	(11,369,265)
Purchase of debt securities		(12,800,941)	(11,295,719)
Purchase of intangible assets and property, plant and equipment		(80,794)	(73,546)
Net cash flows from investing activities		42,081	1,512,934
CASH FLOWS FROM FINANCING ACTIVITIES:			
FINANCING ACTIVITIES INFLOWS		-	-
Long-term loans received		-	-
FINANCING ACTIVITIES OUTFLOWS		(491,285)	(2,014,270)
Repayment of long-term loans and advances received		(206,285)	(2,004,270)
Redemption of debt securities		(285,000)	(10,000)
Net cash flows from financing activities		(491,285)	(2,014,270)
TOTAL NET CASH AND CASH EQUIVALENTS		(2,377,132)	69,000
Cash and cash equivalents at the beginning of the period		3,443,205	2,483,623
Cash and cash equivalents at the end of the period, including:	37	1,066,073	2,552,623
effect of exchange rate fluctuations on cash and cash equivalents		8,026	(35,151)
restricted cash and cash equivalents		725	1,302

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 IDENTIFICATION DATA

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

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

2 DESCRIPTION OF THE CAPITAL GROUP

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

As at 30 June 2018, the Group comprised Bank BGŻ BNP Paribas S.A. as the parent and its subsidiaries:

- 2.1. Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o. ("Actus"), with its registered office at Kasprzaka 10/16 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000023062. The Bank holds 100% interest in the share capital of the company.
- 2.2. Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A. ("TFI"), with its registered office at Twarda 18 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register, under number KRS 0000031121. The Bank holds 100% of the company's shares.
- 2.3. BNP Paribas Leasing Services Sp. z o.o. ("Leasing", formerly: Fortis Lease Polska Sp. z o.o. in liquidation), with its registered office at Suwak 3 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000098813. The Bank holds 100% of the company's shares.
- 2.4. BNP Paribas Group Service Center S.A. ("GSC", formerly: Laser Services Polska S.A.), with its registered office at Suwak 3 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000022784. The Bank holds 100% share of the company's equity.
- 2.5. Dimperre Investments Sp. z o.o. („Campus Leszno”) with its registered office at Aleje Jerozolimskie 56C 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 0000728558. The Bank holds 100% of the company's shares.
- 2.6. BGŻ Poland ABS1 DAC ("SPV") based in Ireland, 3RD Floor Kilmore House, Park Lane, Spencer Dock, Dublin. This is a special purpose company, with which the Bank performed a securitization transaction concerning a part of the loan portfolio. The Group does not have any capital involvement in this company. The company is controlled by Bank BGŻ BNP Paribas S.A. only within the meaning of IFRS 10.

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

In accordance with the principles of International Financial Reporting Standards, the interim condensed consolidated financial statements cover all subsidiaries as at 30 June 2018.

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

The interim condensed consolidated financial statements for the first half of 2018 ended 30 June 2018 were prepared in accordance with the requirements of International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"), as adopted by the European Union, as well as in accordance with other applicable regulations. The accounting principles applied in the first half of 2018 do not differ from the principles applicable in 2017, which are described in detail in the Consolidated financial statements of the Bank BGŻ BNP Paribas S.A. Capital Group for the year ended 31 December 2017.

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

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

Functional and presentation currency

Items included in the financial statements are measured in the currency of the primary economic environment in which the Bank operates ("functional currency"). The separate financial statements are presented in PLN thousands, which is the functional currency of the Bank and the presentation currency of the Bank's financial statements.

Transactions and balances

Transactions expressed in foreign currencies are translated into the functional currency at the exchange rate applicable as at the transaction date.

At the end of the reporting period, monetary assets and liabilities expressed in currencies other than the Polish zloty are translated into Polish zlotys using the average exchange rate for a given currency determined by the National Bank of Poland in force at the end of the reporting period. Foreign exchange differences resulting from the translation are recognized as a 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 expressed in a foreign currency are disclosed at the historical exchange rate as at the transaction date. Non-monetary assets and liabilities recognized at fair value expressed in a foreign currency are translated at the exchange rate effective at the date of fair value measurement.

Basic currency rates used in the preparation of the present financial statements as at 30 June 2018 and 31 December 2017 are presented in the below table:

	30.06.2018	31.12.2017
1 EUR	4.3616	4.1709
1 USD	3.7440	3.4813
1 GBP	4.9270	4.7001
1 CHF	3.7702	3.5672

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

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

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

3.2 Implementation of IFRS 9

IFRS 9 „Financial Instruments”

IFRS 9 “Financial Instruments”, published by the International Accounting Standards Board on 24 July 2014, approved by the European Union on 22 November 2016, is the final version of the standard replacing the earlier published versions of IFRS 9.

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

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

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

Classification and measurement

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

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

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

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

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

Business models

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

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

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

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

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

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

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

SPPI test

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

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

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

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

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

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

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

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

Summary of key changes

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

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

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

Financial liabilities

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

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

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

Changes in impairment allowance calculation for financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Modification of cash flows arising from the contract, the significance of which excludes maintaining the same characteristics of the asset before and after the modification, requires (i) derecognition of a financial asset (ii) recognition

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

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

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

- a) The position consists of loans and advances, in which business model consists in holding assets to collect cash flows, but the characteristics of these cash flows do not meet the definition of principal and interest presented in IFRS 9. In connection with the above, the Bank classified such exposures to the category of instruments measured

at fair value through profit or loss. The indicated instruments are presented in the financial statements under "Loans and advances to customers measured at fair value through profit or loss".

- b) Debt instruments that, in accordance with IAS 39, were classified as available for sale and measured at fair value through other comprehensive income, that failed the SPPI test, and therefore, in accordance with IFRS 9, were classified as measured at fair value through profit or loss account and presented in the financial statements under "Financial instruments measured at fair value through profit or loss"
- c) Debt instruments that, in accordance with IAS 39, were classified as available for sale and measured at fair value through other comprehensive income, were assessed in terms of the business model as maintained to collect contractual cash flows and for sale (and the result of the SPPI test was positive), and therefore were classified as measured at fair value through other comprehensive income and presented in the financial statements under "Securities measured at fair value through other comprehensive income" in line with IFRS 9.
- d) Debt instruments that, in accordance with IAS 39, were classified as available for sale and measured at fair value through other comprehensive income, were assessed in terms of the business model as maintained to collect contractual cash flows and the result of SPPI test was positive and were therefore classified as measured at amortized cost and presented in the financial statements under "Securities measured at amortized cost" in line with IFRS 9.
- e) The item consists of equity instruments not held for trading and classified as available for sale in accordance with IAS 39, for which the Bank did not decide to measure them at fair value through other comprehensive income. In connection with the above, these assets will be measured at fair value through profit or loss account. The indicated equity instruments are presented in the financial statements under "Financial instruments measured at fair value through profit or loss".

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

Changes in profit or loss

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

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

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

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

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

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

* excluding the impact of deferred tax

The total value of the impact of IFRS 9 implementation in the amount of PLN - 450,828 thousand and the effect of deferred tax resulting from the implementation of IFRS 9 in the form of an increase in net deferred tax asset in the amount of PLN 132,800 thousand decreased the balance of retained earnings and revaluation reserve in the amount of PLN - 318,028 thousand as at 1 January 2018.

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

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

Impact of IFRS 9 on capital adequacy

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

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

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

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

3.3 Implementation of IFRS 15

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

Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate financial statements and IAS 29 Investments in associates and joint ventures. The Group will not use practical expedients allowed under IFRS 15 for a modified retrospective approach.

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

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

- 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 the 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 of the period is shorter.

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

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

The Group has analysed contracts with customers falling within the scope of IFRS 15 and did not identify significant changes with reference to the moment of recognition of revenues in annual periods – therefore, the application of IFRS 15 did not affect the opening balance of retained earnings as at 1 January 2018 (implementation of IFRS 15 did not result in an adjustment of retained earnings as at 1 January 2018). The Bank identified agreements in which, in the light of IFRS 15, it acts as an agent. If another entity is involved in providing goods or services to the customer, the Bank determines whether the nature of the Bank's performance obligation is an obligation to provide certain goods or services

(in this case, the Bank is the principal) or to delegate to another entity to provide these goods or services (in this case, the Bank is an agent). Therefore, starting from 1 January 2018, some commissions paid and received, as well as other operating income and other operating costs due to the Bank's role as an agent, are presented in net value (margin value), which applies to, among others, selected contracts with car dealers, agreements with settlement organizations, loyalty programs, or revenues from management contracts. These changes will not affect the net financial result of the Bank, nor the result presented on fees and commissions and the result on operating activities.

3.4 Implementation of IFRS 16

IFRS 16 "Leasing" was published by the International Accounting Standards Board on 13 January 2016 and approved by the European Commission Regulation No. 2017/1986 of 31 October 2017 for use in European Union member states. The standard is obligatorily applicable to annual reporting periods beginning on 1 January 2019 or after that date.

IFRS 16 supersedes, as at 1.01.2019 r., the following standards and interpretations:

- IAS 17 „Leasing”,
- IFRIC 4 „Determining whether an Arrangement contains a Lease”,
- SIC-15 „Operating Leases—Incentives”,
- SIC-27 „Evaluating the Substance of Transactions Involving the Legal Form of a Lease”.

The new standard presents a comprehensive model of identification of lease agreements and their settlement in the financial statements of lessors and lessees.

IFRS 16 uses the model of right to control to identify leasing agreements. The standard contains detailed guidelines for assessing whether a given contract contains lease elements, services or both of these characteristics. An agreement is classified as a leasing agreement if it transfers the right to control the use of an identified asset for a given period of time in exchange for a payment. Significant changes have been made to the accounts of the lessee. As regards the leasing recognition model used by the lessees, the classification of the lease as operating or financial was rejected. In the scope of all leasing contracts and agreements containing the leasing element, the assets (the right to use the asset in a given period of time) and leasing liabilities are recognized. The standard does not introduce significant changes in the scope of requirements for lessors when compared to IAS 17. The lessor continues to classify the lease as operating lease or finance lease as two separate types of leasing.

According to IFRS 16, the contract may be considered a lease if it meets the following criteria:

- fulfilling the terms of the contract concerns a specific asset that is identifiable unequivocally or implicitly, and the lessor cannot have a significant right to substitute the asset,
- the contract provides the "right to control the use" of the asset in exchange for a payment.

The part of the asset that is physically separable meets the criterion of identification. The contracts, in case of which it is not possible to identify an asset, are not in the scope of the leasing agreements definition under IFRS 16. In addition, the right to substitute an asset is considered material if the following conditions exist together: the supplier has the practical opportunity to substitute alternative assets throughout the period of use and the supplier would have gain an economic benefit from exercising the right to substitute the asset. Contracts that give lessors significant substitution rights do not comply with IFRS 16 and are subject to recognition in accordance with IFRS 15.

The exercise of control over the use of an identified asset means that the lessee has the right to direct the use and the right to obtain all economic benefits from the use of the asset throughout its entire life, taking into account the scope of the right to use the assets.

Contracts under which the lessee receives all benefits from the use of an asset, but it is not possible to direct its use, are not considered leases. The ability to direct the use of an asset reveals the ability to make decisions regarding the use of a particular asset throughout its entire life, which significantly affects the benefits received by the lessee due to the use of an asset.

As a general rule, as at the commencement date of the lease, the lessee will recognize the lease liability (liability to make lease payments) and the asset that constitutes the right to use the subject of the lease for the duration of the leasing contract (right to use an asset) for all leasing agreements. At the same time, IFRS 16 gives the opportunity to benefit from simplifications regarding short-term contracts and leasing of low-value items.

IFRS 16 allows lessees to apply the currently used methods of recognizing operating leases to recognize short-term lease contracts and lease of low-value items. Short-term leasing is characterized by the maximum possible duration of the contract of 12 months, including its renewal options. Determining whether the lease is a short-term lease is based only on the maximum possible duration of the contract, i.e. the period for which the enforceable rights and obligations arise. Lessees cannot benefit from the above-mentioned simplification in case of short-term contracts with the option to purchase the leased asset irrespective of the intention and expectations of the lessee as to the subject of the contract.

On the commencement date, the lessee measures the lease liability based on the current value of lease payments remaining to be paid as at that date. Lease payments are discounted using the interest rate of the lease, if such a rate can be easily determined. Otherwise, the lessee applies the marginal interest rate of the lessee. The following elements are included in the measurement of leasing liabilities:

- fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

On the commencement date, the lessee measures an asset due to the right to use at its cost. The cost of an asset due to the right of use should include:

- the initial value of the lease liability,
- leasing payments made at the time or before the conclusion of the contract less any incentives received,
- all initial costs incurred by the lessee, and
- estimated costs of dismantling and removing the underlying asset, that must be incurred by the lessee in connection with the assets included in the agreement in order to restore the place in which it is located or the asset itself to the conditions required under the leasing contract.

State of implementation

The Group does not plan early implementation of IFRS 16, and therefore the Standard will be implemented on 01.01.2019.

The project of IFRS 16 in the Group was launched in May 2018. The Group has started the implementation of the standard from the works related to ensuring the completeness of identification of all leasing contracts and contracts containing the leasing element.

Based on the current efforts, the Bank identified contracts whose subject of leasing or rental are the following facilities:

- buildings, constructions and commercial premises,
- land and perpetual usufruct rights to land,
- means of transport, and
- technical equipment.

The Group plans, for the purposes of the first application of the standard, to apply the modified retrospective method and measure the assets under the right to use in the amount equal to the lease liabilities adjusted for the amounts of any prepayments or accrued lease payments referring to leases included in the statement of financial position directly before the first application, and waive the obligation to transform the comparative data.

The Group is currently at the stage of finalizing the first stage of implementing IFRS 16.

The Group has performed the following works:

- analysis of the leasing period that should be used for the valuation of the right to use the asset and the corresponding financial liability, taking into account the option of extending and terminating the contract and assessing the probability that the parties will benefit from these rights,
- analysis of contracts regarding identification of the leasing element and the non-leasing element, which concerns predominantly lease agreements for real estate, under which rent and maintenance fees were, in some cases, contractually agreed on a flat-rate basis without distinguishing the leasing and non-leasing part.

Estimated effect of IFRS 16 implementation on the Group

The Group believes that the application of the new standard will have an impact on the recognition, presentation, measurement and disclosure of assets that have been subject to operating lease and the corresponding liabilities in the Group's financial statements as the lessee. The value of lease payments by maturity as at 31 December 2017 is presented in note 39 in the financial statements for 2017.

Due to ongoing analyses, including the analysis of completeness of items used under a leasing agreement, the Group does not present the expected impact of the implementation of IFRS 16 on the financial situation and the financial result. Nevertheless, the Group believes that the value of operating lease payments disclosed in the annual financial statements for 2017 did not change significantly during the first half of 2018 and represents a reliable approximation of the expected impact of the implementation of the standard.

3.5 Acquisition of Spółdzielcza Kasa Oszczędnościowo-Kredytowa „Rafineria” in Gdańsk by BGŻ BNP Paribas S.A.

On 18 May 2018, the Polish Financial Supervision Authority (KNF, PFSA) decided that Spółdzielcza Kasa Oszczędnościowo-Kredytowa Rafineria will be acquired by Bank BGŻ BNP Paribas S.A. The PFSA's decision was taken in accordance with article 74c paragraph 4 of the Act of 5 November 2009 on Cooperative Savings and Credit Unions, Journal of Laws of 2017, item 2065. Pursuant to this decision, as of 19 May 2018, the Management Board of BGŻ BNP Paribas S.A. acquired the assets of SKOK Rafineria. On 30 May 2018, BGŻ BNP Paribas S.A. acquired SKOK Rafineria and took control over the company in the meaning of IFRS 3 "Business combinations".

The Bank performed a provisional purchase price allocation. In accordance with IFRS 3.45, the entity has twelve months to determine the final measurement and settlement of the acquisition of SKOK Rafineria. The acquisition did not involve the transfer of payment by the Bank. As a result of the transaction settlement, there are no non-controlling interests in the acquired entity. The process of acquisition of SKOK Rafineria was performed with the financial support granted by BFG on the basis of article 28c of the Act of 19 October 2017 on the Bank Guarantee Fund. On 27 July, the Bank concluded a grant agreement with the BFG to cover the difference between the value of the acquired property rights and liabilities from guaranteed funds on depositors' accounts in the amount of PLN 41,082 thousand and a guarantee to cover losses resulting from the risk related to the acquired property rights of SKOK Rafineria.

The fair values of acquired assets and liabilities as at the acquisition date, i.e. 30 May 2018, in PLN thousand, are presented below:

ASSETS	Fair value of the acquired assets
Cash in hand and balances in Central Bank	4,762
Loans and advances to customers measured at amortised cost	27,247
Loans and advances to customers measured at fair value through profit or loss	5,519
Tangible fixed assets	1,332
Other assets	644
TOTAL ASSETS	39,504

LIABILITIES	Fair value of the acquired liabilities
Amounts due to customers	78,097
Other liabilities	835
Deferred tax liability	586
Provisions	1,285
TOTAL LIABILITIES	80,804
Identifiable net assets, total	(41,300)
Amount of the grant	41,082
Goodwill	217

In the part not covered by the BFG support, goodwill in the amount of PLN 217 thousand was generated. The Bank made a one-off write-off of goodwill in the operating result, because it does not assume additional positive cash flows from the acquisition of SKOK Rafineria.

4 GOING CONCERN

The present interim condensed consolidated financial statements have been prepared assuming that the companies within the Group will continue as a going concern in substantially the same scope, in the foreseeable future, i.e. within at least 12 months from the date of the reporting period end, considering the information presented in Note 47 Risk Management – capital adequacy and Note 49 Major events in Bank BGŻ BNP Paribas S.A. in the first half of 2018, concerning capital adequacy ratios as at 30 June 2018, as well as the plan to increase of the Bank's capital.

5 APPROVAL OF THE FINANCIAL STATEMENTS

The interim consolidated report of the Bank BGŻ BNP Paribas S.A. Capital Group for the first half of 2018 ended 30 June 2018 was approved for publication by the Management Board on 29 August 2018.

6 SEASONAL OR CYCLICAL NATURE OF BUSINESS

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

7 ESTIMATES

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

a. Impairment of financial assets

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

The assessment of impairment in accordance with IFRS 9 covers financial assets of the Bank measured at amortized cost and financial assets measured at fair value through other comprehensive income. The recognition of expected credit losses depends on the change in the level of credit risk recorded since the moment of initial recognition of the financial

asset. Financial assets are subject to the assessment as to whether there are any objective impairment triggers (events of default).

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

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

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

i) 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 event of default did not occur from the moment of granting the financial instrument, the Bank recognizes an allowance for the expected credit loss within the next 12-month horizon.

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

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

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

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

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

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

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

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

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

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

Impairment assessment for individually significant assets

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

Collective (group) assessment

The following assets are tested collectively:

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

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

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

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

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

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

b. Classification of financial instruments

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

c. 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.

d. 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.

e. Impairment of fixed assets

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

f. 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.

g. Leasing – Group as a lessor

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

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

8 NET INTEREST INCOME

	2Q 2018 from 01.04.2018 to 30.06.2018	HY 2018 from 01.01.2018 to 30.06.2018	2Q 2017 from 01.04.2017 to 30.06.2017	HY 2017 from 01.01.2017 to 30.06.2017
INTEREST INCOME				
Amounts due from banks	2,386	11,384	7,346	14,452
Overdrafts to customers	94,051	185,675	91,914	180,267
Loans and advances to customers, including:	471,148	864,140	477,158	945,171
corporate	97,992	183,082	115,497	225,126
households	321,390	613,331	332,921	664,938
public sector institutions	1,078	2,205	1,286	2,593
other entities	50,688	65,522	27,454	52,514
Loans and advances to customers measured at fair value through profit or loss	19,564	40,607	-	-
Debt instruments measured at amortised cost	63,387	121,450	-	-
Derivative instruments as part of fair value hedge accounting	27,193	54,251	13,866	27,542
Debt securities – available for sale	-	-	74,923	150,128
Debt instruments measured at fair value through profit or loss	156	243	-	-
Debt instruments measured at fair value through other comprehensive income	35,427	70,592	-	-
Total interest income	713,312	1,348,342	665,207	1,317,560
INTEREST EXPENSE				
Amounts due to banks	(22,702)	(43,003)	(21,278)	(44,407)
Debt securities issued	(34,741)	(35,536)	(2,960)	(5,919)
Amounts due to customers, including:	(136,263)	(275,510)	(146,637)	(292,222)
corporate	(47,727)	(92,786)	(49,831)	(98,220)
households	(74,471)	(151,620)	(76,222)	(155,170)
public sector institutions	(6,245)	(10,603)	(6,021)	(10,440)
other entities	(7,820)	(20,501)	(14,563)	(28,392)
Derivative instruments as part of fair value hedge accounting	(22,422)	(45,534)	(12,857)	(26,722)
Repo transactions	(1,606)	(3,269)	-	-
Total interest expense	(217,734)	(402,852)	(183,732)	(369,270)
Net interest income	495,578	945,490	481,475	948,290

9 NET FEE AND COMMISSION INCOME

	2Q 2018 from 01.04.2018 to 30.06.2018	HY 2018 from 01.01.2018 to 30.06.2018	2Q 2017 from 01.04.2017 to 30.06.2017	HY 2017 from 01.01.2017 to 30.06.2017
FEE AND COMMISSION INCOME				
lending activities and leasing	51,930	99,167	52,911	110,726
account maintenance	24,168	49,201	26,189	50,314
cash transactions	4,642	8,833	4,902	8,974
cash transfers and e-banking	12,205	24,097	12,537	25,016
guarantees and documentary operations	8,161	16,251	6,926	13,600
asset management and brokerage operations	26,726	44,635	12,582	21,874
payment cards and credit cards	27,743	50,143	25,602	44,655
insurance mediation activity	10,454	19,172	11,513	21,794
mediation in the sale of the Bank's products and customer acquisition	2,694	4,315	977	1,542
other commissions	3,016	5,836	5,347	9,496
Fee and commission income	171,739	321,650	159,486	307,991
FEE AND COMMISSION EXPENSES				
lending activities and leasing	(702)	(1,581)	(4,854)	(5,310)
account maintenance	(809)	(1,722)	(738)	(1,109)
cash transactions	(936)	(1,727)	(938)	(1,752)
cash transfers and e-banking	(398)	(617)	(501)	(988)
asset management and brokerage operations	(7,129)	(7,740)	(1,235)	(2,590)
payment cards and credit cards	(21,332)	(41,725)	(20,048)	(35,397)
insurance mediation activity	(1,641)	(3,672)	(2,355)	(4,723)
mediation in the sale of the Bank's products and customer acquisition	(5,679)	(8,465)	(1,839)	(3,005)
other commissions	(1,130)	(1,744)	(2,764)	(1,078)
Fee and commission expenses	(39,756)	(68,993)	(35,272)	(55,952)
Net fee and commission income	131,983	252,657	124,214	252,039

Starting from 30 June 2018, the Group has changed the method of presentation of fees and charges for account maintenance, cash transfers and e-banking services in the Statement of Profit or Loss. These commissions have previously been presented jointly in the "account servicing and settlement operations" and "others", while from 30 June 2018 they are presented separately. Comparative data for the first half of 2017 and the first quarter of 2018 have been adjusted accordingly.

10 NET TRADING INCOME

	2Q 2018 from 01.04.2018 to 30.06.2018	HY 2018 from 01.01.2018 to 30.06.2018	2Q 2017 from 01.04.2017 to 30.06.2017	HY 2017 from 01.01.2017 to 30.06.2017
Equity instruments measured at fair value through profit or loss	2,556	3,336	-	-
Debt instruments measured at fair value through profit or loss	321	284	-	-
Derivative instruments and result on foreign exchange transactions	60,301	134,970	60,797	126,458
Result on financial instruments measured at fair value through profit or loss, total	63,178	138,590	60,797	126,458

11 RESULT ON INVESTMENT ACTIVITIES

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

	2Q 2018 from 01.04.2018 to 30.06.2018	HY 2018 from 01.01.2018 to 30.06.2018	2Q 2017 from 01.04.2017 to 30.06.2017	HY 2017 from 01.01.2017 to 30.06.2017
Financial assets available for sale	-	-	20,111	21,095
Debt instruments measured at fair value through other comprehensive income	-	-	-	-
Debt instruments measured at fair value through profit or loss, including:	(1,667)	6,726	-	-
Loans and advances to customers measured at fair value through profit or loss	(12,076)	(4,243)	-	-
Total	(1,667)	6,726	20,111	21,095

12 NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND CONTINGENT LIABILITIES

30.06.2018	Phase 1	Phase 2	Phase 3	Total
Amounts due from banks	350	-	-	350
Loans and advances to customers measured at amortised cost	129,763	(236,416)	(14,366)	(121,019)
Contingent commitments granted	(3,162)	(2,400)	7,868	2,306
Securities measured at amortised cost	897	123	-	1,020
Debt instruments measured at fair value through other comprehensive income	-	-	-	-
Total net impairment losses on financial assets and contingent liabilities	127,848	(238,693)	(6,498)	(117,343)

	HY 2017 from 01.01.2017 to 30.06.2017
Amounts due from banks	174
Loans and advances to customers measured at amortised cost	(177,803)
Contingent commitments granted	(394)
Securities measured at amortised cost	-
Debt instruments measured at fair value through other comprehensive income	-
Total net impairment losses on financial assets and contingent liabilities	(178,023)

13 GENERAL ADMINISTRATIVE EXPENSES

	2Q 2018 from 01.04.2018 to 30.06.2018	HY 2018 from 01.01.2018 to 30.06.2018	2Q 2017 from 01.04.2017 to 30.06.2017	HY 2017 from 01.01.2017 to 30.06.2017
Personnel expenses	(206,607)	(414,348)	(206,108)	(422,211)
Marketing expenses	(27,467)	(50,635)	(20,900)	(36,564)
IT and telecom expenses	(27,220)	(52,044)	(28,091)	(54,743)
Rental expenses	(34,503)	(71,786)	(43,316)	(80,775)
Other non-personnel expenses	(47,084)	(89,364)	(43,200)	(85,885)
Business travels	(3,595)	(5,913)	(3,209)	(5,722)
ATM and cash handling expenses	(888)	(1,556)	(849)	(1,512)
Costs of outsourcing services related to leasing operations	(1,493)	(3,018)	(5,343)	(9,974)
Bank Guarantee Fund fee	(43,113)	(82,159)	(31,972)	(73,393)
Polish Financial Supervision Authority fee	(1,239)	(2,474)	(1,205)	(2,373)
Total general administrative expenses	(393,209)	(773,297)	(384,193)	(773,152)

14 DEPRECIATION AND AMORTIZATION

	2Q 2018 from 01.04.2018 to 30.06.2018	HY2018 from 01.01.2018 to 30.06.2018	2Q 2017 from 01.04.2017 to 30.06.2017	HY 2017 from 01.01.2017 to 30.06.2017
Property, plant and equipment	(22,073)	(44,197)	(21,601)	(43,783)
Intangible assets	(19,656)	(38,465)	(22,492)	(48,201)
Total depreciation and amortization	(41,729)	(82,662)	(44,093)	(91,984)

15 OTHER OPERATING INCOME

	2Q 2018 from 01.04.2018 to 30.06.2018	HY 2018 from 01.01.2018 to 30.06.2018	2Q 2017 from 01.04.2017 to 30.06.2017	HY 2017 from 01.01.2017 to 30.06.2017
Sale or liquidation of property, plant and equipment and intangible assets	759	3,135	9,041	9,404
Sale of goods and services	5,530	7,110	3,849	6,962
Release of provisions for litigation and claims and other liabilities	191	350	622	1,179
Recovery of debt collection costs	4,167	8,971	2,444	5,890
Recovered indemnities	30	12,578	201	2,026
Income from leasing operations	6,839	14,973	7,820	13,887
Other operating income	(3,526)	5,556	17,942	26,368
Total other operating income	13,990	52,673	41,919	65,716

16 OTHER OPERATING EXPENSES

	2Q 2018 from 01.04.2018 to 30.06.2018	HY 2018 from 01.01.2018 to 30.06.2018	2Q 2017 from 01.04.2017 to 30.06.2017	HY 2017 from 01.01.2017 to 30.06.2017
Loss on sale or liquidation of property, plant and equipment and intangible assets	(1,564)	(3,280)	(10,885)	(12,546)
Impairment allowances on other receivables	-	-	(482)	(10,071)
Provisions for restructuring of assets, litigation and claim and other liabilities	(200)	(13,771)	(1,832)	(2,034)
Debt collection	(8,029)	(18,973)	(7,998)	(16,311)
Donations made	(824)	(1,454)	(645)	(1,280)
Costs of leasing operations	(4,759)	(12,364)	(4,983)	(12,475)
Costs of compensations, penalties and fines	(231)	(1,050)	-	-
Other operating expenses	(1,307)	(6,033)	(6,724)	(10,379)
Total other operating expenses	(16,914)	(56,925)	(33,549)	(65,096)

17 INCOME TAX EXPENSE

	2Q 2018 from 01.04.2018 to 30.06.2018	HY 2018 from 01.01.2018 to 30.06.2018	2Q 2017 from 01.04.2017 to 30.06.2017	HY 2017 from 01.01.2017 to 30.06.2017
Current income tax	(38,898)	(64,253)	(60,539)	(87,650)
Deferred income tax	(6,435)	(16,816)	13,086	305
Total income tax expense	(45,333)	(81,069)	(47,453)	(87,345)
Profit before income tax	154,106	275,300	128,669	208,124
Statutory tax rate	19%	19%	19%	19%
Income taxes on gross profit	(29,280)	(52,307)	(24,449)	(39,544)
Receivables written-off	(191)	(212)	(106)	820
Non-tax-deductible tangible costs/income	(1,077)	(792)	(71)	421
PFRON	(211)	(428)	(240)	(544)
Prudential fee to the Bank Guarantee Fund	(8,191)	(15,610)	(6,075)	(13,945)
Impairment allowance on receivables	(2,297)	(2,888)	566	(699)
Tax on financial institutions	(9,469)	(18,976)	(9,777)	(19,686)
Other differences	5,383	10,144	(7,301)	(14,168)
Total income tax expense	(45,333)	(81,069)	(47,453)	(87,345)

18 CASH AND BALANCES AT CENTRAL BANK

CASH AND CASH EQUIVALENTS	30.06.2018	31.12.2017
Cash and other balances	825,854	918,927
Account in the National Bank of Poland	88,204	79,108
Cash and cash equivalents, gross	914,058	998,035
Impairment allowances	(2)	-
Total cash and balances at Central Bank	914,056	998,035

CHANGE OF IMPAIRMENT ALLOWANCES	30.06.2018	31.12.2017
Opening balance	-	-
Impact of IFRS 9 on the opening balance	(14)	
Increases	(395)	-
Decreases	407	-
Closing balance	(2)	-

19 AMOUNTS DUE FROM BANKS

	30.06.2018	31.12.2017
Current accounts	122,956	1,732,861
Interbank deposits	17,198	800,105
Loans and advances	23,062	23,053
Other receivables	224,193	52,147
Total amounts due from banks (gross)	387,409	2,608,166
Impairment allowances on amounts due from banks	(828)	(4,477)
Total amounts due from banks (net)	386,581	2,603,689

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

	6 months ended 30.06.2018	12 months ended 31.12.2017
Impairment allowances on amounts due from banks at the beginning of the period	(4,477)	(2,053)
Impact of IFRS 9 on the opening balance	3,333	-
Recognition of impairment allowances	(2,949)	(5,974)
Release of impairment allowances	3,287	3,550
Other changes	(22)	-
Impairment allowances on amounts due from banks at the end of the period	(828)	(4,477)

20 DERIVATIVE FINANCIAL INSTRUMENTS

30.06.2018	Nominal value	Fair value	
		Assets	Liabilities
TRADING DERIVATIVES (HELD FOR TRADING)			
CURRENCY DERIVATIVES:			
Foreign Exchange Forward (FX Forward + NDF)	4,743,804	57,656	65,377
Currency Swap (FX Swap)	7,798,353	130,671	37,295
Currency Interest Rate Swaps (CIRS)	7,949,719	47,762	130,490
OTC currency options	2,614,710	26,908	27,217
Total currency derivatives:	23,106,586	262,997	260,379
INTEREST RATE DERIVATIVES:			
Interest Rate Swap	27,004,258	185,170	164,700
Forward Rate Agreements (FRA)	1,200,000	-	84
OTC interest rate options	1,952,260	992	992
Total interest rate derivatives:	30,156,518	186,162	165,776
OTHER DERIVATIVES			
OTC options	142,754	2,771	2,793
OTC commodity swaps	176,384	3,633	3,522
Currency Spot (FX Spot)	561,622	-	-
Other options	-	-	-
Total other derivatives:	880,760	6,404	6,315
TOTAL TRADING DERIVATIVES:	54,143,864	455,563	432,470
<i>including: valued using models</i>	<i>54,143,864</i>	<i>455,563</i>	<i>432,470</i>

31.12.2017	Nominal value	Fair 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
<i>including: valued using models</i>	<i>52,978,044</i>	<i>474,421</i>	<i>427,710</i>

21 HEDGE ACCOUNTING

As at 30 June 2018, the Group used fair value hedge (**macro fair value hedge**).

Hedging relationship description	The hedges are used against interest rate risk, specifically changes in the fair value of fixed-rate assets and liabilities resulting from changes in a specific reference rate.												
Hedged items	Fixed-rate PLN, EUR and USD current accounts are the hedged items.												
Hedging instruments	Hedging instruments include standard IRS transactions, i.e. plain vanilla IRS in PLN, EUR and USD, in which the Group receives a fixed interest rate and pays a floating rate based on WIBOR 6M, WIBOR 3M, EURIBOR 3M, EURIBOR 1M, USD LIBOR 1M.												
	Fair value												
	<table border="1"> <thead> <tr> <th>IRS</th> <th>Nominal value</th> <th>Assets</th> <th>Liabilities</th> </tr> </thead> <tbody> <tr> <td>30.06.2018</td> <td>4,899,091</td> <td>42,401</td> <td>986</td> </tr> <tr> <td>31.12.2017</td> <td>5,308,397</td> <td>26,399</td> <td>-</td> </tr> </tbody> </table>	IRS	Nominal value	Assets	Liabilities	30.06.2018	4,899,091	42,401	986	31.12.2017	5,308,397	26,399	-
IRS	Nominal value	Assets	Liabilities										
30.06.2018	4,899,091	42,401	986										
31.12.2017	5,308,397	26,399	-										
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.												

The below table presents derivative hedging instruments at their nominal value as at 30 June 2018 by residual maturity dates:

Hedging derivatives	30.06.2018								
	Fair value		Nominal value						Total
	positive	negative	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years		
Forward rate agreements									
Swap (IRS)	42,401	986	112,320	-	1,117,446	2,853,901	815,424	4,899,091	
Hedging derivatives - total	42,401	986	112,320	-	1,117,446	2,853,901	815,424	4,899,091	
Hedging derivatives	31.12.2017								
	Fair value		Nominal value						Total
	positive	negative	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years		
Forward rate agreements									
Swap (IRS)	32,730	6,331	16,684	-	1,104,439	3,333,001	854,273	5,308,397	
Hedging derivatives - total	32,730	6,331	16,684	-	1,104,439	3,333,001	854,273	5,308,397	

In addition, as at 30 June 2018, the Group applies fair value hedge accounting (**micro fair value hedge**).

Hedging relationship description	The hedges are used against interest rate risk, specifically changes in the fair value of fixed-rate assets and liabilities resulting from changes in a specific reference rate.												
Hedged items	Fixed rate bond PS0422 is the hedged item.												
Hedging instruments	Hedging instrument is the standard IRS transactions, i.e. plain vanilla IRS in PLN, in which the Group receives a fixed interest rate and pays a floating rate based on WIBOR 6M.												
	Fair value												
	<table border="1"> <thead> <tr> <th>IRS</th> <th>Nominal value</th> <th>Assets</th> <th>Liabilities</th> </tr> </thead> <tbody> <tr> <td>30.06.2018</td> <td>750,000</td> <td>-</td> <td>2,004</td> </tr> <tr> <td>31.12.2017</td> <td>750,000</td> <td>-</td> <td>3,287</td> </tr> </tbody> </table>	IRS	Nominal value	Assets	Liabilities	30.06.2018	750,000	-	2,004	31.12.2017	750,000	-	3,287
IRS	Nominal value	Assets	Liabilities										
30.06.2018	750,000	-	2,004										
31.12.2017	750,000	-	3,287										
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.												

The below table presents derivative hedging instruments at their nominal value as at 30 June 2018 by residual maturity dates:

Hedging derivatives	30.06.2018							
	Fair value		Nominal value					Total
	positive	negative	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	
Forward rate agreements								
Swap (IRS)	-	2,004	-	-	-	750,000	-	750,000
Hedging derivatives - total	-	2,004	-	-	-	750,000	-	750,000
Hedging derivatives	31.12.2017							
	Fair value		Nominal value					Total
	positive	negative	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	
Forward rate agreements								
Swap (IRS)	3,287	-	-	-	-	750,000	-	750,000
Hedging derivatives - total	3,287	-	-	-	-	750,000	-	750,000

22 LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST

	30.06.2018	31.12.2017
OVERDRAFTS:	9,170,161	8,676,125
corporate	4,953,884	4,615,526
households:	4,190,323	4,050,776
retail customers	171,927	174,843
individual entrepreneurs	412,376	431,127
farmers	3,606,020	3,444,806
public sector institutions	8,952	1,379
other entities	17,002	8,444
LOANS AND ADVANCES:	44,273,928	47,076,223
corporate:	12,061,254	12,758,353
investment loans	6,500,070	7,463,839
revolving loans	3,165,149	2,942,520
other	2,396,035	2,351,994
households:	28,295,751	30,246,761
retail customers, including:	21,159,732	20,764,213
mortgage loans	13,807,851	13,628,114
individual entrepreneurs	2,034,613	1,923,343
farmers	5,101,406	7,559,205
public sector institutions	114,879	170,794
other entities	526,644	852,796
lease receivables	3,275,400	3,047,519
Total gross loans and advances	53,444,089	55,752,348
Impairment allowances (negative value)	(2,823,437)	(2,784,780)
Total net loans and advances	50,620,652	52,967,568

Impairment allowances on loans and advances to customers

	30.06.2018	31.12.2017
OVERDRAFTS:	(416,239)	(436,623)
corporate	(245,347)	(282,483)
households:	(170,588)	(153,568)
retail customers	(14,754)	(16,355)
individual entrepreneurs	(49,290)	(65,656)
farmers	(106,544)	(71,557)
public sector institutions	(47)	(1)
other entities	(257)	(571)
LOANS AND ADVANCES:	(2,407,198)	(2,348,157)
corporate	(794,497)	(811,200)
investment loans	(286,702)	(252,920)
revolving loans	(383,856)	(419,232)
other	(123,939)	(139,048)
households:	(1,485,375)	(1,437,777)
retail customers, including:	(1,034,079)	(926,140)
mortgage loans	(357,550)	(315,298)
individual entrepreneurs	(239,140)	(244,373)
farmers	(211,841)	(267,264)
public sector institutions	(1,169)	(189)
other entities	(6,447)	(4,893)
lease receivables	(119,710)	(94,098)
Total impairment allowances	(2,823,437)	(2,784,780)

30.06.2018	Phase 1	Phase 2	Phase 3	Total
Total impairment allowances	(291,564)	(421,291)	(2,110,582)	(2,823,437)

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

	6 months ended 30.06.2018	12 months ended 31.12.2017
Impairment allowances, opening balance	(2,784,780)	(3,001,356)
Impact of IFRS 9 on the opening balance	(746,195)	-
Recognition of impairment allowances	(1,077,631)	(1,020,806)
Release of impairment allowances	945,428	672,520
Charge to revaluation write-offs	822,947	548,116
Other changes (including foreign exchange gains or losses)	16,794	16,746
Impairment allowances, closing balance	(2,823,437)	(2,784,780)

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

EXPOSURES WITH IDENTIFIED IMPAIRMENT	30.06.2018	31.12.2017
gross balance sheet value	3,469,223	4,122,924
allowance	(2,110,581)	(2,494,662)
Total net value	1,358,642	1,628,262
EXPOSURES WITH IDENTIFIED IMPAIRMENT, FOR WHICH IMPAIRMENT IS IDENTIFIED	30.06.2018	31.12.2017
gross balance sheet value, including:	-	-
exposures for which the value of collateral was included in the discounted expected future cash flows, including:	-	-
past due exposures	-	-
allowance	-	-
Total net value		
EXPOSURES WITHOUT IMPAIRMENT TRIGGERS	30.06.2018	31.12.2017
gross balance sheet value	49,974,866	51,629,424
allowance	(712,856)	(290,118)
Total net value	49,262,010	51,339,306

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

Loans by currency	30.06.2018	31.12.2017
CHF	5,365,053	5,350,126
EUR	63,174	65,037
PLN	8,376,180	8,209,418
USD	3,444	3,533
Total	13,807,851	13,628,114

Value of CHF loan portfolio

Gross loan portfolio, including:	30.06.2018		31.12.2017	
	Total portfolio	including CHF exposures	Total portfolio	including CHF exposures
OVERDRAFTS:	9,170,161	11	8,676,125	5
corporate	4,953,884	8	4,615,526	-
households:	4,190,323	3	4,050,776	5
retail customers	171,927	3	174,843	5
individual entrepreneurs	412,376	-	431,127	-
farmers	3,606,020	-	3,444,806	-
public sector institutions	8,952	-	1,379	-
other entities	17,002	-	8,444	-
LOANS AND ADVANCES:	44,273,928	5,567,446	47,076,223	5,596,958
corporate	12,061,254	44,667	12,758,353	53,834
investment loans	6,500,070	6,546	7,463,839	10,690
revolving loans	3,165,149	30,597	2,942,520	32,588
other	2,396,035	7,524	2,351,994	10,556
households:	28,295,751	5,469,049	30,246,761	5,467,012
retail customers, including:	21,159,732	5,433,317	20,764,213	5,426,710
mortgage loans	13,807,851	5,365,053	13,628,114	5,350,126
individual entrepreneurs	2,034,613	29,258	1,923,343	33,996
farmers	5,101,406	6,474	7,559,205	6,306
public sector institutions	114,879	-	170,794	-
other entities	526,644	1,139	852,796	1,790
lease receivables	3,275,400	52,591	3,047,519	74,322
Total gross loans and advances	53,444,089	5,567,457	55,752,348	5,596,963

Value of impairment allowances for CHF loans

Loan portfolio (gross), including:	30.06.2018		31.12.2017	
	Total portfolio	including CHF exposures	Total portfolio	including CHF exposures
OVERDRAFTS:	(416,239)	-	(436,623)	(3)
corporate	(245,347)	-	(282,483)	-
households:	(170,588)	-	(153,568)	(3)
retail customers	(14,754)	-	(16,355)	(3)
individual entrepreneurs	(49,290)	-	(65,656)	-
farmers	(106,544)	-	(71,557)	-
public sector institutions	(47)	-	(1)	-
other entities	(257)	-	(571)	-
LOANS AND ADVANCES:	(2,407,198)	(248,751)	(2,348,157)	(244,872)
corporate	(794,497)	(1,414)	(811,200)	(3,998)
investment loans	(286,702)	(72)	(252,920)	(613)
revolving loans	(383,856)	(344)	(419,232)	(263)
other	(123,939)	(998)	(139,048)	(3,122)
households:	(1,485,375)	(232,791)	(1,437,777)	(226,166)
retail customers, including:	(1,034,079)	(226,029)	(926,140)	(217,462)
mortgage loans	(357,550)	(213,915)	(315,298)	(206,799)
individual entrepreneurs	(239,140)	(5,397)	(244,373)	(7,614)
farmers	(211,841)	(1,365)	(267,264)	(1,090)
public sector institutions	(1,169)	-	(189)	-
other entities	(6,447)	(1)	(4,893)	-
lease receivables	(119,710)	(14,545)	(94,098)	(14,708)
Total impairment allowances	(2,823,437)	(248,751)	(2,784,780)	(244,875)

In the first half of 2018, the Bank concluded agreements regarding the sale of a retail and SME portfolio. The amount of receivables sold under the contracts covered by impairment allowances in a significant part or in full, totalled PLN 756,370 thousand (including: principal, interest and other side receivables). The contractual price for the sale of these portfolios has been set at PLN 86,268 thousand. The net impact on the Bank's result from the sale of portfolios amounted to PLN 7,683 thousand and is presented in the "creation and release of impairment allowances on loans and advances".

Securitization

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

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

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

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

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

In the light of the provisions of IAS 39, the contractual terms of the securitization do not fulfil the conditions for derecognition of securitized assets. In connection with the above, the Bank recognizes securitized assets in "Loans and advances to customers" as at 30 June 2018 at net value of PLN 2,137,558 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 30 June 2018. As at 30 June 2018, the Bank held receivables due to settlements with a securitization company in the amount of PLN 111,207 thousand. These receivables are presented in "Other assets".

The Bank acts as a servicing entity in this transaction.

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

	Balance sheet amount		Fair value	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Assets	2,248,765	2,194,397	2,137,558	2,194,397
Liabilities	2,301,315	2,303,210	2,301,315	2,303,210

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

	30.06.2018	31.12.2017
Preferential loans	2,636,772	-
Total loans and advances to customers measured at fair value through profit or loss	2,636,772	-

The comparison of the fair value of preferential loans with their gross balance sheet value, which would have been recognized if the Group - in accordance with the requirements of IFRS 9 - did not reclassify these portfolios to fair value through the financial result, is presented below.

	Fair value	Gross balance sheet value
30.06.2018	2,636,772	2,760,974

24 FINANCIAL ASSETS AVAILABLE FOR SALE

	30.06.2018	31.12.2017
Debt securities available for sale:	-	13,870,298
issued by central banks – NBP bills	-	2,099,429
issued by governments – Treasury-bonds	-	11,703,293
issued by non-financial entities – bonds	-	62,574
issued by local governments – municipal bonds	-	5,002
Equity securities available for sale: (stock and shares)	-	51,591
Share units	-	651
Total financial assets available for sale	-	13,922,540
<i>including:</i>		
<i>measured using the market quotation method</i>	-	11,703,944
<i>measured using models</i>	-	2,218,596

25 SECURITIES MEASURED AT AMORTISED COST

	30.06.2018	31.12.2017
Debt securities:		
issued by central banks – NBP bills	-	-
issued by governments – Treasury-bonds	8,945,287	-
issued by non-financial entities – bonds	443,192	-
issued by local governments – municipal bonds	43,738	-
Total securities measured at amortised cost, gross	9,432,217	-
Allowances (negative value)	(18,362)	-
Total securities measured at amortised cost, net	9,413,855	-

Impairment allowances on debt instruments measured at amortized cost:

	30.06.2018	31.12.2017
Debt securities:		-
issued by central banks – NBP bills	-	-
issued by governments – Treasury-bonds	(33)	-
issued by non-financial entities – bonds	(18,229)	-
issued by local governments – municipal bonds	(100)	-
Total allowances	(18,362)	-

26 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	30.06.2018	31.12.2017
Debt securities measured at fair value through profit or loss		
Debt instruments held for trading	-	-
Debt instruments obligatory measured at fair value through profit or loss	134,997	-
Bonds issued by non-financial institutions	55,356	-
Bonds convertible to non-financial institutions' shares	12,245	-
Equity instruments	66,752	-
Units	644	-
Financial instruments measured at fair value through profit or loss	134,997	-

27 SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30.06.2018	31.12.2017
Debt securities		
NBP bills	249,968	-
Treasury bonds issued by banks	-	-
Bonds issued by non-financial institutions	-	-
Bonds issued by local governments – municipal bonds	-	-
Bonds issued by central governments	4,518,573	-
Securities measured at fair value through other comprehensive income	4,768,541	-

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

28 INTANGIBLE ASSETS

	30.06.2018	31.12.2017
Licenses	213,304	219,590
Other intangible assets	9,040	4,996
Expenditure on intangible assets	84,108	63,754
Total intangible assets	306,452	288,340

In the first half of 2018, the gross carrying amount of intangible assets acquired by the Group amounts to PLN 59,043 thousand (in the first half of 2017, it amounted to PLN 48,257 thousand), while the net carrying amount of sold and liquidated components amounted to PLN 420 thousand (in the first half of 2017 it was PLN 2,116 thousand).

29 PROPERTY, PLANT AND EQUIPMENT

	30.06.2018	31.12.2017
Fixed assets, including:	472,867	488,482
land and buildings	227,897	225,119
IT equipment	117,540	122,943
office equipment	25,350	26,717
other, including leasehold improvements	102,080	113,703
Fixed assets under construction	7,036	12,165
Total property, plant and equipment	479,903	500,647

In the first half of 2018, the gross carrying amount of the components of "Property, plant and equipment" purchased by the Group is PLN 21,751 thousand (in the first half of 2017 it amounted to PLN 24,453 thousand), while the net balance sheet amount of sold and liquidated components is PLN 344 thousand (in the first half of 2017 it was PLN 8,373 thousand).

30 OTHER ASSETS

OTHER ASSETS:	30.06.2018	31.12.2017
Receivables from contracts with customers:	403,836	343,077
sundry debtors	286,070	249,559
accrued income	110,649	86,454
payment card settlements	1,100	1,460
social insurance settlements	6,017	5,604
Other:	212,545	134,462
interbank and intersystem settlements	2,520	460
deferred expenses	56,753	34,767
tax and other regulatory receivables	95,316	70,461
other lease receivables	30,367	18,733
other	27,589	10,041
Total other assets (gross)	616,381	477,539
Impairment allowances on other receivables from other debtors	(102,087)	(82,730)
Total other assets (net)	514,294	394,809

31 AMOUNTS DUE TO BANKS

	30.06.2018	31.12.2017
Current accounts	216,428	285,008
Interbank deposits	32,001	18,131
Loans and advances received	4,199,158	3,476,702
Other liabilities	102,550	111,394
Total amounts due to banks	4,550,137	3,891,235

Deposits are deposits with fixed and variable interest rates.

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

32 AMOUNTS DUE TO CUSTOMERS

	30.06.2018	31.12.2017
OTHER FINANCIAL INSTITUTIONS:	2,841,091	3,109,991
Current accounts	308,161	465,431
Term deposits	1,117,100	1,168,269
Loans and advances received	1,414,542	1,475,684
Other liabilities, including:	1,288	607
due to cash collateral	1,255	584
other	33	23
RETAIL CUSTOMERS:	27,472,987	27,649,983
Current accounts	15,986,078	14,812,376
Term deposits	11,309,648	12,690,377
Other liabilities, including:	177,261	147,230
due to cash collateral	33,825	34,352
other	143,436	112,878
CORPORATE CUSTOMERS:	22,632,745	24,662,821
Current accounts	13,615,904	14,414,954
Term deposits	8,687,082	9,912,792
Other liabilities, including:	329,759	335,075
due to cash collateral	292,855	292,678
other	36,904	42,397
INCLUDING FARMERS:	1,559,346	1,698,793
Current accounts	1,422,804	1,540,706
Term deposits	123,723	142,209
Other liabilities, including:	12,819	15,878
due to cash collateral	5,630	5,777
other	7,189	10,101
PUBLIC SECTOR CUSTOMERS:	1,066,035	906,102
Current accounts	625,267	642,122
Term deposits	439,173	262,046
Other liabilities, including:	1,595	1,934
due to cash collateral	23	23
other	1,572	1,911
Total amounts due to customers	54,012,858	56,328,897

33 DEBT SECURITIES ISSUED

Changes in the balance of debt securities issued

	6 months ended 30.06.2018	12 months ended 31.12.2017
Opening balance	2,471,966	398,059
Issuance of securities of securitization company	-	2,180,850
Redemption of certificates of deposit	(285,000)	(109,000)
Changes in discount, interests, commission on securities, foreign currency exchange differences	(5,222)	2,057
Balance of debt securities issued at the end of the period	2,181,744	2,471,966

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

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

34 SUBORDINATED LIABILITIES

As at 30 June 2018, the balance sheet amount of subordinated liabilities is PLN 1,706,237 thousand (as at 31 December 2017 it amounted to PLN 1,645,102 thousand).

	6 months ended 30.06.2018	12 months ended 31.12.2017
Change in the balance of subordinated liabilities		
Opening balance	1,645,102	1,768,458
Loans taken up	-	-
Change in the balance of interest	173	(345)
Exchange differences	60,962	(123,011)
Closing balance	1,706,237	1,645,102

35 OTHER LIABILITIES

	30.06.2018	31.12.2017
Liabilities due to contracts with customers	428,607	441,041
Sundry creditors	228,317	170,158
Payment card settlements	62,374	35,898
Deferred income	72,677	75,722
Escrow account liabilities	32,001	138,871
Social insurance settlements	33,238	20,392
Other liabilities	1,479,749	784,282
Interbank and intersystem settlements	254,087	342,148
Provisions for non-personnel expenses	218,269	159,650
Provisions for other employees-related liabilities	91,289	134,096
Provision for unused annual holidays	30,476	28,990
Other regulatory liabilities	47,563	55,045
Other lease liabilities	13,481	39,452
Share issue settlements	799,929	-
Other	24,655	24,901
Total other liabilities	1,908,356	1,225,323

36 PROVISIONS

	30.06.2018	31.12.2017
Provision for restructuring	5,267	10,479
Provision for retirement benefits and similar obligations	13,781	12,940
Provision for contingent financial liabilities and guarantees granted	71,766	35,419
Provisions for litigation and claims	21,205	7,109
Other provisions	7,823	10,906
Total provisions	119,842	76,853
	6 months ended 30.06.2018	12 months ended 31.12.2017
Provisions for restructuring		
Opening balance	10,479	29,523
Provisions recognition	-	1,602
Provisions utilization	(5,212)	(20,884)
Provisions release	-	-
Other changes	-	238
Closing balance	5,267	10,479
	6 months ended 30.06.2018	12 months ended 31.12.2017
Provision for retirement benefits and similar obligations		
Opening balance	12,940	13,332
Provisions recognition	1,351	1,702
Provisions release	(427)	(2,094)
Other changes	(83)	-
Closing balance	13,781	12,940
	6 months ended 30.06.2018	12 months ended 31.12.2017
Provisions for financial liabilities and guarantees granted		
Opening balance	35,419	42,659
Impact of IFRS 9 on the opening balance	38,193	-
Provisions recognition	80,621	32,277
Provisions release	(82,927)	(40,383)
Other changes	460	866
Closing balance	71,766	35,419

	6 months ended 30.06.2018	12 months ended 31.12.2017
Provisions for litigation and claims		
Opening balance	7,109	26,687
Provisions recognition	14,257	7,046
Provisions utilization	(489)	(23,894)
Provisions release	(59)	(2,060)
Provision acquired due to merger	448	-
Other changes	(61)	(670)
Closing balance	21,205	7,109

	6 months ended 30.06.2018	12 months ended 31.12.2017
Other provisions		
Opening balance	10,906	8,840
Provisions recognition	191	11,764
Provisions release	(3,274)	(5,747)
Other changes	-	(3,951)
Closing balance	7,823	10,906

37 CASH AND CASH EQUIVALENTS

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

	30.06.2018	31.12.2017
Cash and balances at Central Bank (Note 18)	914,056	998,035
Current accounts of banks and other receivables	107,017	1,645,170
Interbank deposits	30,000	800,000
Loans and advances	15,000	-
Total cash and cash equivalents	1,066,073	3,443,205

38 ADDITIONAL INFORMATION REGARDING THE STATEMENT OF CASH FLOWS

Cash flows from operating activities – other adjustments	6 months ended 30.06.2018	6 months ended 30.06.2017
FX differences from subordinated loans	60,962	(69,190)
Change on hedge accounting	1,269	10,614
Impact of IFRS 9	(319,895)	-
Securities measurement through profit or loss	(9,392)	-
Tax on financial institutions	99,871	-
Other adjustments	(17,548)	(158,600)
Cash flows from operating activities – total other adjustments	(184,733)	(217,176)

39 CONTINGENT LIABILITIES

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

	30.06.2018	31.12.2017
CONTINGENT COMMITMENTS GRANTED	21,007,627	19,466,753
financial commitments	16,310,934	15,126,896
guarantees	4,696,693	4,339,857
CONTINGENT COMMITMENTS RECEIVED	11,857,084	12,009,299
financial commitments	10,868,045	10,871,719
guarantees	989,039	1,137,580

40 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

Level 1

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

Level 2

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

Level 3

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

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

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

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

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

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

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

30.06.2018	Level 1	Level 2	Level 3	Total
ASSETS MEASURED TO FAIR VALUE:	4,518,573	662,402	232,561	5,413,536
Derivative financial instruments	-	412,434	43,129	455,563
Financial instruments measured at fair value through other comprehensive income	4,518,573	249,968	-	4,768,541
Financial instruments measured at fair value through profit or loss	-	-	134,997	134,997
Investment properties	-	-	54,435	54,435
LIABILITIES MEASURED AT FAIR VALUE:	-	316,667	115,803	432,470
Derivatives	-	316,667	115,803	432,470

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

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

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

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

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

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

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

	Derivative financial instruments – assets	Financial assets measured at fair value	Investment properties	Derivative financial instruments – liabilities	Hedging instruments - liabilities
Balance as at 01.01.2018	45,231	73,850	(54,435)	(45,406)	(9,618)
Debt instruments measured at amortised cost reclassified to the portfolio in accordance with IFRS 9	-	(18,553)	-	-	-
Loans and advances reclassified to the portfolio in accordance with IFRS 9	-	54,114	-	-	-
Total gains/losses recognized in:	(2,103)	6,267	-	(70,396)	(3,418)
<i>statement of profit or loss</i>	(2,103)	6,267	-	(70,396)	(3,418)
<i>statement of other comprehensive income</i>	-	-	-	-	-
Purchase	-	15,529	-	-	-
Sale	-	(143)	-	-	-
Transfer	-	3,300	-	-	-
Impairment allowance	-	-	-	-	-
Merger	-	-	-	-	-
Balance as at 30.06.2018	43,128	134,364	54,435	(115,802)	(13,036)
Unrealized gains/losses recognized in profit or loss related to assets and liabilities at the end of the period	(2,103)	6,267	-	(70,396)	(3,418)

	Derivative financial instruments – assets	Financial assets measured at fair value	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)
<i>statement of profit or loss</i>	21,979	34	(31)	(30,725)	(9,618)
<i>statement of other comprehensive income</i>	-	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)

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

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

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

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

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

30.06.2018	Book value	Fair value	Level
FINANCIAL ASSETS			
Amounts due from banks	386,581	356,351	3
Loans and advances to customers measured at amortised cost	50,620,652	47,710,267	3
Securities measured at amortised cost	9,413,855	9,462,509	3
FINANCIAL LIABILITIES			
Amounts due to banks	4,550,137	4,583,983	3
Amounts due to customers	54,012,858	54,122,549	3
Subordinated loan	1,706,237	1,889,161	3
<hr/>			
31.12.2017	Book value	Fair value	Level
FINANCIAL ASSETS			
Amounts due from banks	2,603,689	2,600,055	3
Loans and advances to customers measured at amortised cost	52,967,568	45,939,989	3
FINANCIAL LIABILITIES			
Amounts due to banks	3,891,235	3,909,461	3
Amounts due to customers	56,328,897	56,432,669	3
Subordinated loan	1,645,102	1,802,804	3

a) Amounts due from banks and amounts due to banks

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

b) Loans and advances to customers

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

c) Investments in associates

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

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.

41 RELATED PARTY TRANSACTIONS

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

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

As at 30 June 2018 the Group comprised Bank BGŻ BNP Paribas S.A., the parent, and its subsidiaries:

1. Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o. ("Actus"), with its registered office at Kasprzaka 10/16 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000023062. The Bank holds 100% interest in the share capital of the company.
2. Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A. ("TFI") with its registered office at Twarda 18 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register, under number KRS 0000031121. The Bank holds 100% of the company's shares.
3. BNP Paribas Leasing Services Sp. z o.o. ("Leasing", formerly: Fortis Lease Polska Sp. z o.o. in liquidation) with the registered office at Suwak 3 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000098813. The Bank holds 100% of the company's shares.
4. BNP Paribas Group Service Center S.A. ("GSC", formerly: Laser Services Polska S.A.) with the registered office at Suwak 3 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000022784. The Bank holds 100% of the company's shares.
5. Dimperre Investments Sp. z o.o. („Campus Leszno”) with its registered office at Aleje Jerozolimskie 56C 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 0000728558. The Bank holds 100% of the company's shares.
6. BGŻ Poland ABS1 DAC ("SPV") based in Ireland, 3RD Floor Kilmore House, Park Lane, Spencer Dock, Dublin. This is a special purpose company, with which the Bank performed a securitization transaction concerning a part of the loan portfolio. The Group does not have any capital involvement in this company. The company is controlled by Bank BGŻ BNP Paribas S.A. only within the meaning of IFRS 10.

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

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

30.06.2018	BNP Paribas S.A.	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Total
ASSETS	396,155	32,901	17,975	73	447,104
Receivables on current accounts, loans and deposits	110,564	31,024	13,793	3	155,384
Derivative financial instruments	244,427	-	-	-	244,427
Hedging instruments	40,524	1,877	-	-	42,401
Other assets	640	-	4,182	70	4,892
LIABILITIES	3,007,915	36,946	3,871,151	3,545	6,919,557
Loans and advances received	1,285,601	-	2,948,623	-	4,234,224
Current accounts and deposits	85,740	36,926	654,916	3,545	781,127
Subordinated liabilities	1,448,248	-	262,291	-	1,710,539
Derivative financial instruments	185,065	13	-	-	185,078
Hedging instruments	2,990	-	-	-	2,990
Other liabilities	271	7	5,321	-	5,599
CONTINGENT LIABILITIES					
Financial commitments granted	-	-	179,604	98	179,702
Guarantees granted	40,819	77,613	423,849	-	542,281
Commitments received	51,157	77,339	460,285	-	588,781
Derivative financial instruments (nominal value)	33,296,552	1,360	-	-	33,297,912
Hedging instruments (nominal value)	5,618,560	30,531	-	-	5,649,091
6 months ended 30.06.2018					
STATEMENT OF PROFIT OR LOSS	(19,117)	383	(31,333)	(27)	(50,094)
Interest income	2,551	469	721	-	3,741
Interest expense	(16,157)	(156)	(22,910)	(27)	(39,250)
Fee and commission income	10	70	5,839	-	5,919
Fee and commission expense	(208)	-	(30)	-	(238)
Net trading income	-	-	(6,917)	-	(6,917)
Other operating income	-	-	15,836	-	15,836
Other operating expenses	(5,313)	-	(10,440)	-	(15,753)
General administrative expenses	-	-	(13,432)	-	(13,432)

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)

Remuneration of the Management Board and Supervisory Board

Management Board	30.06.2018	31.12.2017
Short-term employee benefits	8,213	14,563
Long-term benefits	3,441	5,907
Benefits due to termination of employment	-	3,698
Post-employment benefits	-	3,101
Share-based payments	1,583	1,279
TOTAL	13,237	28,548

Supervisory Board	30.06.2018	31.12.2017
Short-term employee benefits	1,059	2,011
Long-term benefits	-	-
Benefits due to termination of employment	-	-
Share-based payments	-	-
TOTAL	1,059	2,011

42 INFORMATION ON OPERATING SEGMENTS

Segment reporting

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

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

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

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

Description of operating segments

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

- entrepreneurs whose annual net income for the preceding financial year is below PLN 2 million with not conducting full financial reporting;
- housing cooperatives and communities;
- non-profit organizations;
- retail farmers.

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

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

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

SME Banking provides services to:

- institutional customers (other than agro-clients) with annual net revenue for the preceding financial year below PLN 60 million or the Group's credit exposure to one customer below PLN 25 million;
- farmers not preparing financial statements, in case of whom the Group's credit exposure to a customer is PLN 3-25 million;
- Agro entrepreneurs and farmers with full financial reporting and net revenue for the previous year below PLN 60 million and the Group's credit exposure below PLN 25 million, and, regardless of the revenue and the Group's exposure, agricultural producers groups and State-owned Forests.

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

In the first weeks of 2018, the Group changed the criteria for segmentation between the Retail and Business Banking segment and the SME Banking segment - the change had the character of ordering and clarifying the criteria accepted for the segmentation.

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 (with annual turnover higher than PLN 600 million, listed on the stock exchange and with potential in the area of investment banking services);
- public sector and institutions.

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

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

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

The Corporate and Institutional Banking (CIB) Segment supports the sale of the Group's products addressed to the largest Polish enterprises. It includes support for strategic clients as well 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).

30.06.2018*	Retail and Business Banking	SME Banking	Corporate Banking	CIB	Other Operations	Total	including Agro customers	including Personal Finance
STATEMENT OF PROFIT OR LOSS								
Net interest income	598,605	124,259	137,082	4,358	81,186	945,490	194,796	211,016
external interest income	723,664	186,347	184,963	9,281	244,088	1,348,342	334,025	314,191
external interest expenses	(173,054)	(33,510)	(76,860)	-	(119,428)	(402,852)	(29,754)	(10,773)
internal interest income	366,846	72,840	133,791	-	(573,477)	-	65,573	-
internal interest expenses	(318,851)	(101,418)	(104,811)	(4,923)	530,003	-	(175,049)	(92,401)
Net fee and commission income	157,411	36,859	60,436	722	(2,771)	252,657	63,400	38,277
Dividend income	-	-	(206)	-	809	809	-	-
Net trading income	17,183	13,684	39,857	31,105	36,762	138,591	10,974	96
Result on investment activities	-	-	452	-	6,274	6,726	-	-
Result on hedge accounting	-	-	-	-	2,823	2,823	-	-
Other operating income and expenses	578	(2,959)	(1,179)	95	(786)	(4,252)	(3,487)	(1,510)
Net impairment losses on financial assets and contingent liabilities	(62,738)	(24,280)	(17,486)	(247)	(12,592)	(117,343)	(61,284)	(7,565)
Total operating expenses	(420,531)	(56,562)	(73,804)	(11,950)	(210,450)	(773,297)	(4,554)	(134,539)
Depreciation and amortization	(39,097)	(1,753)	(4,206)	(2,093)	(35,511)	(82,662)	(77)	(5,731)
Expense allocation (internal)	(158,529)	(36,171)	(27,674)	(4,100)	226,475	-	-	(37,009)
Operating result	92,881	53,074	113,477	17,889	92,219	369,541	199,767	63,034
Tax on financial institutions	(53,054)	(17,755)	(23,654)	(1,043)	(4,366)	(99,871)	-	(13,218)
Segment profit before income tax	39,827	35,320	89,823	16,846	87,853	269,670	199,767	49,817
Income tax expense	-	-	-	-	-	(81,069)	-	-
Net profit for the period	-	-	-	-	-	188,601	-	-
STATEMENT OF FINANCIAL POSITION AS AT 30.06.2018								
Segment assets	30,584,624	9,020,610	13,422,916	509,602	17,818,189	71,355,941	15,495,508	8,180,058
Segment liabilities	30,786,386	7,386,109	13,590,228	-	13,182,913	64,945,636	6,670,418	-

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

30.06.2017 *	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	587,268	115,162	135,148	5,901	104,810	948,290	179,591	241,802
external interest income	711,283	211,129	193,462	12,397	189,289	1,317,560	325,207	340,191
external interest expenses	(180,363)	(34,481)	(81,800)	-	(72,627)	(369,270)	(27,489)	(5,404)
internal interest income	361,433	62,417	131,048	-	564,192	1,119,090	61,281	-
internal interest expenses	(305,084)	(123,903)	(107,562)	(6,496)	(576,045)	(1,119,090)	(179,407)	(92,985)
Net fee and commission income	144,037	47,283	61,236	1,071	(1,589)	252,039	71,062	29,426
Dividend income	-	-	-	-	4,693	4,693	-	-
Net trading income	18,665	11,457	38,884	39,161	18,292	126,458	11,700	60
Result on investment activities	98	-	-	-	20,997	21,095	-	-
Result on hedge accounting	-	-	-	-	1,643	1,643	-	-
Other operating income and expenses	1,512	(1,571)	857	182	(360)	620	(4,130)	2,141
Net impairment losses on financial assets and contingent liabilities	(110,414)	(59,407)	(8,056)	-	(146)	(178,023)	(71,004)	(39,977)
Total operating expenses	(393,176)	(57,298)	(71,553)	(15,142)	(235,983)	(773,152)	(5,070)	(117,998)
Depreciation and amortization	(30,345)	(608)	(3,151)	(488)	(57,391)	(91,984)	(135)	(3,048)
Expense allocation (internal)	(163,730)	(42,473)	(40,043)	(4,111)	250,357	-	-	(34,590)
Operating result	53,709	12,664	113,401	26,574	105,332	311,679	183,014	73,533
Tax on financial institutions	(54,839)	(20,437)	(22,674)	(601)	(5,004)	(103,555)	-	(13,807)
Segment profit before income tax	(1,131)	(7,772)	90,727	25,973	100,328	208,124	183,014	59,726
Income tax expense	-	-	-	-	-	(87,345)	-	-
Net profit for the period	-	-	-	-	-	120,779	-	-
STATEMENT OF FINANCIAL POSITION AS AT 31.12.2017								
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.

43 THE SHAREHOLDER'S STRUCTURE OF BANK BGŻ BNP PARIBAS S.A.

As at 30 June 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%
<i>BNP Paribas directly</i>	50,524,889	59.98%	50,524,889	59.98%
<i>BNP Paribas Fortis SA/NV directly</i>	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%

As at 30 June 2018, 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 30 June 2018, there were 13,024,915 registered shares, including 4 shares from B series).

No special control rights are attached to the ordinary bearer shares.

4 B series registered shares in the Bank are preference shares with respect to payment of the full par value per share in the event of the Bank's liquidation, once the creditors' claims have been satisfied, with priority over payments per ordinary shares, which, after the rights attached to the preference shares have been exercised, may be insufficient to cover the total par value of those shares.

In 2018, the share capital was increased by issuing series J and K shares.

The share capital was increased on the basis of Resolution No. 37 of the Ordinary General Meeting of Bank BGŻ BNP Paribas S.A. of 18 May 2018 regarding the share capital increase from the amount of PLN 84,238,318 to the amount of PLN 97,538,318, that is by PLN 13,300,000 by issuance of:

- 2,500,000 series J ordinary bearer shares acquired at an issue price of PLN 60.15 (PLN sixty and 15/100) per share, and
- 10,800,000 series K ordinary registered shares acquired at an issue price of PLN 60.15 (PLN sixty and 15/100) per share.

After registration of the share capital increase on 3 July 2018 by the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, the capital currently divides into 97,538,318 registered shares and bearer shares with the nominal value of PLN 1 each, including: 15,088,100 series A shares, 7,807,300 series B shares, 247,329 series C shares, 3,220,932 series D shares, 10,640,643 series E shares, 6,132,460 series F shares, 8,000,000 shares G series, 5,002,000 series H shares, 28,099,554 series I shares, 2,500,000 series J shares and 10,800,000 series K shares.

After the registration of the change in the share capital of the Bank, the total number of votes from all issued shares is 97,538,318, including 23,824,915 registered shares.

44 DIVIDENDS PAID

The Group did not pay any dividends for 2017.

45 DISTRIBUTION OF RETAINED EARNINGS

In accordance with the Resolution of the Ordinary General Meeting of Bank BGŻ BNP Paribas S.A. from 18 May 2018, net profit for 2017 in the amount of PLN 298,389 thousand was allocated to reserve capital.

46 LITIGATION AND CLAIMS

Legal risk

As at 30 June 2018, there were no proceedings in the court, arbitration tribunal or state administration authorities regarding liabilities or receivables of the Bank, the value of which would exceed 10% of the Bank's equity.

As at 30 June 2018, the total value of the subject of the dispute in court cases against the Bank, as well as the total value of the subject of litigation in court cases by the Bank, is less than 10% of the Bank's equity.

Judgment on the method of calculating the interchange fee

On 6 October 2015, the Court of Appeals issued a decision regarding calculation of the interchange fee by banks acting in agreement. Thus, the decision of the 1st instance (Regional) Court of 2013 was changed by dismissing the banks' appeals in whole, while upholding the appeal brought by the Office of Competition and Consumer Protection (UOKiK), which had questioned a considerable reduction in the fines by the 1st instance court. This denotes that the penalty imposed under the first decision of the President of UOKiK of 29 December 2006 was upheld. It involved a fine levied on 20 banks, including Bank BGŻ S.A. and Fortis Bank Polska S.A., for practices limiting competition by calculating interchange fees on Visa and MasterCard transactions in Poland in agreement.

The total fine levied on Bank BGŻ BNP Paribas amounted to PLN 12,544 thousand and included: i) a fine for the practice of Bank Gospodarki Żywnościowej in the amount of PLN 9,650 thousand; and ii) a fine for the practice of Fortis Bank Polska S.A. (FBP) in the amount of PLN 2,895 thousand. The penalty was paid by the Bank on 19 October 2015. The Bank prepared a last resort appeal against the aforesaid court decision and brought it on 25 April 2016. On 25 October 2017, the Supreme Court overruled the judgment of the Court of Appeal and remitted the case.

Corporate claims against the Bank (interchange fee)

As at 30 June 2018 the Bank received 26 requests for settlement from companies (marchands), due to interchange fees paid in relation to the use of payment cards (the number of requests did not change since 31.12.2017). 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.

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

As at 30 June 2018 the Bank was the defendant in (72) seventy two court cases in which the Bank's customers demand to declare the mortgage loan contract is invalid in terms of granting a foreign currency loan, denominated or indexed to CHF ("CHF contracts") by determining that the Bank granted a loan in PLN without denomination to a foreign currency or compensation for abuse of the entity's right by the Bank, including the principles of social coexistence and misleading the customer or depriving the executory title of enforceability, as well as the return of the spread.

The total value of claims in the above mentioned proceedings is PLN 24.94 million.

47 RISK MANAGEMENT

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

CREDIT RISK

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

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

Credit risk management principles adopted by the Group include:

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

IFRS 9

As regards the assessment of impairment of financial assets, from 1 January 2018, the Bank applies IFRS 9, pursuant to which assets are measured at amortized cost or at fair value. Recognition of expected credit losses depends on the change in the level of credit risk recorded since the initial recognition of the financial asset. Financial assets are subject to an assessment as to whether there occur objective impairment triggers (events of default).

Detailed description of the Bank's approach regarding financial assets measurement is included in "Impairment of financial assets".

Forbearance practices

The Bank treats its exposures as forbore if the obligor is provided with a forbearance due to economic reasons (financial difficulties), including any forbearance granted for exposures with identified impairment triggers. In case the forbearance is granted for a customer with a material economic loss, the Bank classifies such a customer as default.

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 or, in the period when, due to changes on the market, such difficulties may occur, 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 or may be facing them in the near future.

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

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

where:

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

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

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

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

FINANCIAL RISK

Market risk in the banking book

The use of sensitivity limits for the interest position in individual time periods in the second quarter of 2018 was low. The level of interest rate risk measured by the average use of the technical limits of the interest rate gap slightly increased as compared to the previous quarter and amounted to 27% at the end of June.

The currency risk does not occur in the banking book. It is transferred to the trading book.

Market risk in the trading book

The market risk exposure in the trading book was low in the second quarter of 2018. The VaR limit utilization level decreased as compared to the previous quarter and was, on average, 28%. Exposures to interest rate risk were the main source of risk in the trading book (the dominant share of interest rate swaps). The currency risk exposures had immaterial impact on the bank's market risk because the end-of-day positions on particular currencies were limited to the minimum levels.

Liquidity risk

In the second quarter of 2018, the Bank maintained the supervisory liquidity measures for the short and long term above regulatory limits and internal limits. LCR was at the level of 139% -144%.

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

Country and counterparty risk

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

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

As at the end of June 2018, 25% of the Bank's exposure towards countries was treasury transactions (including deposits and derivatives), 37% was related to foreign lending operations, while the remaining part, i.e. 38% were international trade transactions (letters of credit and financial guarantees). France accounted for 49%, Belgium for 13%, the Netherlands for 12%, Great Britain for 8%, and Germany for 5% of the exposure. The remaining exposure was related to Luxembourg, Italy and Switzerland.

OPERATIONAL RISK

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

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

Procedures

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

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

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

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

Internal environment

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

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

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

Risk management

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

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

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

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

Internal control system

The main task of the internal control system at the Bank is continuous analysis and supervision over the course and results of work of individual employees and teams in such a way as to provide rational assurance, that the goals of the given unit / organizational unit and of the Bank as a whole, are achieved in an optimal manner. The purpose of internal control is effective risk control, including risk prevention or early detection. The role of the internal control system is to achieve general and specific objectives of the internal control system, which should be considered at the design stage of control mechanisms. The principles of the internal control system are described in the "Policy on internal control at BGŹ BNP Paribas S.A." document, approved by the Bank's Management Board. This document describes the main principles, organizational framework and standards for the functioning of the control environment at the Bank, complying with the PFSA requirements provided in Recommendation H. Detailed internal regulations concerning specific areas of the Bank's activity are adapted to the specifics of the Bank's operations. The appropriate organizational units of the Bank, in

accordance with the scope of the tasks assigned to them, are responsible for developing detailed regulations relating to the area of internal control.

The internal control system at the Bank is based on the 3 defence lines model, which consists of:

- 1st defence line, which consists of organizational units from particular areas of banking and support areas,
- 2nd defence line, which consists of organizational units responsible for risk management, units / organizational units regardless of the risk management related to the first-line defence, and the compliance unit,
- 3rd defence line, which is independent and objective internal audit unit.

The Bank ensures internal control through independent monitoring of compliance with control mechanisms, including on-going verification and testing.

Monitoring and reporting

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

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

Subsidiaries

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

CAPITAL ADEQUACY

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

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

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

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

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

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

In view of the present situation, the Management Board of the Bank decided to increase the share capital by issuing ordinary shares. As a result of the share issue, after receiving the PFSA consent to classify BGŻ BNP Paribas S.A. shares as Common Equity Tier 1 instruments on 10 July 2018, the share capital of the Bank increased by PLN 13,300,000, while the Bank's supplementary capital increased by PLN 786,695,000.

As a result of the above, the Bank's capital adequacy ratios, at both separate and consolidated levels, were above the regulatory levels resulting from the "PFSA position on minimum levels of capital ratios" applicable to banks in 2018, published on 24 November 2017.

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

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

CET I = 9.97%

Tier I = 11.58%

Total Capital Ratio = 13.73%

As at 30.06.2018, the consolidated capital adequacy ratios of the Group were as follows:

CET I = 10.81%

Tier I = 10.81%

Total Capital Ratio = 13.79%

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

CET I = 9.98%

Tier I = 12.00%

Total Capital Ratio = 13.75%

As at 30.06.2018, the separate capital adequacy ratios of the Bank were as follows:

CET I = 11.11%

Tier I = 11.11%

Total Capital Ratio = 14.16%

As at 30 June 2018 Tier I (Tier I) the level of Tier I capital ratios (Tier I), both in separate and consolidated terms were below regulatory requirements.

48 MANAGEMENT OF BANK BGŻ BNP PARIBAS S.A.

Composition of the Bank's Supervisory Board as at 30 June 2018:

FULL NAME	OFFICE HELD IN THE SUPERVISORY BOARD OF THE BANK
Józef Wancer	Chairman of the Supervisory Board
Jarosław Bauc	Vice-Chairman of the Supervisory Board Independent Member of the Supervisory Board
Jean-Paul Sabet	Vice-Chairman of the Supervisory Board
Francois Benaroya	Member of the Supervisory Board
Stefaan Decraene	Member of the Supervisory Board
Jacques d'Estais	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 of the Bank from 1 January to 30 June 2018:

- On 23 January 2018, the Extraordinary Meeting of the Bank appointed Mr Francois Benaroya as a Member of the Supervisory Board until the end of the current five-year joint term of office of the Supervisory Board members.
- On 25 May 2018, Mr Alain Van Groenendael, Member of the Supervisory Board, submitted a resignation from the position of the Member of the Supervisory Board of Bank BGŻ BNP Paribas S.A., with the effect from 25 May 2018.
- On 13 June 2018, Mr Yvan De Cock, Member of the Supervisory Board, submitted a resignation from the position of the Member of the Supervisory Board of Bank BGŻ BNP Paribas S.A., with the effect from 13 June 2018.

Composition of the Bank's Management Board as at 30 June 2018:

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

Changes in the Management Board of the Bank from 1 January to 30 June 2018:

- On 19 February 2018, Mr Bartosz Urbaniak submitted a resignation from the position of the Member of the Management Board of the Bank, with the effect from 31 March 2018.
- On 10 April 2018, the Polish Financial Supervision Authority, pursuant to article 22b of the Banking Law Act of 29 August 1997, unanimously agreed to the appointment of Mr. Przemysław Gdański as the President of the Management Board of Bank BGŻ BNP Paribas S.A. In connection with the above, on 10 April 2018, the resolution of the Bank's Supervisory Board of 26 October 2017 on the appointment of Mr. Przemysław Gdański as the President of the Bank's Management Board came into force.
- On 16 May 2018 the Supervisory Board appointed the Bank's Management Board in the unchanged composition for a new three-year term. The function of Mr. Jean-Charles Aranda, who until then served as a Member of the Bank's Management Board, has been changed. The resolution of the Supervisory Board came into force on the date of the General Meeting of Bank BGŻ BNP Paribas S.A. approving the financial statements for 2017, i.e. with the effect from 18 May 2018.

49 MAJOR EVENTS IN BANK BGŻ BNP PARIBAS S.A. IN THE FIRST HALF OF 2018

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.

In view of the existing situation, the Management Board of the Bank informed that it immediately took additional measures (including: share capital increase via issuance of new shares) to meet the new regulatory requirements. 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.

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.

16.03.2018 PFSA recommendation to increase capital

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

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

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

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

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

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

Transaction

The Transaction anticipated in the Transaction Agreement includes:

- (i) acquisition of shares representing less than 50% of the share capital of RBPL by BNPP from RBI; and
- (ii) the demerger of RBPL performed in accordance with article 124c of the Banking Law and article 529 § 1 point 4 of the Commercial Companies Code by transferring (separating) the RBPL's Core Business to the Bank and issuing new issue shares by the Bank to RBI and BNPP (the "**Demerger**"); RBPL will be a demerged company and the Bank will be the acquiring company (collectively "**Transaction**").

Description of the Transaction

The Transaction will be performed as follows:

- (i) after all conditions precedent specified in the Transaction Agreement have been met or terminated, in order to facilitate the Demerger, BNPP will acquire a minority stake in the RBPL from the RBI, representing less than 50% of the share capital of RBPL, the value of which is estimated at approximately 45% of the share capital of RBPL,
- (ii) on the Demerger Date (as defined below), the Core Business of RBPL will be taken over by the Bank, and in exchange for the Core Business of RBPL, the Bank will issue ordinary new issue common shares ("**Demerger Shares**") for BNPP and RBI as shareholders of RBPL. RBPL shares that will be in possession of BNPP will cease to exist,
- (iii) the Demerger Shares allotted to RBI will represent 9.8% of the Bank's share capital as at the Demerger Date. Immediately after the Demerger Date, the Demerger Shares will be purchased from the RBI by the BNPP or by a third party or third parties designated by the BNPP.

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

Price

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

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

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

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

Execution of the Transaction

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

- (i) conclusion of the cooperation agreement with RBL, RBI and BNPP before Demerger. The agreement shall specify the terms of cooperation between RBPL and the Bank in relation to the Demerger;
- (ii) performing an audit review of the pro-forma financial information of RBPL and considering this information and the results of the audit as satisfactory by the Bank;
- (iii) signing the Demerger Plan (as defined below) by RBPL and the Bank;
- (iv) obtaining the consent of the competent authority of competition and consumer protection;
- (v) obtaining consent and approval from the PFSA in relation to the Demerger;
- (vi) obtaining consent and approval from the PFSA and the European Central Bank in relation to the cross-border merger of RBPL and RBI; and
- (vii) obtaining consents from the Bank's and RBPL's general meetings for the Demerger.

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

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

The share exchange parity established for the purpose of Demerger

The Transaction Agreement stipulates that in the RBPL demerger plan to be agreed between the Bank and RBPL ("**Demerger Plan**"), the number of the Demerger Shares allocated to RBI and BNPP in return for each RBPL share held by these entities, will be 0.3595197657 ("**Share Exchange Parity**"). The Share Exchange Parity was calculated as the Purchase Price divided by PLN 65.56, constituting the arithmetic average of the average daily prices weighted by the trading volume of the Bank's shares listed on the Warsaw Stock Exchange S.A. from the period of 30 days beginning on 8 March 2018 and ending on 6 April 2018¹, divided by 137.886.467 representing the number of reference shares of RBPL. The resulting number of the Demerger Shares that will be issued by the Bank is 49,592,910, which accounts for 37.05% of the Bank's share capital after the shares have been issued (without taking into account the share capital increase referred to below).

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

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

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

Other documents of the Transaction

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

Strategic justification for the Transaction

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

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

Many years of experience of the employees of the RBPL's Core Business, in particular in the SME,

¹ Slightly higher than the average of the last three months of daily volume-weighted average prices (PLN 65.40) as at 6 April 2018 and daily volume-weighted average price as of 6 April 2018 (PLN 65.02) and higher than the spot closing price from 6 April 2018 (PLN 62.80).

corporate banking and factoring segments, private banking, as well as the retail banking network, will strengthen the Bank's role as one of the main participants in the Polish banking sector and the BNP Paribas Group's ability to contribute to the development of the Polish economy.

28.04.2018 Reconciliation of the demerger plan of Raiffeisen Bank Polska S.A. (RBPL). The first notification of the planned demerger. Fulfilment of the condition of a significant contract.

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

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

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

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

Moreover, the Demerger Plan:

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

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

Financial Information of the Core Business of RBPL

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

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

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

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

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

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

Balance sheet	Core Business of RBPL for the year 2017
Assets	39,847
Cash in hand and balances in Central Bank	1,316
Amounts due from banks	103
Loans and advances to customers	18,001
Derivative financial instruments	443
Financial assets held for trading	6,675
Investments in securities	12,648
Investments in subsidiaries	31
Tangible and intangible fixed assets	356
Other assets	230
Deferred tax assets	44
Liabilities	36,070
Amounts due to banks and other monetary financial institutions	635
Amounts due to customers	34,392
Provisions for liabilities and charges	142
Derivative financial instruments	406
Other liabilities	495
TOTAL equity	3,777

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

Statement of profit or loss	Core Business of RBPL for the year 2017
Net interest income	883
Interest income	1,257
Interest expenses	-374
Non-interest income	596
Net fee and commission income	574
Result on financial instruments measured at fair value and from the exchange position	17
Dividend income	5
Operating result	1,479
Impairment allowances on financial assets	-116
Profit on operating activity	1,363
General administrative costs	-1,011
Result on other operating income and other operating expenses	-108
Other operating income	44
Other operating expenses	-152
Tax on financial institutions	-80
Gross profit/loss	164
Income tax	-81
Net profit/loss	83

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

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

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

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

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

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

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

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

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

50 SUBSEQUENT EVENTS

4.07.2018	Entering into the National Court Register information on the increase of share capital of Bank BGŻ BNP Paribas S.A. Increase of the share capital took place based on the Resolution No. 37 of the Ordinary General Meeting concerning the share capital increase from PLN 84,238,318 to PLN 97,538,318, i.e. by PLN 13,300,000 by issuance of: <ul style="list-style-type: none">• 2,500,000 series J ordinary bearer shares acquired at an issue price of PLN 60.15 per share, and• 10,800,000 series K ordinary registered shares acquired at an issue price of PLN 60.15 per share.
10.07.2018	Decision of the PFSA of 9 July 2018 on granting permission to classify J series ordinary bearer shares and ordinary registered K series shares issued by Bank BGŻ BNP Paribas S.A. as Common Equity Tier 1 instruments. The second notification of the planned demerger of Raiffeisen Bank Polska S.A.
24.08.2018	The Bank's Extraordinary General Meeting appointed Mr Michel Falvert and Mr Stephane Vermeire as members of the Bank's Supervisory Board until the end of the current five-year joint term of office of the Supervisory Board members.

II INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

Interim condensed separate statement of profit or loss

	2Q 2018 from 01.04.2018 to 30.06.2018	HY 2018 from 01.01.2018 to 30.06.2018	2Q 2017 from 01.04.2017 to 30.06.2017	HY 2017 from 01.01.2017 to 30.06.2017
Interest income	681,561	1,321,665	651,580	1,293,322
Interest expenses	(192,825)	(388,027)	(175,416)	(354,810)
Net interest income	488,736	933,638	476,164	938,512
Fee and commission income	159,243	302,334	143,102	279,771
Fee and commission expenses	(34,147)	(63,642)	(30,759)	(51,086)
Net fee and commission income	125,096	238,692	112,343	228,685
Dividend income	6,429	6,454	4,670	25,238
Net trading income	63,155	138,473	59,870	125,545
Result on investment activities	(1,667)	6,726	20,111	21,095
Result on fair value hedge accounting	1,307	2,823	822	1,643
Net impairment losses on financial assets and contingent liabilities	(54,955)	(110,110)	(91,903)	(177,733)
General administrative expenses	(380,139)	(749,367)	(371,819)	(756,417)
Depreciation and amortization	(41,623)	(82,444)	(43,846)	(91,423)
Other operating income	16,289	52,799	37,419	67,058
Other operating expenses	(23,718)	(62,513)	(32,035)	(63,669)
Operating result	198,910	375,171	171,796	318,534
Tax on financial institutions	(49,836)	(99,871)	(51,480)	(103,555)
Profit before tax	149,074	275,300	120,316	214,979
Income tax expense	(44,266)	(81,227)	(46,161)	(84,950)
Net profit for the period	104,808	194,073	74,155	130,029
attributable to equity holders of the Bank	104,808	194,073	74,155	130,029
EARNINGS PER SHARE (IN PLN PER ONE SHARE)				
Basic	1.24	2.30	0.88	1.54
Diluted	1.24	2.30	0.88	1.54

Interim condensed separate statement of comprehensive income

	2Q 2018 from 01.04.2018 to 30.06.2018	HY 2018 from 01.01.2018 to 30.06.2018	2Q 2017 from 01.04.2017 to 30.06.2017	HY 2017 from 01.01.2017 to 30.06.2017
Net profit for the period	104,808	194,073	74,155	130,029
OTHER COMPREHENSIVE INCOME				
ITEMS THAT WILL BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS UPON FULFILMENT OF CERTAIN CONDITIONS				
Measurement of financial assets available for sale	(32,467)	(23,122)	48,120	140,225
Deferred income tax	6,160	3,846	(9,143)	(26,643)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	(295)	(450)	143	(168)
Actuary valuation of employee benefits	(364)	(555)	226	436
Deferred income tax	69	105	(83)	(604)
OTHER COMPREHENSIVE INCOME (NET)	(26,602)	(19,726)	39,120	113,414
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	78,206	174,347	113,275	243,443
attributable to equity holders of the Group	78,206	174,347	113,275	243,443

Interim condensed separate statement of financial position

ASSETS	30.06.2018	31.12.2017
Cash and balances at Central Bank	914,056	998,035
Amounts due from banks	275,149	2,515,457
Derivative financial instruments	455,563	474,421
Differences from hedge accounting regarding the fair value of hedged items	42,401	32,730
Loans and advances to customers measured at amortised cost	49,262,280	52,195,203
Loans and advances to customers measured at fair value through profit or loss	2,636,772	-
Financial assets available for sale	-	13,921,889
Securities measured at amortised cost	9,413,855	-
Financial instruments measured at fair value through profit or loss	134,353	-
Securities measured at fair value through other comprehensive income	4,768,541	-
Investments in subsidiaries	75,918	63,404
Intangible assets	306,105	287,907
Property, plant and equipment	467,645	500,348
Deferred tax assets	541,505	468,617
Current tax assets	15,400	-
Other assets	503,690	439,881
Total assets	69,813,233	71,897,892

LIABILITIES	30.06.2018	31.12.2017
Amounts due to banks	2,900,587	2,926,396
Differences from hedge accounting regarding the fair value of hedged items	7,948	(2,992)
Derivative financial instruments	432,470	427,710
Amounts due to customers	56,336,384	58,658,067
Debt securities issued	0	288,553
Subordinated liabilities	1,706,237	1,645,102
Other liabilities	1,885,412	1,204,865
Current tax liabilities	0	112,235
Provisions	119,652	76,697
Total liabilities	63,388,690	65,336,633
EQUITY	30.06.2018	31.12.2017
Share capital	84,238	84,238
Supplementary capital	5,127,086	5,127,086
Other reserve capital	1,208,018	909,629
Revaluation reserve	122,191	141,917
Retained earnings	(116,990)	298,389
retained profit	(311,063)	-
net profit for the period	194,073	298,389
Total equity	6,424,543	6,561,259
Total liabilities and equity	69,813,233	71,897,892

Interim condensed separate statement of changes in equity

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings		Total
					Retained profit	Net profit for the period	
Balance as at 1 January 2018 (data approved)	84,238	5,127,086	909,629	141,917	-	298,389	6,561,259
Change related to the implementation of IFRS 9	-	-	-	-	(311,063)	-	(311,063)
Balance as at 1 January 2018 (data restated)	84,238	5,127,086	909,629	141,917	(311,063)	298,389	6,250,196
Total comprehensive income for the period	-	-	-	(19,726)	-	194,073	174,347
Net profit for the period	-	-	-	-	-	194,073	194,073
Other comprehensive income for the period	-	-	-	(19,726)	-	-	(19,726)
Distribution of retained earnings	-	-	298,389	-	-	(298,389)	0
Distribution of retained earnings intended for supplementary capital	-	-	298,389	-	-	(298,389)	-
Other	-	-	-	-	-	-	-
Balance as at 30 June 2018	84,238	5,127,086	1,208,018	122,191	(311,063)	194,073	6,424,543
	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings		Total
Balance as at 1 January 2017	84,238	5,127,899	860,241	(552)	-	49,388	6,121,214
Total comprehensive income for the period	-	-	-	142,469	-	298,389	440,858
Net profit for the period	-	-	-	-	-	298,389	298,389
Other comprehensive income for the period	-	-	-	142,469	-	-	142,469
Distribution of retained earnings	-	-	49,388	-	-	(49,388)	-
Distribution of net profit	-	-	49,388	-	-	(49,388)	-
Other	-	(813)	-	-	-	-	(813)
Balance as at 31 December 2017	84,238	5,127,086	909,629	141,917	-	298,389	6,561,259

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings	
					Net profit for the period	Total
Balance as at 1 January 2017	84,238	5,127,899	860,241	(552)	49,388	6,121,214
Total comprehensive income for the period	-	-	-	113,414	130,029	243,443
Net profit for the period	-	-	-	-	130,029	130,029
Other comprehensive income for the period	-	-	-	113,414	-	113,414
Distribution of retained earnings	-	-	49,388	-	(49,388)	-
Distribution of net profit	-	-	49,388	-	(49,388)	-
Balance as at 30 June 2017	84,238	5,127,899	909,629	112,862	130,029	6,364,657

Interim condensed separate statement of cash flows

	HY 2018 from 01.01.2018 to 30.06.2018	HY 2017 from 01.01.2017 to 30.06.2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit (loss)	194,073	130,029
ADJUSTMENTS FOR:	(2,128,926)	436,712
Income tax expenses	81,227	84,950
Depreciation and amortization	82,444	91,423
Dividend income	(6,454)	(25,238)
Interest income	(1,321,665)	(1,293,322)
Interest expense	388,027	354,810
Change in provisions	42,399	(30,014)
Change in amounts due from banks	(51,840)	11,489
Change in derivative financial instruments (assets)	18,858	(70,172)
Change in loans and advances to customers measured at amortised cost	2,354,092	(662,025)
Change in loans and advances to customers measured at fair value through profit or loss	(2,636,772)	-
Change in amounts due to banks	36,295	951,597
Change in derivative financial instruments (liabilities)	4,760	123,237
Change in amounts due to customers	(2,179,785)	102,494
Change in other assets and current tax assets	(132,745)	111,946
Change in other liabilities and deferred income tax liabilities	568,312	(104,247)
Other adjustments	(177,962)	(197,144)
Interest received	1,187,207	1,321,795
Interest paid	(385,324)	(334,867)
Net cash flows from operating activities	(1,934,853)	566,741

CASH FLOWS FROM INVESTING ACTIVITIES:	HY 2018 from 01.01.2018 to 30.06.2018	HY 2017 from 01.01.2017 to 30.06.2017
INVESTING ACTIVITIES INFLOWS	12,929,461	12,902,744
Sale and repurchase of debt securities	12,922,243	12,867,017
Sale of intangible assets and property, plant and equipment	764	10,489
Dividends received and other inflows from investing activities	6,454	25,238
INVESTING ACTIVITIES OUTFLOWS	(12,880,146)	(11,368,429)
Purchase of debt securities	(12,800,941)	(11,295,719)
Purchase of intangible assets and property, plant and equipment	(79,205)	(72,710)
Net cash flows from investing activities	49,315	1,534,315
CASH FLOWS FROM FINANCING ACTIVITIES:		
FINANCING ACTIVITIES INFLOWS	-	-
Long-term loans received	-	-
Increase in subordinated loans	-	-
Financing activities outflows	(491,285)	(2,014,270)
Repayment of long-term loans and advances received	(206,285)	(2,004,270)
Redemption of debt securities	(285,000)	(10,000)
Net cash flows from financing activities	(491,285)	(2,014,270)
TOTAL NET CASH	(2,376,823)	86,786
Cash and cash equivalents at the beginning of the period	3,442,671	2,452,735
Cash and cash equivalents at the end of the period, including:	1,065,848	2,539,521
effect of exchange rate fluctuations on cash and cash equivalents	8,026	(35,151)
restricted cash and cash equivalents	725	1,302

EXPLANATORY NOTES TO THE INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

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

The interim condensed separate financial statements for the first half of 2018 ended 30 June 2018 were prepared in accordance with the requirements of International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"), as adopted by the European Union as well as in accordance with other applicable regulations.

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

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

Implementation of IFRS 9

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

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

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

Item	Measurement category – IAS 39	Measurement category – IFRS 9	Balance sheet amount in accordance with IAS 39	Impact of IFRS 9* implementation Classification and measurement	Impact of IFRS 9* implementation Impairment	Balance sheet amount in accordance with IFRS 9
ASSETS						
Loans and advances to customers	Amortised cost	Amortised cost	52,195,203	(3,407,354)	(415,375)	48,372,474
Loans and advances to customers	Amortised cost	Fair value through profit or loss	-	2,891,806	18,962	2,910,768
Financial assets available for sale	Fair value through other comprehensive income	Fair value through other comprehensive income	13,921,889	(7,087,640)	(19)	6,834,230
Financial assets available for sale	Fair value through other comprehensive income	Amortised cost	-	7,498,570	(1,483)	7,497,087
Financial assets available for sale	Fair value through other comprehensive income	Fair value through profit or loss	-	104,618	365	104,983
Other assets	Amortised cost	Amortised cost	439,881	-	(8,119)	431,762
LIABILITIES						
Provisions	Amortised cost	Amortised cost	76,697	-	38,193	114,890
					(443,862)	

* excluding the impact of deferred tax

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

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

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

Impact of IFRS 9 on capital adequacy

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

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

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

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

2 RELATED PARTY TRANSACTIONS

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

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

As at 30 June 2018 the Group comprised Bank BGŻ BNP Paribas S.A. as the parent and its subsidiaries:

1. Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o. ("Actus"), with its registered office at Kasprzaka 10/16 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000023062. The Bank holds 100% interest in the share capital of the company.
2. Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A. ("TFI") with its registered office at Twarda 18 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register, under number KRS 0000031121. The Bank holds 100% of the company's shares.
3. BNP Paribas Leasing Services Sp. z o.o. ("Leasing", formerly: Fortis Lease Polska Sp. z o.o. in liquidation) with 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. Dimperre Investments Sp. z o.o. („Campus Leszno”) with its registered office at Aleje Jerozolimskie 56C 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 0000728558. The Bank holds 100% of the company's shares.
6. BGŻ Poland ABS1 DAC ("SPV") based in Ireland, 3RD Floor Kilmore House, Park Lane, Spencer Dock, Dublin. This is a special purpose company, with which the Bank performed a securitization transaction concerning a part of the loan portfolio. The Group does not have any capital involvement in this company. The company is controlled by Bank BGŻ BNP Paribas S.A. only within the meaning of IFRS 10.

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

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

30.06.2018	BNP Paribas S.A.	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Subsidiaries	Total
ASSETS	396,155	32,901	15,586	73	5,359	450,074
Receivables on current accounts, loans and deposits	110,564	31,024	13,793	3	3	155,387
Derivative financial instruments	244,427	-	-	-	-	244,427
Hedging instruments	40,524	1,877	-	-	-	42,401
Other assets	640	-	1,793	70	5,356	7,859
LIABILITIES	3,007,915	36,946	2,335,911	3,545	44,899	5,429,216
Loans and advances received	1,285,601	-	1,417,242	-	-	2,702,843
Current accounts and deposits	85,740	36,926	654,916	3,545	44,881	826,008
Subordinated liabilities	1,448,248	-	262,291	-	-	1,710,539
Derivative financial instruments	185,065	13	-	-	-	185,078
Hedging instruments	2,990	-	-	-	-	2,990
Other liabilities	271	7	1,462	-	18	1,758
CONTINGENT LIABILITIES						
Financial commitments granted	-	-	179,604	98	30,047	209,749
Guarantees granted	40,819	77,613	423,849	-	212	542,493
Commitments received	51,157	77,339	460,285	-	-	588,781
Derivative financial instruments (nominal value)	33,296,552	1,360	-	-	-	33,297,912
Hedging instruments (nominal value)	5,618,560	30,531	-	-	-	5,649,091
6 months ended 30.06.2018						
STATEMENT OF PROFIT OR LOSS	(19,117)	383	(19,528)	(27)	1,333	(36,956)
Interest income	2,551	469	721	-	8	3,749
Interest expense	(16,157)	(156)	(10,933)	(27)	(4,829)	(32,102)
Fee and commission income	10	70	1,154	-	2	1,236
Fee and commission expense	(208)	-	(30)	-	(1,838)	(2,076)
Dividend income	-	-	-	-	-	-
Net trading income	-	-	-	-	-	-
Other operating income	-	-	-	-	8,889	8,889
Other operating expenses	(5,313)	-	(10,440)	-	(899)	(16,652)

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

Remuneration of the Management Board and Supervisory Board

Management Board	30.06.2018	31.12.2017
Short-term employee benefits	8,213	14,563
Long-term benefits	3,441	5,907
Benefits due to termination of employment	-	3,698
Post-employment benefits	-	3,101
Share-based payments	1,583	1,279
TOTAL	13,237	28,548

Supervisory Board	30.06.2018	31.12.2017
Short-term employee benefits	1,059	2,011
Long-term benefits	-	-
Benefits due to termination of employment	-	-
Share-based payments	-	-
TOTAL	1,059	2,011

3 SEASONAL OR CYCLICAL NATURE OF BUSINESS

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

4 ISSUE AND REDEMPTION OF SECURITIES

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

5 DIVIDENDS PAID

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

6 DISTRIBUTION OF RETAINED EARNINGS

In accordance with the Resolution of the Ordinary General Meeting of Bank BGŻ BNP Paribas S.A. from 18 May 2018, net profit for 2017 in the amount of PLN 298,389 thousand was allocated to reserve capital.

7 CONTINGENT LIABILITIES

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

	30.06.2018	31.12.2017
CONTINGENT COMMITMENTS GRANTED	20,881,628	19,449,876
financial commitments	16,184,935	15,110,019
guarantees	4,696,693	4,339,857
CONTINGENT COMMITMENTS RECEIVED	11,857,084	12,009,299
financial commitments	10,868,045	10,871,719
guarantees	989,039	1,137,580

8 SUBSEQUENT EVENTS

Subsequent events are described in Note 50 of the Interim consolidated financial statements for the first half of 2018.

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

29.08.2018	Przemysław Gdański <i>President of the Management Board</i>	signature
29.08.2018	Jean-Charles Aranda <i>Vice-President of the Management Board</i>	signature
29.08.2018	Daniel Austra <i>Vice-President of the Management Board</i>	signature
29.08.2018	Philippe Paul Bézieau <i>Vice-President of the Management Board</i>	signature
29.08.2018	Blagoy Bochev <i>Vice-President of the Management Board</i>	signature
29.08.2018	Przemysław Furlepa <i>Vice-President of the Management Board</i>	signature
29.08.2018	Wojciech Kemblowski <i>Vice-President of the Management Board</i>	signature
29.08.2018	Jaromir Pelczarski <i>Vice-President of the Management Board</i>	signature
29.08.2018	Jerzy Śledziewski <i>Vice-President of the Management Board</i>	signature
29.08.2018	Katarzyna Romaszewska-Rosiak <i>Managing Director of the Financial Accounting Division</i>	signature

Warsaw, 29 August 2018