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

for the third quarter ended 30 September 2018

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

BGŻ BNP PARIBAS

The bank for a changing world

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SELECTED FINANCIAL DATA

Selected consolidated financial data

	in PLN '000		in EUR '000	
STATEMENT OF PROFIT OR LOSS	**30.09.2018** (YTD)	30.09.2017 (YTD)	**30.09.2018** (YTD)	30.09.2017 (YTD)
Net interest income	1,453,079	1,452,073	341,620	341,134
Net fee and commission income	384,672	371,564	90,437	87,291
Profit before tax	444,150	375,438	104,420	88,201
Profit after tax	319,499	230,569	75,114	54,167
Total comprehensive income	305,391	325,735	71,798	76,525
Total net cash flows	(2,169,452)	(579,210)	(510,039)	(136,073)
RATIOS	**30.09.2018**	30.09.2017	**30.09.2018**	30.09.2017
Number of shares (items)	**97,538,318**	84,238,318	**97,538,318**	84,238,318
Earnings per share	3.61	2.74	0.85	0.64
BALANCE SHEET	**30.09.2018**	31.12.2017	**30.09.2018**	31.12.2017
Total assets	71,823,883	72,749,259	16,815,068	17,442,101
Loans and advances to customers measured at amortised cost	51,671,510	52,967,568	12,097,090	12,699,314
Loans and advances to customers measured at fair value through profit or loss	2,555,133	-	598,196	-
Total liabilities	64,479,930	66,189,796	15,095,737	15,869,428
Liabilities due to customers	53,063,346	56,328,897	12,422,940	13,505,214
Share capital	97,538	84,238	22,835	20,197
Total equity	7,343,953	6,559,463	1,719,332	1,572,673
CAPITAL ADEQUACY	**30.09.2018**	31.12.2017	**30.09.2018**	31.12.2017
Total own funds	8,851,232	7,696,324	2,072,209	1,845,243
Total risk exposure	58,145,604	55,988,130	13,612,774	13,423,513
Total capital ratio	15.22%	13.75%	15.22%	13.75%
Tier 1 capital ratio	12.32%	10.81%	12.32%	10.81%

Selected separate financial data

	in PLN '000		in EUR '000	
STATEMENT OF PROFIT OR LOSS	**30.09.2018 (YTD)**	30.09.2017 (YTD)	**30.09.2018 (YTD)**	30.09.2017 (YTD)
Net interest income	1,432,904	1,434,420	336,876	336,987
Net fee and commission income	359,962	335,986	84,627	78,933
Profit before tax	454,185	379,578	106,779	89,174
Profit after tax	328,309	237,265	77,186	55,740
Total comprehensive income	314,217	332,422	73,873	78,096
Total net cash flows	(2,168,921)	(556,990)	(509,914)	(130,853)
RATIOS	**30.09.2018**	30.09.2017	**30.09.2018**	30.09.2017
Number of shares (items)	97,538,318	84,238,318	97,538,318	84,238,318
Earnings per share	3.70	2.82	0.87	0.66
BALANCE SHEET	**30.09.2018**	31.12.2017	**30.09.2018**	31.12.2017
Total assets	69,977,505	71,897,892	16,382,803	17,237,980
Loans and advances to customers measured at amortised cost	49,978,110	52,195,203	11,700,639	12,514,134
Loans and advances to customers measured at fair value through profit or loss	2,555,133	-	598,196	-
Total liabilities	62,615,965	65,336,633	14,659,354	15,664,876
Liabilities due to customers	55,473,492	58,658,067	12,987,192	14,063,647
Share capital	97,538	84,238	22,835	20,197
Total equity	7,361,540	6,561,259	1,723,449	1,573,104
CAPITAL ADEQUACY	**30.09.2018**	31.12.2017	**30.09.2018**	31.12.2017
Total own funds	8,879,656	7,699,319	2,078,863	1,845,961
Total risk exposure	56,611,144	55,307,981	13,253,534	13,260,443
Total capital ratio	15.69%	13.92%	15.69%	13.92%
Tier 1 capital ratio	12.70%	10.95%	12.70%	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, rates of the National Bank of Poland are applied:
- as at 30.09.2018 - EUR 1 = PLN 4.2714
- 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 30.09.2018 – EUR 1 = PLN 4.2535
- for the period from 1.01.2017 to 30.09.2017 - EUR 1 = PLN 4.2566

I INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Interim condensed consolidated statement of profit or loss

	Note	3Q 2018 from 01.07.2018 to 30.09.2018	3 quarters of 2018 from 01.01.2018 to 30.09.2018	3Q 2017 from 01.07.2017 to 30.09.2017	3 quarters of 2017 from 01.01.2017 to 30.09.2017
Interest income due to interest calculated with the use of EIR and other interest income	8	705,126	2,053,468	693,817	2,011,377
Interest expenses	8	(197,537)	(600,389)	(190,034)	(559,304)
Net interest income		**507,589**	**1,453,079**	**503,783**	**1,452,073**
Fee and commission income	9	173,749	495,399	150,444	458,435
Fee and commission expenses	9	(41,734)	(110,727)	(30,919)	(86,871)
Net fee and commission income		**132,015**	**384,672**	**119,525**	**371,564**
Net fee and commission income		3971	4,780	-	4,693
Dividend income	10	62,506	201,096	59,654	186,112
Net trading income	11	23,900	30,626	4,448	25,543
Result on investment activities		1,789	4,612	3,793	5,436
Result on fair value hedge accounting	12	(101,772)	(219,115)	(87,164)	(265,187)
Net impairment losses on financial assets and contingent liabilities	13	(361,404)	(1,134,701)	(346,838)	(1,119,990)
General administrative expenses	14	(41,564)	(124,226)	(38,516)	(130,500)
Depreciation and amortization	15	15,768	68,441	36,603	102,319
Other operating income	16	(19,846)	(76,771)	(36,921)	(102,017)
Operating result		**222,952**	**592,493**	**218,367**	**530,046**
Tax on financial institutions		(48,472)	(148,343)	(51,053)	(154,608)
Profit before tax		**174,480**	**444,150**	**167,314**	**375,438**
Income tax expense	17	(43,582)	(124,651)	(57,524)	(144,869)
Net profit for the period		**130,898**	**319,499**	**109,790**	**230,569**
attributable to equity holders of the Bank		130,898	319,499	109,790	230,569
EARNINGS PER SHARE (IN PLN PER ONE SHARE)					
Basic		1.35	3.61	1.30	2.74
Diluted		1.35	3.61	1.30	2.74

Interim condensed consolidated statement of comprehensive income

	3Q 2018 from 01.07.2018 to 30.09.2018	3 quarters of 2018 from 01.01.2018 to 30.09.2018	3Q 2017 from 01.07.2017 to 30.09.2017	3 quarters of 2017 from 01.01.2017 to 30.09.2017
Net profit for the period	**130,898**	**319,499**	**109,790**	**230,569**
OTHER COMPREHENSIVE INCOME				
ITEMS THAT WILL BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS UPON FULFILMENT OF CERTAIN CONDITIONS	**5,198**	**(14,124)**	**(18,355)**	**95,231**
Measurement of financial assets measured through other comprehensive income	6,366	(16,762)	(22,423)	117,807
Deferred income tax	(1,168)	2,638	4,068	(22,576)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**425**	**16**	**103**	**(65)**
Actuary valuation of employee benefits	539	18	103	539
Deferred income tax	(114)	(2)	-	(604)
OTHER COMPREHENSIVE INCOME (NET)	**5,623**	**(14,108)**	**(18,252)**	**95,166**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**136,521**	**305,391**	**91,538**	**325,735**
attributable to equity holders of the Group	136,521	305,391	91,538	325,735

The financial data of the Bank BGŻ BNP Paribas S.A. Capital Group as at 30 September 2018 pertains to the following companies: Bank BGŻ BNP Paribas S.A. (Bank), TFI BGZ BNP Paribas S.A., Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o., BNP Paribas Leasing Services Sp. z o.o., BNP Paribas Group Service Center S.A., Campus Leszno Sp. z o.o. and BGZ Poland ABS1 Designated Activity Company.

The most significant events affecting the comparability of data in the analysed periods are the following:

- sale of 100% of shares in BGŻ BNP Paribas Faktoring Sp. z o.o. in December 2017 (i.e. 20,820 shares with a total value of PLN 10,410 thousand), representing 100% of the share capital and 100% of votes at the general meeting of shareholders of the company, for a total price of: PLN 10,410 thousand for the benefit of BNP Paribas S.A., a French joint-stock company (Societe Anonyme), based in Paris, operating through the BNP Paribas S.A. Branch in Poland, with headquarters in Warsaw. After closing the transaction, both the Bank and BGŻ BNP Paribas Faktoring Sp. z o.o. continue their existing cooperation, supporting the Bank's clients with a wide range of high-quality factoring services.

The sale and deconsolidation, being a consequence of the sale (i.e., not including the sold shares in the consolidated financial statements, in the income statement nor in the balance sheet as at 30 September 2018) both affect the comparability of the results in the analysed periods.

- securitization transaction on the portfolio of cash and car loans performed by the Bank in December 2017. The transaction was a traditional securitization involving the transfer of ownership of the securitized receivables to SPV (BGZ Poland ABS1 DAC based in Ireland). The Group has no capital involvement in this entity nor is related to it organisationally. The subject of the company's activities is limited in the manner described in article 92a paragraph 4 of the Banking Law. The sole activity of this entity is the acquisition of receivables and issuance of securities.

  Pursuant to the concluded agreements, the Bank transferred receivables from the portfolio of loans and cash advances and car loans granted in the Polish currency to the SPV. Subsequently, the SPV issued securities and took out a loan secured by the above-mentioned receivables.

  The SPV is consolidated for the purposes of preparation of the consolidated financial statements of the Group for the period of 9 months of 2018. This fact affects the comparability of results with the period of 9 months of 2017.

  In the first 9 months of 2018, the Bank BGŻ BNP Paribas S.A. Capital Group generated a net profit of PLN 319,499 thousand, i.e. by PLN 88,930 thousand (38.6%) more than in the corresponding period of 2017 (PLN 230,569 thousand).

The result on banking operations amounted to PLN 2,070,535 thousand and was higher by PLN 24,812 (i.e. 1.2%) than in the same period of the previous year. The second factor affecting the increase in net profit generated in 9 months of 2018, as compared to 9 months of 2017, was a 17.4% (i.e. PLN 46,072 thousand) increase in impairment losses on financial assets and provisions for contingent liabilities, which amounted to PLN -219,115 thousand. The Group's operating expenses (including depreciation and amortization) increased slightly as compared to the corresponding period of 2017 (by 0.7%, i.e. by PLN 8,437 thousand) and totalled PLN 1,258,927 thousand.

In the period of 9 months ended 30 September 2018, the Group incurred PLN 17,177 thousand of integration costs related mainly to the process of preparation for merger of the Bank with a demerged part of Raiffeisen Bank Polska S.A. In the corresponding period of the previous year, the Group incurred costs related to the merger processes of BGŻ S.A., BNP Paribas Bank Polska S.A. and Sygma Bank Polska S.A. (which amounted to PLN 24,894 thousand). Eliminating the impact of integration costs, the Group's net profit generated in the period of 9 months of 2018 would be higher by 33.0% (i.e. PLN 82,679 thousand) than the profit generated in the first 9 months of 2017.

The total income of the Group for the first 9 months of 2018 was lower by PLN 20,344 thousand than in the corresponding period of the previous year. The factor directly affecting the observed decrease was a significant change in the valuation of financial assets available for sale (negative effect in the amount of PLN 134,569 thousand). The decrease was partially mitigated by the increase in net profit generated in the compared periods.

Interim condensed consolidated statement of financial position

ASSETS	Note	30.09.2018	31.12.2017
Cash and balances at Central Bank	18	1,170,138	998,035
Amounts due from banks	19	272,634	2,603,689
Derivative financial instruments	20	378,014	474,421
Differences from hedge accounting regarding the fair value of hedged items	21	39,213	32,730
Loans and advances to customers measured at amortised cost	22	51,671,510	52,967,568
Loans and advances to customers measured at fair value through profit or loss	23	2,555,133	-
Financial assets available for sale	24	-	13,922,540
Securities measured at amortised cost	25	9,166,178	-
Financial instruments measured at fair value through profit or loss	26	139,591	-
Securities measured at fair value through other comprehensive income	27	4,541,389	-
Investment properties		54,435	54,435
Intangible assets	28	317,698	288,340
Property, plant and equipment	29	465,377	500,647
Deferred tax assets		616,346	512,045
Current tax assets		5,303	-
Other assets	30	430,924	394,809
Total assets		**71,823,883**	**72,749,259**

The Group's total assets as at the end of September 2018 amounted to PLN 71,823,883 thousand and was lower by PLN 925,376 thousand, i.e. by 1.3%, compared to the end of December 2017.

The most important changes in the structure of the Group's assets over the first 9 months of 2018, as compared to the end of 2017, are the increase in the share of loans and advances to customers (both measured at amortized cost and measured at fair value through profit or loss) and a slight increase in the share of securities measured at amortized cost, financial instruments measured at fair value through profit or loss and securities measured at fair value through other comprehensive income, as compared to financial assets available for sale.

The structure of assets is dominated by loans and advances to customers (both measured at amortized cost and measured at fair value through profit or loss) whose share accounted for 75.5% of total assets at the end of September 2018, compared to 72.8% at end of December 2017. In terms of value, the volume of net loans and advances (both measured at amortized cost and measured at fair value through profit or loss) increased by PLN 1,259,075 thousand, i.e. by 2.4%.

The second largest asset item were totalled securities measured at amortized cost, financial instruments measured at fair value through profit or loss and securities measured at fair value through other comprehensive income, which accounted for 19.3% of total assets at the end of September 2018. The share of assets available for sale in total assets at the end of December 2017 was 19.1%. Items presented in accordance with the classification and measurement of assets according to IFRS 9 (as at 30 September 2018) are not fully comparable with the category of assets available for sale (presented as at 31 December 2017).

At the same time, there was a 3.2 p.p. decrease in the share of amounts due from banks in total assets of the Group over the analysed period (in value terms, a decrease by PLN 2,331,055 thousand).

LIABILITIES	Note	30.09.2018	31.12.2017
Amounts due to banks	31	5,162,377	3,891,235
Differences from hedge accounting regarding the fair value of hedged items	21	4,664	(2,992)
Derivative financial instruments	20	375,858	427,710
Amounts due to customers	32	53,063,346	56,328,897
Liabilities due to the sale of securities in Repo transactions	-	800,580	-
Debt securities issued	33	2,181,744	2,471,966
Subordinated liabilities	34	1,689,887	1,645,102
Other liabilities	35	1,047,004	1,225,323
Current tax liabilities		28,496	117,699
Deferred tax liability		8,025	8,003
Provisions	36	117,949	76,853
Total liabilities		**64,479,930**	**66,189,796**

EQUITY	Note	30.09.2018	31.12.2017
Share capital	44	97,538	84,238
Supplementary capital		5,910,913	5,127,086
Other reserve capital		1,208,018	909,629
Revaluation reserve		127,880	141,988
Retained earnings		(396)	296,522
retained profit		(319,895)	16,815
net profit for the period		319,499	279,707
Total equity		**7,343,953**	**6,559,463**
Total liabilities and equity		**71,823,883**	**72,749,259**

As at the end of September 2018, the total value of the Group's liabilities amounted to PLN 64,479,930 thousand and was lower by about PLN 1,709,866 thousand, i.e. by 2.6% as compared to the value at the end of 2017. The share of liabilities in total liabilities and equity of the Group amounted to 89.8% and was lower by 1.2 p.p. than at the end of 2017. The most significant change in the structure of liabilities after three quarters of 2018 was a decrease in the share of amounts due to customers with a simultaneous increase in the share of amounts due to banks.

At the end of September 2018, amounts due to customers decreased by PLN 3,265,551 thousand, i.e. by 5.8%, as compared to the end of December 2017 and amounted to PLN 53,063,346 thousand. Their share in total liabilities decreased to 82.3% as compared to 85.1% at the end of 2017. The mentioned decrease is an effect of the policy of optimization of the Group's deposit base, implemented in connection with the acquisition of the core business of Raiffeisen Bank Polska S.A

At the end of September 2018, as compared to the end of 2017, amounts due to banks increased, which resulted in an increase in their share in total liabilities. At the end of September 2018 it amounted to 8.0%, compared to 5.9% at the end of 2017. The value of amounts due to banks as at the end of September 2018 amounted to PLN 5,162,377 thousand and was higher by PLN 1,271,142 thousand (i.e. by 32.7%) than at the end of 2017.

Total equity as at 30 September 2018 increased by 12.0%, i.e. by PLN 784,490 thousand as compared to 31 December 2017, mainly due to the increase in share and reserve capital as a result of completion of series J and K share issue (the issue value amounted to PLN 799,995 thousand, of which PLN 13,300 thousand was the share capital, PLN 786,695 thousand was the supplementary capital, and PLN -2,868 thousand were the costs of the issue reducing the reserve capital).

The share of total equity in total liabilities and equity of the Group at the end of September 2018 was 10.2% and was by 1.2 p.p. higher as compared to the end of 2017.

Interim condensed consolidated statement of changes in equity

					Retained earnings		
	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained profit	Net profit for the period	Total
Balance as at 1 January 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	**-**	**-**	**-**	**(14,108)**	**-**	**319,499**	**305,391**
Net profit for the period	-	-	-	-	-	319,499	**319,499**
Other comprehensive income for the period	-	-	-	(14,108)	-	-	**(14,108)**
Distribution of retained earnings	**-**	**-**	**298,389**	**-**	**(18,682)**	**(279,707)**	**-**
Distribution of retained earnings intended for supplementary capital	-	-	298,389	-	(18,682)	(279,707)	-
Share issue	**13,300**	**783,827**	**-**	**-**	**-**	**-**	**797,127**
J and K series issue	13,300	786,695	-	-	-	-	799,995
Costs of share issue	-	(2,868)	-	-	-	-	(2,868)
Balance as at 30 September 2018	**97,538**	**5,910,913**	**1,208,018**	**127,880**	**(319,895)**	**319,499**	**7,343,953**

Interim condensed consolidated statement of changes in equity (continued)

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

Interim condensed consolidated statement of changes in equity (continued)

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

Interim condensed consolidated statement of cash flows

CASH FLOWS FROM OPERATING ACTIVITIES:	Note	3 quarters of 2018 from 01.01.2018 to 30.09.2018	3 quarters of 2017 from 01.01.2017 to 30.09.2017
Net profit (loss)		**319,499**	**230,569**
ADJUSTMENTS FOR:		**(3,154,900)**	**1,163,818**
Income tax expenses		124,651	144,869
Depreciation and amortization		124,226	130,500
Dividend income		(4,780)	(4,693)
Interest income		(2,053,468)	(2,011,377)
Interest expense		600,389	559,304
Change in provisions		41,173	(32,055)
Change in amounts due from banks		(9,107)	(838)
Change in derivative financial instruments (assets)		96,407	(71,691)
Change in loans and advances to customers measured at amortised cost		693,261	(1,482,737)
Change in loans and advances to customers measured at fair value through profit or loss		(2,555,133)	-
Change in amounts due to banks		1,361,723	1,357,210
Change in liabilities due to the sale of securities in Repo transactions		800,580	-
Change of financial liabilities held for trading		44,785	-
Change in derivative financial instruments (liabilities)		(51,852)	37,665
Change in amounts due to customers		(3,061,371)	332,938
Change in other assets and current tax assets		(143,087)	(113,345)
Change in other liabilities and deferred income tax liabilities		(296,018)	(74,659)
Other adjustments	38	(129,214)	(65,672)
Interest received		1,855,751	2,990,571
Interest paid		(593,816)	(532,172)
Net cash flows from operating activities		**(2,835,401)**	**1,394,387**

CASH FLOWS FROM INVESTING ACTIVITIES:	Note	3 quarters of 2018 from 01.01.2018 to 30.09.2018	3 quarters of 2017 from 01.01.2017 to 30.09.2017
INVESTING ACTIVITIES INFLOWS		**16,236,192**	**15,260,045**
Sale and redemption of debt securities		16,225,707	15,232,051
Sale of intangible assets and property, plant and equipment		5,705	23,301
Dividends received and other inflows from investing activities		4,780	4,693
INVESTING ACTIVITIES OUTFLOWS		**(15,781,712)**	**(14,932,904)**
Purchase of debt securities		(15,658,929)	(14,802,758)
Purchase of intangible assets and property, plant and equipment		(122,783)	(130,146)
Net cash flows from investing activities		**454,480**	**327,141**
CASH FLOWS FROM FINANCING ACTIVITIES:			
FINANCING ACTIVITIES INFLOWS		**797,127**	**105,805**
Long-term loans received		-	105,805
Net inflows from share issue and equity infusion		797,127	-
Financing activities outflows		**(585,658)**	**(2,406,543)**
Repayment of long-term loans and advances received		(300,658)	(2,396,543)
Redemption of debt securities		(285,000)	(10,000)
Net cash flows from financing activities		**211,469**	**(2,300,738)**
TOTAL NET CASH AND CASH EQUIVALENTS		**(2,169,452)**	**(579,210)**
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**	**1,273,753**	**1,904,413**
effect of exchange rate fluctuations on cash and cash equivalents		4,009	(12,434)
restricted cash and cash equivalents		532	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 September 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% of the company's shares.

2.5. Campus Leszno Sp. z o.o. with its registered office at Fabryczna 1 in Leszno. 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. due to the fulfilment of the control conditions only within the understanding 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 September 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 third quarter ended 30 September 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 third quarter 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 consolidated 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 September 2018 and 31 December 2017 are presented in the below table:

	30.09.2018	31.12.2017
1 EUR	4.2714	4.1709
1 USD	3.6754	3.4813
1 GBP	4.8055	4.7001
1 CHF	3.7638	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 third quarter of 2018.

3.2 Implementation of IFRS 9

IFRS 9 „Financial Instrument"

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 irrevocable option 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 BGŻ BNP Paribas, based on the results of contractual cash flow tests and assessment of the business model, indicate that changes in the classification and measurement of assets mainly relate to the loan portfolios whose interest rate structure is based on financial leverage (change from measurement at amortized cost to measurement at fair value through profit or loss) and to the portfolio of Treasury bonds, in the part not used for current liquidity management, but for maintaining liquidity under stress conditions (change from measurement at fair value through other comprehensive income to measurement at amortized cost) 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 BGŻ BNP Paribas Capital Group does not have a guarantee that it would receive the remuneration, or when the remuneration is very minimal during the term of the contract until some condition occurs, when the Bank BGŻ BNP Paribas Capital Group receives a remuneration of substantial value covering the activities comprising the performance of the contract in the long preceding time,
- revenue from asset management.

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. 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,
- defining functional requirements for a tool that calculates and records the value of leasing liabilities, rights of use, depreciation and interest expenses,
- contracting the supplier of the above-mentioned tool and undertaking IT development works.

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 third quarter 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	836
Deferred tax liability	586
Provisions	1,285
TOTAL LIABILITIES	**80,804**

Identifiable net assets, total	**(41,300)**
Amount of the grant	41,083
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.

3.6 Changes of data presentation

In the present consolidated financial statements, the Group has changed the method of presentation of the following data:

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 Note 9 “Net fee and commission income”. 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 third quarter of 2017 and the third quarter of 2018 have been adjusted accordingly.

Starting from 30 September 2018, the Group has changed the method of presentation of entity division in Note 8 „Net interest income", Note 22 „Loans and advances to customers measured at amortised cost" and Note 32 „Liabilities due to customers" in order to unify the presentation in all breakdowns. Comparative data for the third quarter of 2017 and the third quarter of 2018 have been adjusted accordingly.

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 48 Risk Management – capital adequacy and Note 51 Major events in Bank BGŻ BNP Paribas S.A. in the third quarter of 2018, concerning capital adequacy ratios as at 31 January 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 third quarter of 2018 ended 30 September 2018 was approved for publication by the Management Board on 14 November.

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 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) Stage 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) Stage 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) Stage 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 forbearance exposures).

As regards retail customers and micro enterprises with simplified accounting system, more than 90 days past due (or more than 30 days for exposures with forbearance granted to debtors) is the key 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

	3Q 2018 from 01.07.2018 to 30.09.2018	3 quarters of 2018 from 01.01.2018 to 30.09.2018	3Q 2017 from 01.07.2017 to 30.09.2017	3 quarters of 2017 from 01.01.2017 to 30.09.2017
INTEREST INCOME DUE TO INTEREST CALCULATED WITH THE USE OF EIR AND OTHER INTEREST INCOME				
Amounts due from banks	667	12,051	7,324	21,776
Loans and advances to customers measured at amortised cost, including:	565,392	1,615,207	578,739	1,704,177
non-banking financial institutions	8,468	13,180	1,999	5,782
retail customers	265,677	707,103	236,610	699,932
economic operators	266,828	807,053	310,808	917,532
including retail farmers	111,563	320,922	125,333	365,144
public sector institutions	1,154	3,435	1,296	3,930
leasing receivables	23,265	84,436	28,026	77,001
Debt instruments measured at amortised cost	60,527	181,977	-	-
Loans and advances to customers measured at amortised cost through profit or loss	18,838	59,445	-	-
Debt instruments measured at fair value through profit or loss	210	453	-	-
Debt instruments measured at fair value through other comprehensive income	33,925	104,517	-	-
Derivative instruments as part of fair value hedge accounting	25,567	79,818	26,725	54,267
Debt securities – available for sale	-	-	81,029	231,157
Total interest income	**705,126**	**2,053,468**	**693,817**	**2,011,377**
INTEREST EXPENSE				
Amounts due to banks	(25,743)	(68,746)	(25,281)	(69,688)
Debt securities issued	(20,797)	(56,333)	(2,930)	(8,849)
Amounts due to customers, including:	(127,073)	(402,583)	(138,246)	(430,468)
non-banking financial institutions	(11,851)	(31,947)	(12,165)	(40,557)
retail customers	(66,094)	(213,362)	(66,483)	(216,433)
economic operators	(44,590)	(142,133)	(53,321)	(156,761)
including retail farmers	(1,295)	(3,993)	(1,648)	(5,001)
public sector institutions	(4,538)	(15,141)	(6,277)	(16,717)
Derivative instruments as part of fair value hedge accounting	(20,266)	(65,800)	(23,577)	(50,299)
Repo transactions	(3,658)	(6,927)	-	-
Total interest expense	**(197,537)**	**(600,389)**	**(190,034)**	**(559,304)**
Net interest income	**507,589**	**1,453,079**	**503,783**	**1,452,073**

Net interest income generated in the period of the first 9 months of 2018 increased by 0.1% (i.e. by PLN 1,006 thousand) as compared to the third quarter of 2017. Interest income increased by PLN 42,091 thousand, i.e. by 2.1% YoY with a simultaneous increase of interest expense by PLN 41,085 thousand, i.e. by 7.3% YoY.

The mentioned increase occurred despite the fact that income and expenses related to interest on receivables and liabilities of BGŻ BNP Paribas Faktoring Sp. z o.o. were not consolidated, while they were consolidated in the corresponding period of the previous year. Net interest income of the Group for the third quarter of 2017 was therefore higher by PLN 11,145 thousand (interest income on loans and advances to customers by PLN 26,729 thousand and interest expense by PLN 15,584 thousand). Excluding the net interest income generated by the factoring company in three quarters of 2017, the increase of the Group's net interest income would be 0.8% YoY.

The factor having a negative impact on the level of the result on the interest in 2018 was the fact that interest rates on funds held as a mandatory reserve at the NBP were reduced. It is estimated that the net interest income in the third quarter of 2018 was lower than the result for the third quarter of 2017 by approx. PLN 12,200 thousand.

Among internal factors affecting the level of net interest income, there is an increase of PLN 47,484 thousand of interest expenses on debt securities issued in connection with the securitization of the portfolio of cash and car loans performed in December 2017. The transaction is a traditional securitization involving the transfer of ownership of the securitized receivables to SPV (BGŻ Poland ABS1 DAC based in Ireland), which issued bonds with a total value of PLN 2,180,850 thousand on the basis of securitized assets. The costs in this respect did not burden the results of three quarters of 2017 (there were interest expenses on deposit certificates issued by the Bank in this item, the last of which were bought in the first quarter of 2018).

The improvement in margins on customer deposits (cost reduction) had a positive impact on the interest income, both in respect of amount due to business operators and in the case of amounts due to retail customers. The mentioned decrease in the acquisition cost is the effect of the policy of optimization of the Group's deposit base and acquisition cost of deposits, implemented in connection with the acquisition of the core business of Raiffeisen Bank Polska S.A.

At the end of September 2018, the Group was applying fair value hedge accounting. The change in the fair value measurement of hedging transactions is recognized in the result on hedge accounting. Interest on IRS transaction and hedged items is recognized in net interest income. The net interest income on hedging relationships (the sum of interest income and interest expenses from derivatives as part of fair value hedge accounting) for the third quarter of 2018 amounted to PLN 14,018 thousand, as compared to PLN 3,968 thousand for the third quarter of 2017.

9 NET FEE AND COMMISSSION INCOME

	3Q 2018 from 01.07.2018 to 30.09.2018	3 quarters of 2018 from 01.01.2018 to 30.09.2018	3Q 2017 from 01.07.2017 to 30.09.2017	3 quarters of 2017 from 01.01.2017 to 30.09.2017
FEE AND COMMISSION INCOME				
loans, advances and leases	52,522	151,689	51,119	161,845
account maintenance	26,888	76,089	24,620	74,934
cash service	4,538	13,371	5,189	14,163
cash transfers and e-banking	12,597	36,694	12,613	37,629
guarantees and documentary operations	8,741	24,992	7,162	20,762
asset management and brokerage operations	20,365	65,000	13,048	34,922
payment and credit cards	29,103	79,246	21,838	66,493
insurance mediation activity	14,323	33,495	10,304	32,098
product sale mediation and customer acquisition	2,538	6,853	2,036	3,578
other provisions	2,134	7,970	2,515	12,011
Fee and commission income	**173,749**	**495,399**	**150,444**	**458,435**
FEE AND COMMISSION EXPENSE				
loans, advances and leases	(389)	(1,970)	(2,815)	(8,125)
account maintenance	(995)	(2,717)	(840)	(1,949)
cash service	(1,011)	(2,738)	(975)	(2,727)
cash transfers and e-banking	(265)	(882)	(431)	(1,419)
asset management and brokerage operations	(6,623)	(14,363)	(421)	(3,011)
payment and credit cards	(16,302)	(58,027)	(18,764)	(54,161)
insurance mediation activity	(4,780)	(8,452)	(2,455)	(7,178)
product sale mediation and customer acquisition	(6,570)	(15,035)	(4,039)	(7,044)
other provisions	(4,799)	(6,543)	(179)	(1,257)
Fee and commission expense	**(41,734)**	**(110,727)**	**(30,919)**	**(86,871)**
Net fee and commission income	**132,015**	**384,672**	**119,525**	**371,564**

Net fee and commission income over the three quarters of 2018 was PLN 384,672 thousand and was higher by PLN 13,108 thousand, i.e. 3.5% YoY, despite the fact that fee and commission income of BGŻ BNP Paribas Faktoring Sp. z o.o. were not consolidated, while they were consolidated in the corresponding period of the previous year. Net fee and commission income of the Group for the third quarter of 2017 was therefore higher by PLN 10,942 thousand (fee and commission income by PLN 15,463 thousand and fee and commission expense by PLN 4,521 thousand). Excluding the fee and commission income generated by the factoring company in three quarters of 2017, the increase of the Group's net interest income would be 6.7% YoY.

Fee and commission income over the three quarters of 2018 were higher by PLN 36,964 thousand, i.e. 8.1%, while the expenses were higher by PLN 23,856 thousand, i.e. 27.5% as compared to the corresponding period of 2017.

The following categories affected the fee and commission income positively YoY:

- asset management and brokerage operations – net increase by PLN 18,726 thousand, i.e. by 58.7%,
- payment and credit cards – net increase by PLN 8,887 thousand, i.e. by 72.1%,
- guarantees and documentary operations – net increase by PLN 4,230 thousand, i.e. by 20.4%.

Lower level of fee and commission on loans, advances and leases affected the net fee and commission income negatively – they decreased by PLN 4,001 thousand, i.e. 2.6% (mainly as a result of deconsolidation of the factoring company). Similarly, higher expenses on product sale mediation and customer acquisition, which increased by PLN 7,991 thousand, i.e. 113.4% also had a negative effect on the net fee and commission income.

10 NET TRADING INCOME

	3Q 2018 from 01.07.2018 to 30.09.2018	3 quarters of 2018 from 01.01.2018 to 30.09.2018	3Q 2017 from 01.07.2017 to 30.09.2017	3 quarters of 2017 from 01.01.2017 to 30.09.2017
Equity instruments measured at fair value through profit or loss	2,182	5,518	-	-
Debt instruments measured at fair value through profit or loss	(410)	(126)	-	-
Derivative instruments and result on foreign exchange transactions	60,734	195,704	59,654	186,112
Result on financial instruments measured at fair value through profit or loss, total	**62,506**	**201,096**	**59,654**	**186,112**

The result on trading activities for 9 months of 2018 amounted to PLN 201,096 thousand and was higher by PLN 14,984 thousand or 8.1% YoY. The level and volatility of this result are mainly determined by the valuation of derivative instruments and the result from exchange positions.

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.

	3Q 2018 from 01.07.2018 to 30.09.2018	3 quarters of 2018 from 01.01.2018 to 30.09.2018	3Q 2017 from 01.07.2017 to 30.09.2017	3 quarters of 2017 from 01.01.2017 to 30.09.2017
Assets available for sale	-	-	4,448	25,543
Loans and advances to customers measured at fair value through profit or loss	23,853	19,610	-	-
Debt instruments measured at fair value through profit or loss	47	11,016	-	-
Total	**23,900**	**30,626**	**4,448**	**25,543**

The result on investment activities for the first 9 months of 2018 amounted to PLN 30,626 thousand and was higher by PLN 5,083 thousand (i.e. 19.9%) as compared to the result achieved in the corresponding period of 2017.

As part of this result, starting from the first quarter of 2018, the change in the valuation of the portfolio of loans and advances to customers measured at fair value through profit or loss was presented, resulting from the adjustment to IFRS 9. This item affects significantly (PLN +19,610 thousand) the result on investment activities over the three quarters of 2018 (in the third quarter alone it was at PLN 23,853 thousand). In addition, during the first three quarters of 2018, income generated on the sale of debt instruments was PLN 11,016 thousand (in the second quarter of 2018 it was PLN +10,409 thousand).

The result for three quarters of 2017 consists of income from the sale of the portfolio of securities available for sale, mainly realized in the second and third quarter of 2017 (PLN 20,111 thousand in the second quarter and PLN 4,448 thousand in the third quarter).

12 NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND CONTINGENT LIABILITIES

30.09.2018	Phase 1	Phase 2	Phase 3	Total
Amounts due from banks	347	-	-	347
Loans and advances to customers measured at amortised cost	180,041	(344,889)	(64,474)	(229,322)
Contingent commitments granted	2,659	(6,037)	11,579	8,201
Securities measured at amortised cost	898	143	618	1,659
Debt instruments measured at fair value through other comprehensive income	-	-	-	-
Total net impairment losses on financial assets and contingent liabilities	**183,945**	**(350,783)**	**(52,277)**	**(219,115)**

	3Q 2017 from 01.01.2017 to 30.09.2017
Amounts due from banks	895
Loans and advances to customers measured at amortised cost	(258,983)
Contingent commitments granted	(7,099)
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	**(265,187)**

The result of impairment allowances on financial assets and provisions for contingent liabilities for the 9 months of 2018 amounted to PLN -219,115 thousand and improved by PLN 46,072 thousand, i.e. by 17.4% compared to the corresponding period in 2017.

In three quarters of 2018, the Bank concluded agreements regarding the sale of a portfolio of loans from the retail and SME portfolios. The amount of receivables sold under agreements covered by impairment allowances in a significant part or derecognized, amounted to PLN 1,072,097 thousand (principal, interest and other side receivables). The contractual price for the sale of these portfolios has been set at PLN 126,152 thousand. The net impact on the Bank's result from the sale of portfolios amounted to PLN -2,240 thousand and is presented in the *recognition and release of impairment allowances on loans and advances*.

In three quarters of 2017, the Bank concluded 7 agreements regarding the sale of the loan portfolio. The amount of receivables sold under agreements covered by impairment allowances in a significant part or derecognized, amounted to PLN 605,588 thousand (principal, interest and other side receivables). The contractual price for the sale of these portfolios has been set at PLN 120,627 thousand. The net impact on the Bank's result from the sale of portfolios amounted to PLN 32,010 thousand and is presented in the *result of impairment allowances on financial assets and provisions for contingent liabilities*.

Annualized cost of credit risk expressed as the ratio of net impairment allowances to the average of net loans and advances to customers (calculated on the basis of balances at the end of the quarters) was 0.55% over the first three quarters of 2018 and was lower by 0.08 p.p. from the cost recognized in the corresponding period of the previous year (0.63%).

Considering the main operational segments[1]:

- The Retail and Business Banking Segment - increase by PLN 43,450 thousand YoY,
- SME Banking Segment – increase by PLN 30,103 thousand YoY,
- Corporate Banking Segment (together with CIB) – decrease by PLN 13,794 thousand YoY,
- Other Operations Segment – decrease by PLN 13,688 thousand YoY.

13 GENERAL ADMINISTRATIVE COSTS

	3Q 2018 from 01.07.2018 to 30.09.2018	3 quarters of 2018 from 01.01.2018 to 30.09.2018	3Q 2017 from 01.07.2017 to 30.09.2017	3 quarters of 2017 from 01.01.2017 to 30.09.2017
Personnel expenses	(212,836)	(627,184)	(210,200)	(632,411)
Marketing expenses	(16,405)	(67,040)	(19,306)	(55,870)
IT and telecom expenses	(31,303)	(83,347)	(30,392)	(85,135)
Rental expenses	(35,250)	(107,036)	(40,515)	(121,290)
Other non-personnel expenses	(45,283)	(134,647)	(26,148)	(112,033)
Business travels	(2,879)	(8,792)	(2,517)	(8,239)
ATM and cash handling expenses	(784)	(2,340)	(1,098)	(2,610)
Costs of outsourcing services related to leasing operations	(1,421)	(4,439)	(4,425)	(14,399)
Bank Guarantee Fund fee	(13,992)	(96,151)	(11,132)	(84,525)
Polish Financial Supervision Authority fee	(1,251)	(3,725)	(1,105)	(3,478)
Total general administrative expenses	**(361,404)**	**(1,134,701)**	**(346,838)**	**(1,119,990)**

General administrative costs of the Group in the three quarters of 2018 amounted to PLN 1,134,701 thousand and were higher by PLN 14,711 thousand, i.e. 1.3% as compared to the corresponding period of the previous year.

The most significant increase in costs YoY (by PLN 22.6 million) occurred in *other material costs*, which was mainly influenced by: (i) costs of advisory services and consulting (increase by PLN 9.0 million) related to preparation for the merger of the Bank with the demerged part of Raiffeisen Bank Polska S.A. and the acquisition of Spółdzielcza Kasa Oszczędnościowo-Kredytowa Rafineria in Gdańsk; (ii) consolidation settlements - a decrease in costs in the current period was lower by PLN 8.2 million in comparison to the first nine months of the previous year; (iii) costs related to a part of leasing operations transferred from the Bank to BNP Paribas Leasing Services Spółka z o.o. and recognized in this item from 2018.

[1] Information based on segmentation notes included in the Consolidated Interim Report of the Capital Group of Bank BGŻ BNP Paribas for the third quarter ended 30 September 2018.

The significant increase in costs was also related to marketing costs, which were higher by PLN 11.2 million compared to the analysed period of the previous year, which resulted from the greater number of marketing campaigns (cash loan campaign, personal account campaigns, campaigns for small businesses).

The decline in administrative expenses YoY was related to:

- rental costs, which were lower by PLN 14.3 million than in the corresponding period of the previous year; which results from the optimization of office space (the Bank's Headquarters at Suwak in Warsaw) and sales network (stalls in shopping malls, business centres) after the merger with Sygma Bank, as well as the restructuring of the Bank's branch network;
- employee costs, which were lower by PLN 5.2 million; the reduction of costs was influenced by, among others, reduction of employment by 184 full-time equivalents (as at 30.09.2018 there were 7,523 FTEs, excluding the subsidiary BGŻ BNP Paribas Faktoring Sp. z o.o., sold in the fourth quarter of 2017, as at 30.09.2017 – 7,707 FTEs, including: employment in the factoring company - 66 FTEs) and lower retention costs which decreased by PLN 3.2 million (in June 2018 the remaining provision for this purpose in the amount of PLN 1.5 million was released);
- outsourcing costs in leasing activities by PLN 10.0 million, mainly due to the transfer of a part of the Bank's leasing operations to BNP Paribas Leasing Services Spółka z o.o. and the inclusion of these costs from 2018 in *other material costs*;
- IT and telecommunications costs by PLN 1.8 million.

The total BFG premiums posted by the Bank in the 9 months of 2018 cost amounted to PLN 96,151 thousand and were higher by PLN 11,626 thousand than in the previous year. These costs included:

- the annual premium for the bank's forced restructuring fund for 2018: (accounted in the first half of 2018) totalled PLN 52.8 million and was higher by PLN 2.2 million than in the corresponding period of the previous year,
- contribution to the bank guarantee fund due for the first 9 months of 2018 totalled PLN 43.4 million and was higher by PLN 9.5 million as compared to the corresponding period of the previous year.

In addition, in the analysed periods, integration costs related to the merger processes of banks were incurred. The amounts of costs incurred included in administrative costs and depreciation amounted to:

- in three quarters of 2018 – PLN 17.2 million and were related to the costs of preparation process for the merger of the Bank with the demerged part of Raiffeisen Bank Polska S.A. and the acquisition of Bank Spółdzielcza Kasa Oszczędnościowo-Kredytowa Rafineria in the second quarter of 2018,

- in three quarters of 2017 – PLN 26.0 million and were related to the costs of merger processes of BGŻ S.A., BNP Paribas Bank Polska S.A. and Sygma Bank Polska S.A. The total amount of integration costs in the analysed period totalled PLN 24.9 million (including: PLN 1.1 million recognized as a decrease of other operating costs).

The comparability of the data, similarly to the income side, was affected by the above mentioned deconsolidation of a factoring company in the fourth quarter of the previous year. Eliminating the costs incurred by BGŻ BNP Paribas Faktoring Sp. z o.o. in the 9 months of 2017 and the integration costs incurred by the Bank in both periods, the costs of the Group would increase by 2.3% YoY.

14 DEPRECIATION AND AMORTIZATION

	3Q 2018 from 01.07.2018 to 30.09.2018	3 quarters of 2018 from 01.01.2018 to 30.09.2018	3Q 2017 from 01.07.2017 to 30.09.2017	3 quarters of 2017 from 01.01.2017 to 30.09.2017
Property, plant and equipment	(21,811)	(66,008)	(21,701)	(65,484)
Intangible assets	(19,753)	(58,218)	(16,815)	(65,016)
Total depreciation and amortization	**(41,564)**	**(124,226)**	**(38,516)**	**(130,500)**

Depreciation and amortization costs in the analysed period, in relation to 9 months of 2017 decreased by PLN 6,274 thousand, i.e. by 4.8%. The decrease is related to intangible assets and results mainly from the liquidation of assets after the merger of Bank BGŻ with BNP Paribas Bank Polska S.A. and Sygma Bank Polska S.A.

15 OTHER OPERATING INCOME

	3Q 2018 from 01.07.2018 to 30.09.2018	3 quarters of 2018 from 01.01.2018 to 30.09.2018	3Q 2017 from 01.07.2017 to 30.09.2017	3 quarters of 2017 from 01.01.2017 to 30.09.2017
Sale or liquidation of property, plant and equipment and intangible assets	3,298	6,433	14,303	23,707
Sale of goods and services	2,059	9,169	4,029	10,991
Release of provisions for litigation and claims and other liabilities	119	469	486	1,665
Recovery of debt collection costs	3,237	12,208	3,090	8,980
Recovered indemnities	483	13,061	494	2,520
Income from leasing operations	6,292	21,265	7,059	20,946
Other operating income	280	5,836	7,142	33,510
Total other operating income	**15,768**	**68,441**	**36,603**	**102,319**

Other operating income in 9 months of 2018 totalled PLN 68,441 thousand and were lower by PLN 33,878 thousand, i.e. by 33.1% as compared to the previous year.

The decrease was related to the following events:

- decrease of *other operating income* by PLN 27,674 thousand, i.e. by 82.6% (in the financial statements for the 9 months of 2018, the item includes the annual adjustment of input VAT for 2017 in the amount of PLN 2.9 million, vs. PLN 7.9 million in the corresponding period of the previous year),
- decrease of income on sales or liquidation of fixed assets, intangible assets by PLN 17,274 thousand, i.e. by 72.9%,
- lower release of provisions for litigation and claims and other liabilities by PLN 1,196 thousand, i.e. by 71.8%.

At the same time, revenues from recovered compensations (higher by PLN 10,541 thousand) and recovery of vindication costs (PLN 3,228 thousand) were higher than those for the nine months of 2017.

16 OTHER OPERATING EXPENSES

	3Q 2018 from 01.07.2018 to 30.09.2018	3 quarters of 2018 from 01.01.2018 to 30.09.2018	3Q 2017 from 01.07.2017 to 30.09.2017	3 quarters of 2017 from 01.01.2017 to 30.09.2017
Loss on sale or liquidation of property, plant and equipment and intangible assets	(3,701)	(6,981)	(11,190)	(23,736)
Impairment allowances on other receivables	-	-	(75)	(10,146)
Provisions for restructuring of assets, litigation and claim and other liabilities	(2,901)	(16,672)	(985)	(3,019)
Debt collection	(7,268)	(26,241)	(7,768)	(24,079)
Donations made	(926)	(2,380)	(640)	(1,920)
Costs of leasing operations	(5,997)	(18,361)	(6,253)	(18,728)
Costs of compensations, penalties and fines	(27)	(1,077)	-	-
Other operating expenses	974	(5,059)	(10,010)	(20,389)

Total other operating expenses	**(19,846)**	**(76,771)**	**(36,921)**	**(102,017)**

Other operating costs over the three quarters of 2018 totalled PLN 76,771 thousand and were lower by PLN 25,246 thousand (i.e. by 24.7%) as compared to the three quarters of 2017, which was mainly related to:

- decrease of losses on the sale or liquidation of fixed assets and intangible assets by PLN 16,755 thousand, i.e. by 70,6%,
- no costs related to impairment allowances on other receivables, which amounted to PLN 10,146 thousand in the corresponding period of 2017 (the most significant impact on this item was caused by the creation of the provision for unsettled card transactions in the first quarter of 2017, resulting from the migration of IT systems after the completion of operational merger).

In the current period of 2018, as compared to the first 9 months of 2017, the costs of provisions for litigation and claims and other liabilities were higher (by PLN 13,653 thousand) and cost of vindication (by PLN 2,162 thousand, i.e. by 9.0%).

17 INCOME TAX EXPENSE

	3Q 2018 from 01.07.2018 to 30.09.2018	3 quarters of 2018 from 01.01.2018 to 30.09.2018	3Q 2017 from 01.07.2017 to 30.09.2017	3 quarters of 2017 from 01.01.2017 to 30.09.2017
Current income tax	(48,566)	(112,819)	(67,897)	(155,547)
Deferred income tax	4,984	(11,832)	10,373	10,678
Total income tax expense	**(43,582)**	**(124,651)**	**(57,524)**	**(144,869)**
Profit before income tax	174,480	444,150	167,314	375,438
Statutory tax rate	19%	19%	19%	19%
Income taxes on gross profit	**(33,151)**	**(84,389)**	**(31,790)**	**(71,333)**
Receivables written-off	(721)	(933)	(993)	(173)
Non-tax-deductible tangible costs/income	339	(453)	(100)	321
PFRON	(270)	(698)	(227)	(771)
Prudential fee to the Bank Guarantee Fund	(2,658)	(18,268)	(2,115)	(16,060)
Impairment allowance on receivables	842	(2,046)	(110)	(809)
Tax on financial institutions	(9,209)	(28,185)	(9,802)	(29,488)
Other differences	1,246	10,321	(12,387)	(26,556)
Total income tax expense	**(43,582)**	**(124,651)**	**(57,524)**	**(144,869)**

18 CASH AND CASH BALANCES AT CENTRAL BANK

CASH AND CASH EQUIVALENTS	30.09.2018	31.12.2017
Cash and other balances	835,357	918,927
Account in the National Bank of Poland	334,810	79,108
Cash and cash equivalents, gross	1,170,167	998,035
Impairment allowances	(29)	-
Total cash and balances at Central Bank	**1,170,138**	**998,035**

CHANGE OF IMPAIRMENT ALLOWANCES	30.09.2018	31.12.2017
Opening balance	-	-
Impact of IFRS 9 on the opening balance	(14)	
Increases	(554)	-
Decreases	539	-
Closing balance	**(29)**	**-**

19 AMOUNTS DUE FROM BANKS

	30.09.2018	31.12.2017
Current accounts	31,698	1,732,861
Interbank deposits	42,207	800,105
Loans and advances	8,023	23,053
Other receivables	191,220	52,147
Total amounts due from banks (gross)	**273,148**	**2,608,166**
Impairment allowances on amounts due from banks	(514)	(4,477)
Total amounts due from banks (net)	**272,634**	**2,603,689**

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

	9 months ended 30.09.2018	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	(3,289)	(5,974)
Release of impairment allowances	3,650	3,550
Other changes	269	-
Impairment allowances on amounts due from banks at the end of the period	**(514)**	**(4,477)**

20 DERIVATIVE FINANCIAL INSTRUMENTS

		Fair value	
30.09.2018	Nominal value	Assets	Liabilities
TRADING DERIVATIVES (HELD FOR TRADING)			
CURRENCY DERIVATIVES:			
Foreign Exchange Forward (FX Forward + NDF)	4,587,952	25,049	61,375
Currency Swap (FX Swap)	9,616,727	82,253	38,145
Currency Interest Rate Swaps (CIRS)	7,649,704	67,067	88,361
OTC currency options	2,599,612	24,078	24,221
Total currency derivatives:	**24,453,995**	**198,447**	**212,102**
INTEREST RATE DERIVATIVES:			
Interest Rate Swap	26,223,638	172,681	156,954
Forward Rate Agreements (FRA)	1,500,000	74	-
OTC interest rate options	1,607,857	1,175	1,175
Total interest rate derivatives:	**29,331,495**	**173,930**	**158,129**
OTHER DERIVATIVES			
OTC options	53,968	2,107	2,118
OTC commodity swaps	284,124	3,530	3,509
Currency Spot (FX Spot)	1,477,494	-	-
Total other derivatives:	**1,815,586**	**5,637**	**5,627**
TOTAL TRADING DERIVATIVES:	**55,601,076**	**378,014**	**375,858**
including: measured using models	*55,601,076*	*378,014*	*375,858*

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

21 HEDGE ACCOUNTING

As at 30 September 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.
Presentation of result on the hedged and hedging transactions	The change in fair value of hedging instruments is recognized in the Result on hedge accounting. Interest on IRS transactions and current accounts is recognized in Interest income.

IRS	Nominal value	Fair value	
		Assets	Liabilities
30.09.2018	4,764,473	39,213	8,660
31.12.2017	5,308,397	26,399	-

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

	30.09.2018							
	Fair value		Nominal value					
Hedging derivatives	positive	negative	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Forward rate agreemer								
Swap (IRS)	39,213	8,660	-	100,000	1,017,086	2,833,316	814,071	4,764,473
Hedging derivatives - total	**39,213**	**8,660**	**-**	**100,000**	**1,017,086**	**2,833,316**	**814,071**	**4,764,473**

	31.12.2017							
	Fair value		Nominal value					
Hedging derivatives	positive	negative	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Forward rate agreemer								
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 September 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.
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.

IRS	Nominal value	Fair value Assets	Fair value Liabilities
30.09.2018	750,000	-	2,607
31.12.2017	750,000	-	3,287

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

30.09.2018	Fair value		Nominal value					
Hedging derivatives	positive	negative	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Forward rate agreements								
Swap (IRS)	-	2,607	-	-	-	750,000	-	750,000
Hedging derivatives - total	**-**	**2,607**	**-**	**-**	**-**	**750,000**	**-**	**750,000**

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

	30.09.2018		31.12.2017	
	Gross balance sheet value	Impairment allowance	Gross balance sheet value	Impairment allowance
LOANS AND ADVANCES:				
NON-BANKING FINANCIAL ENTITES	**506,718**	**(2,004)**	**799,501**	**(3,110)**
overdrafts	504,669	(1,935)	591,642	(1,183)
investment loans	-	-	-	-
other loans	2,049	(69)	207,859	(1,927)
RETAIL CUSTOMERS:	**21,455,221**	**(961,226)**	**20,939,056**	**(942,495)**
mortgages	13,805,313	(320,263)	13,628,114	(315,298)
other loans	7,649,908	(640,963)	7,310,942	(627,197)
BUSINESS OPERATOLRS:	**28,927,147**	**(1,620,347)**	**30,794,099**	**(1,744,887)**
overdrafts	14,513,153	(924,452)	12,495,923	(921,987)
investment loans	11,568,893	(530,589)	14,907,068	(584,833)
other loans	2,845,101	(165,306)	3,391,108	(238,067)
INCLUDING RETAIL FARMERS:	**8,799,810**	**(320,131)**	**11,004,011**	**(338,821)**
overdrafts	4,465,679	(146,292)	4,174,519	(108,931)
investment loans	4,326,601	(173,576)	6,822,060	(228,740)
other loans	7,530	(263)	7,432	(1,150)
PUBLIC SECTOR INSTITUTIONS:	**120,405**	**(1,105)**	**172,173**	**(190)**
overdrafts	63,702	(673)	88,626	(98)
investment loans	37,461	(410)	44,862	(45)
other loans	19,242	(22)	38,685	(47)
LEASE RECEIVABLES	**3,364,530**	**(117,829)**	**3,047,519**	**(94,098)**
Total loans and advances to customers measured at amortised cost, gross	**54,374,021**	**(2,702,511)**	**55,752,348**	**(2,784,780)**

As at the end of September 2018, gross loans and advances to customers measured at amortised cost amounted to PLN 54,374,021 thousand. The comparability with the data as at 31.12.2017 was affected by the separation of the portfolio of loans and advances to customers, classified as measured at fair value through profit or loss in accordance with IFRS 9, whose fair value as at the end of September 2018 amounted to PLN 2,555,133 thousand (the gross value with no IFRS 9 reclassification amounted to PLN 2,652,548 thousand).

As at the end of September 2018, gross loans and advances to customers (a total of the portfolios measured at amortised cost and at fair value) amounted to PLN 57,026,569 thousand and increased by PLN 1,274,221 thousand, i.e. by 2.3% as compared to the data as at December 2017.
The portfolio of gross loans and advances measured at amortised cost as at 30 September 2018 amounted to PLN 54,374,021 thousand, including:

- The value of gross loans and advances to retail customers amounted to PLN 21,455,221 thousand. Their share in the loan portfolio measured at amortised cost in the analysed period was 39.5%. More than a half (64.3%) of the portfolio consists of mortgages, which amounted to PLN 13,805,313 thousand as at the end of September 2018. As regards the structure of mortgages, 61.9% of them are granted in PLN, while 37.7% are granted in CHF.

- The gross value of loans and advances to business operators amounted to PLN 28,927,147 thousand. Their share in the loan portfolio measured at amortised cost in the analysed period was 53.2%. A half of the portfolio consists of overdrafts.

- The value of lease receivables amounted to PLN 3,364,530 thousand (increase by 10.4% as compared to the end of 2017). Their share in the loan portfolio measured at amortised cost in the analysed period was 6.2%.
- The volume of loans granted to non-banking financial institutions and public sector institutions amounted to PLN 627,123 thousand, and decreased by 35.5% as compared to December 2017.

The ratio of the exposure share with identified impairment in the gross loan portfolio measured at amortized cost improved to 6.2% as at 30.09.2018 compared to 7.4% as at 31.12.2017.

Net loans and advances to customers by phases are presented in the following table:

30.09.2018	Phase 1	Phase 2	Phase 3	POCI
LOANS AND ADVANCES:	**45,624,872**	**5,399,455**	**3,347,418**	**2,276**
Non-banking financial entities	505,630	102	986	-
Retail customers:	18,538,490	1,849,163	1,065,292	2,276
Business operators:	23,695,927	3,074,685	2,156,535	-
including retail farmers:	7,898,177	370,352	531,281	-
Public sector institutions:	120,312	-	93	-
Lease receivables	2,764,513	475,505	124,512	-
IMPAIRMENT ALLOWANCES ON LOANS AND ADVANCES:	**(306,632)**	**(429,336)**	**(1,966,543)**	**-**
Non-banking financial entities	(1,547)	(13)	(444)	-
Retail customers:	(113,669)	(243,646)	(603,911)	-
Business operators:	(169,967)	(153,814)	(1,296,566)	-
including retail farmers:	(86,542)	(39,331)	(194,258)	-
Public sector institutions:	(1,030)	-	(75)	-
Lease receivables	(20,419)	(31,863)	(65,547)	-
Total loans and advances to customers measured at amortised cost, net	**45,318,240**	**4,970,119**	**1,380,875**	**2,276**

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

	9 months ended 30.09.2018	12 months ended 31.12.2017
Impairment allowances, opening balance	**(2,784,780)**	**(3,001,356)**
Impact of IFRS 9 on the opening balance	(746,196)	-
Recognition of impairment allowances	(1,541,844)	(1,020,806)
Release of impairment allowances	1,309,896	672,520
Charge to revaluation write-offs	1,047,066	548,116
Other changes (including foreign exchange gains or losses)	13,347	16,746
Impairment allowances, closing balance	**(2,702,511)**	**(2,784,780)**

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

Loans by currency	30.09.2018	31.12.2017
CHF	5,202,759	5,350,126
EUR	59,772	65,037
PLN	8,539,591	8,209,418
USD	3,191	3,533
Total	**13,805,313**	**13,628,114**

Value of CHF portfolio

	30.09.2018				31.12.2017			
	Gross balance sheet value	Including CHF exposures	Impairment allowance	Including CHF exposures	Gross balance sheet value	Including CHF exposures	Impairment allowance	Including CHF exposures
LOANS AND ADVANCES:								
NON-BANKING FINANCIAL ENTITIES	**506,718**		**(2,004)**	**-**	**799,501**	**-**	**(3,110)**	**-**
overdrafts	504,669		(1,935)	-	591,642	-	(1,183)	-
investment loans	-		-	-	-	-	-	-
other loans	2,049		(69)	-	207,859	-	(1,927)	-
RETAIL CUSTOMERS:	**21,455,221**	**5,269,786**	**(961,226)**	**(192,708)**	**20,939,056**	**5,426,715**	**(942,495)**	**(217,465)**
mortgages	13,805,313	5,202,759	(320,263)	(183,966)	13,628,114	5,350,126	(315,298)	(206,799)
other loans	7,649,908	67,027	(640,963)	(8,742)	7,310,942	76,589	(627,197)	(10,666)
BUSINESS OPERATORS:	**28,927,147**	**73,332**	**(1,620,347)**	**(7,501)**	**30,794,099**	**95,926**	**(1,744,887)**	**(12,702)**
overdrafts	14,513,153	52,866	(924,452)	(3,564)	12,495,923	64,221	(921,987)	(6,466)
investment loans	11,568,893	13,468	(530,589)	(2,923)	14,907,068	21,149	(584,833)	(3,300)
other loans	2,845,101	6,998	(165,306)	(1,014)	3,391,108	10,556	(238,067)	(2,936)
INCLUDING RETAIL FARMERS:	**8,799,810**	**4,102**	**(320,131)**	**(133)**	**11,004,011**	**6,306**	**(338,821)**	**(1,090)**
overdrafts	4,465,679	3,899	(146,292)	(132)	4,174,519	4,490	(108,931)	(427)
investment loans	4,326,601	203	(173,576)	(1)	6,822,060	1,816	(228,740)	(663)
other loans	7,530	-	(263)	-	7,432	-	(1,150)	-
PUBLIC SECTOR INSTITUTIONS:	**120,405**	**-**	**(1,105)**	**-**	**172,173**	**-**	**(190)**	**-**
overdrafts	63,702	-	(673)	-	88,626	-	(98)	-
investment loans	37,461	-	(410)	-	44,862	-	(45)	-
other loans	19,242	-	(22)	-	38,685	-	(47)	-
LEASE RECEIVABLES	**3,364,530**	**52,078**	**(117,829)**	**(14,582)**	**3,047,519**	**74,322**	**(94,098)**	**(14,708)**
Total loans and advances	**54,374,021**	**5,395,196**	**(2,702,511)**	**(214,791)**	**55,752,348**	**5,596,963**	**(2,784,780)**	**(244,875)**

Over three quarters of 2018, the Bank concluded agreements regarding the sale of a portfolio of loans from the retail and SME portfolios. The amount of receivables sold under agreements covered by impairment allowances in a significant part or derecognized, amounted to PLN 1,072,097 thousand (principal, interest and other side receivables). The contractual price for the sale of these portfolios has been set at PLN 126,152 thousand. The net impact on the Bank's result from the sale of portfolios amounted to PLN -2,240 thousand and is presented in *recognition 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 September 2017 at net value of PLN 2,158,956 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 September 2018. As at 30 September 2018, the Bank held receivables due to settlements with a securitization company in the amount of PLN 111,914 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	
	30.09.2018	31.12.2017	30.09.2018	31.12.2017
Assets	2,158,956	2,194,397	2,229,794	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

	30.09.2018	31.12.2017
Preferential loans	2,555,133	-
Total loans and advances to customers measured at fair value through profit or loss	**2,555,133**	**-**

The tables below present a 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 profit or loss.

	Fair value	Gross balance sheet value
30.09.2018	2,555,133	2,652,548

	Phase 1	Phase 2	Phase 3
Preferential loans	**2,233,263**	**186,386**	**135,484**

24 FINANCIAL ASSETS AVAILABLE FOR SALE

	30.09.2018	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**
including:		
measured using the market quotation method	-	*11,703,944*
measured using models	-	*2,218,596*

25 SECURITIES MEASURED AT AMORTISED COST

	30.09.2018		31.12.2017	
	Gross balance sheet amount	Allowance	Gross balance sheet amount	Allowance
DEBT SECURITIES:				
issued by governments – Treasury-bonds	8,701,018	(32)	-	-
issued by non-financial entities – bonds	432,104	(17,651)	-	-
issued by local governments –bonds	50,849	(110)	-	-
Total securities measured at amortised cost	9,183,971	(17,793)	-	-

30.09.2018	Phase 1	Phase 2	Phase 3	POCI
DEBT SECURITIES:	**8,959,493**	**3,113**	**19,323**	**202,042**
issued by governments – Treasury-bonds	8,701,018	-	-	-
issued by non-financial entities – bonds	207,626	3,113	19,323	202,042
issued by local governments – bonds	50,849	-	-	-
IMPAIRMENT ALLOWANCES ON SECURITIES:	**(249)**	**(408)**	**(11,174)**	**(5,962)**
issued by governments – Treasury-bonds	(32)	-	-	-
issued by non-financial entities – bonds	(107)	(408)	(11,174)	(5,962)
issued by local governments – bonds	(110)	-	-	-
Total securities measured at amortised cost, net	**8,959,244**	**2,705**	**8,149**	**196,080**

26 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	30.09.2018	31.12.2017
Debt securities measured at fair value through profit or loss		
Bonds issued by non-financial institutions	55,442	-
Bonds convertible to non-financial institutions' shares	11,841	-
Equity instruments	71,678	-
Units	630	
Financial instruments measured at fair value through profit or loss	**139,591**	**-**

27 SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30.09.2018	31.12.2017
Debt securities		
Bonds issued by central governments	4,541,389	-
Securities measured at fair value through other comprehensive income	**4,541,389**	**-**

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

	30.09.2018	31.12.2017
Licenses	199,515	219,590
Other intangible assets	8,526	4,996
Expenditure on intangible assets	109,657	63,754
Total intangible assets	**317,698**	**288,340**

In the third quarter of 2018, the gross carrying amount of intangible assets acquired by the Group amounts to PLN 89,902 thousand (in the third quarter of 2017, it amounted to PLN 80,340 thousand), while the net balance sheet amount of sold and liquidated components amounted to PLN 507 thousand (in the third quarter of 2017 it was PLN 49,806 thousand).

29 PROPERTY, PLANT AND EQUIPMENT

	30.09.2018	31.12.2017
Fixed assets, including:	453,104	488,482
land and buildings	223,597	225,119
IT equipment	110,099	122,943
office equipment	23,743	26,717
other, including leasehold improvements	95,665	113,703
Fixed assets under construction	12,273	12,165
Total property, plant and equipment	**465,377**	**500,647**

In the third quarter of 2018, the gross balance sheet amount of the components of "Property, plant and equipment" purchased by the Group is PLN 32,881 thousand (in the third quarter of 2017 it amounted to PLN 49,806 thousand), while the net balance sheet amount of sold and liquidated components is PLN 5,198 thousand (in the third quarter of 2017 it was PLN 12,681 thousand).

30 OTHER ASSETS

INNE AKTYWA:	30.09.2018	31.12.2017
Receivables from contracts with customers:	**346,866**	**343,077**
sundry debtors	226,120	249,559
accrued income	113,941	86,454
payment card settlements	1,792	1,460
social insurance settlements	5,013	5,604
Other:	**182,100**	**134,462**
interbank and intersystem settlements	1,822	460
deferred expenses	33,436	34,767
tax and other regulatory receivables	51,586	70,461
other lease receivables	31,001	18,733
other	64,255	10,041
Total other assets (gross)	**528,966**	**477,539**
Impairment allowances on other receivables from other debtors	(98,042)	(82,730)
Total other assets (net)	**430,924**	**394,809**

31 AMOUNTS DUE TO BANKS

	30.09.2018	31.12.2017
Current accounts	547,442	285,008
Interbank deposits	4,300	18,131
Loans and advances received	4,536,182	3,476,702
Other liabilities	74,453	111,394
Total amounts due to banks	**5,162,377**	**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

	30.09.2018	31.12.2017
NON-BANKING INSTITUTIONS:	**2,573,410**	**3,109,991**
Current accounts	178,114	465,431
Term deposits	1,046,306	1,168,269
Loans and advances received	1,346,737	1,475,684
Other liabilities	2,253	607
RETAIL CUSTOMERS:	**26,898,355**	**27,649,983**
Current accounts	15,771,559	14,812,376
Term deposits	10,953,846	12,690,377
Other liabilities	172,950	147,230
ECONOMIC OPERATORS:	**22,597,647**	**24,662,821**
Current accounts	14,230,199	14,414,954
Term deposits	8,004,056	9,912,792
Other liabilities	363,392	335,075
INCLUDING RETAIL FARMERS:	**1,538,490**	**1,698,793**
Current accounts	1,376,055	1,540,706
Term deposits	143,324	142,209
Other liabilities	19,111	15,878
PUBLIC SECTOR INSTITUTIONS:	**993,934**	**906,102**
Current accounts	606,436	642,122
Term deposits	383,228	262,046
Other liabilities	4,270	1,934
Total amounts due to customers	**53,063,346**	**56,328,897**

The volume of amounts due to customers - the entity division

At the end of September 2018, amounts due to customers amounted to PLN 53,063,346 thousand and were lower by PLN 3,265,551 thousand, i.e. by 5.8% compared to the end of 2017. This decrease is the result of the policy of optimization of the Group's deposit base implemented in connection with the acquisition of the core business of Raiffeisen Bank Polska S.A.

The decrease was noted mainly in the deposits of business operators, whose volume decreased by PLN 2,065,174 thousand, i.e. by 8.4% (including PLN 1,908,736 thousand of term deposits). Simultaneously, the share of this segment in the structure of total amounts due to customers decreased to 42.6% vs. 43.8% as at the end of December 2017.

The value of deposits of retail customers decreased by PLN 751,628 thousand, i.e. by 2.7% and constituted 50.7% of total amounts due to customers as at the end of September 2018 (increase by 1.6 p.p. as compared to the end of 2017).

The volume of deposits of non-banking financial institutions amounted to PLN 2,573,410 thousand and decreased by PLN 536,581 thousand.

On the other hand, the increase in the volume of deposits from the public sector by PLN 87,832 thousand (to the level of PLN 993,934 thousand) contributed positively to amounts due to customers. As a result, their share in total amounts due to customers increased to 1.9% at the end of September 2018 from 1.6% at the end of December 2017.

Structure of amounts due to customers – the product division

The share of current accounts in the structure of total amounts due to customers was 58.0% as at the end of the third quarter of 2018, with the increase by 4.1 p.p. as compared to 2017. Funds deposited on current accounts amounted to PLN 30,786,308 thousand and increased by PLN 451,425 thousand, i.e. by 1.5%. This was the result of an increase in the volume in the segment of retail clients (by PLN 959,183 thousand, +6.5%) with a simultaneous decrease in funds deposited in current accounts by economic operators (by PLN 184,755 thousand, -1.3%), non-banking financial entities and public sector institutions (in total PLN 323,003 thousand).

The share of term deposits in the structure of amounts due to customers in the analysed period amounted to 38.4% and decreased by 4.3 p.p. compared to the end of 2017. In terms of value, term deposits decreased by PLN 3,646,048 thousand, i.e. by 15.2% compared to December 2017 and reached the level of PLN 20,387,436 thousand. The decreases concerned the segment of retail customers (shifting funds to current accounts), the corporate clients segment and non-banking financial entities. These declines were partially offset by the increase in term deposit balances in the public sector customer segment.

The share of loans and advances received and other liabilities in the structure of amounts due was 3.6% and remained at the level recorded at the end of December 2017.

33 DEBT SECURITIES ISSUED

Changes in the balance of debt securities issued

	9 months ended 30.09.2018	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 September 2018, the balance sheet amount of subordinated liabilities is PLN 1,689,887 thousand (as at 31 December 2017 it amounted to PLN 1,645102 thousand).

Change in the balance of subordinated liabilities	9 months ended 30.09.2018	12 months ended 31.12.2017
Opening balance	**1,645,102**	**1,768,458**
Loans taken up	-	-
Change in the balance of interest	440	(345)
Exchange differences	44,345	(123,011)
Closing balance	**1,689,887**	**1,645,102**

35 OTHER LIABILITIES

	30.09.2018	31.12.2017
Liabilities due to contracts with customers	**396,109**	**441,041**
Sundry creditors	216,872	170,158
Payment card settlements	64,568	35,898
Deferred income	71,125	75,722
Escrow account liabilities	23,985	138,871
Social insurance settlements	19,559	20,392
Other liabilities	**650,895**	**784,282**
Interbank and intersystem settlements	224,995	342,148
Provisions for non-personnel expenses	174,531	159,650
Provisions for other employees-related liabilities	110,747	134,096
Provision for unused annual holidays	30,745	28,990
Other regulatory liabilities	51,545	55,045
Other lease liabilities	13,026	39,452
Other	45,306	24,901
Total other liabilities	**1,047,004**	**1,225,323**

36 PROVISIONS

	30.09.2018	31.12.2017
Provision for restructuring	7,587	10,479
Provision for retirement benefits and similar obligations	13,501	12,940
Provision for contingent financial liabilities and guarantees granted	65,659	35,419
Provisions for litigation and claims	23,981	7,109
Other provisions	7,221	10,906
Total provisions	**117,949**	**76,853**

Provisions for restructuring	9 months ended 30.09.2018	12 months ended 31.12.2017
Opening balance	**10,479**	**29,523**
Provisions recognition	4,000	1,602
Provisions utilization	(6,892)	(20,884)
Other changes	-	238
Closing balance	**7,587**	**10,479**

Provision for retirement benefits and similar obligations	9 months ended 30.09.2018	12 months ended 31.12.2017
Opening balance	**12,940**	**13,332**
Provisions recognition	1,784	1,702
Provisions release	(1,223)	(2,094)
Closing balance	**13,501**	**12,940**

Provisions for financial liabilities and guarantees granted	9 months ended 30.09.2018	12 months ended 31.12.2017
Opening balance	**35,419**	**42,659**
Impact of IFRS 9 on the opening balance	38,193	-
Provisions recognition	118,166	32,277
Provisions release	(126,367)	(40,383)
Other changes	248	866
Closing balance	**65,659**	**35,419**

Provisions for litigation and claims	9 months ended 30.09.2018	12 months ended 31.12.2017
Opening balance	**7,109**	**26,687**
Provisions recognition	17,557	7,046
Provisions utilization	(948)	(23,894)
Provisions release	(126)	(2,060)
Provision acquired due to the merger	448	-
Other changes	(59)	(670)
Closing balance	**23,981**	**7,109**

Other provisions	9 months ended 30.09.2018	12 months ended 31.12.2017
Opening balance	**10,906**	**8,840**
Provisions recognition	885	11,764
Provisions release	(4,570)	(5,747)
Other changes	-	(3,951)
Closing balance	**7,221**	**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.

	30.09.2018	31.12.2017
Cash and balances at Central Bank (Note 18)	1,170,138	998,035
Current accounts of banks and other receivables	67,424	1,645,170
Interbank deposits	23,000	800,000
Loans and advances	13,191	-
Total cash and cash equivalents	**1,273,753**	**3,443,205**

38 ADDITIONAL INFORMATION REGARDING THE STATEMENT OF CASH FLOWS

Cash flows from operating activities – other adjustments	9 months ended 30.09.2018	9 months ended 30.09.2017
FX differences from subordinated loans	44,785	(71,694)
Change on hedge accounting	1,173	7,374
Impact of IFRS 9	(311,064)	-
Securities measurement through profit or loss	(13,091)	-
Tax on financial institutions	148,343	-
Other adjustments	640	(1,352)
Cash flows from operating activities – total other adjustments	**(129,214)**	**(65,672)**

39 CONTINGENT LIABILITIES

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

	30.09.2018	31.12.2017
CONTINGENT COMMITMENTS GRANTED	**21,472,595**	**19,466,753**
financial commitments	16,447,484	15,126,896
guarantees	5,025,111	4,339,857
CONTINGENT COMMITMENTS RECEIVED	**12,263,301**	**12,009,299**
financial commitments	10,948,332	10,871,719
guarantees	1,314,969	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, 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 third 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:

30.09.2018	Level 1	Level 2	Level 3	Total
ASSETS MEASURED TO FAIR VALUE:	**4,541,389**	**338,454**	**233,586**	**5,113,429**
Derivative financial instruments	-	338,454	39,560	378,014
Financial instruments measured at fair value through other comprehensive income	4,541,389	-	-	4,541,389
Financial instruments measured at fair value through profit or loss	-	-	139,591	139,591
Investment properties	-	-	54,435	54,435
LIABILITIES MEASURED AT FAIR VALUE:	**-**	**294,661**	**81,197**	**375,858**
Derivatives	-	294,661	81,197	375,858

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.

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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:	(5,671)	7,876	-	(35,791)	4,437
statement of profit or loss	*(5,671)*	*7,876*	-	*(35,791)*	*4,437*
statement of other comprehensive income	-	--	-	-	-
Purchase	-	18,518	-	-	-
Sale	-	(143)	-	-	-
Transfer	-	3,300	-	-	-
Impairment allowance	-	-	-	-	-
Merger	-	-	-	-	-
Balance as at 30.09.2018	**39,560**	**138,962**	**54,435**	**(81,197)**	**(5,181)**
Unrealized gains/losses recognized in profit or loss related to assets and liabilities at the end of the period	**(5,671)**	**7,876**	**-**	**(35,791)**	**4,437**

	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)*
statement of profit or loss	*21,979*	*34*	(31)	(30,725)	*(9,618)*
statement of other comprehensive income	-	*4,203*	-	-	-
Purchase	-	3,300	-	-	-
Sale	-	(137)	-	-	-
Transfer	-	22,076	-	-	-
Impairment allowance	-	(11,792)	-	-	-
Balance as at 31.12.2017	**45,231**	**73,850**	**54,435**	**(45,406)**	**(9,618)**
Unrealized gains/losses recognized in profit or loss related to assets and liabilities at the end of the period	**21,979**	**34**	**(31)**	**(30,725)**	**(9,618)**

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.

30.09.2018	Book value	Fair value	Level
FINANCIAL ASSETS			
Amounts due from banks	272,634	255,412	3
Loans and advances to customers measured at amortised cost	51,671,510	52,339 930	3
Securities measured at amortised cost	9,166,178	9,118,410	3
FINANCIAL LIABILITIES			
Amounts due to banks	5,162,377	5,182,025	3
Amounts due to customers	53,063,346	53,158,960	3
Subordinated loan	1,689,887	1,844,602	3

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 September 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 its registered office at Suwak 3 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000098813. The Bank holds 100% of the company's shares.

4. BNP Paribas Group Service Center S.A. ("GSC", formerly: Laser Services Polska S.A.), with its registered office at Suwak 3 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000022784. The Bank holds 100% of the company's shares.

5. Campus Leszno Sp. z o.o. with its registered office at Fabryczna 1 in Leszno. 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. due to the fulfilment of the control conditions only within the understanding 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

30.09.2018	BNP Paribas S.A.	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Total
ASSETS	**301,574**	**5,550**	**35,395**	**61**	**342,580**
Receivables on current accounts, loans and deposits	38,483	3,314	30,449	61	**72,307**
Derivative financial instruments	224,491	436	-	-	**224,927**
Hedging instruments	37,412	1,800	-	-	**39,212**
Other assets	1,188	-	4,946	-	**6,134**
LIABILITIES	**3,970,156**	**11,868**	**4,234,555**	**4,294**	**8,220,873**
Loans and advances received	-	-	3,265,264	4,291	**3,269,555**
Current accounts and deposits	1,567,723	11,488	586,783	-	**2,165,994**
Subordinated liabilities	1,437,176	-	376,590	-	**1,813,766**
Derivative financial instruments	152,769	380	-	-	**153,149**
Hedging instruments	11,267	-	-	-	**11,267**
Repo transactions	800,580	-	-	-	**800,580**
Other liabilities	641	-	5,918	3	**6,562**
CONTINGENT LIABILITIES					
Financial commitments granted	-		186,568	58	**186,626**
Guarantees granted	135,543	211,650	360,304	-	**707,497**
Commitments received	142,272	144,545	597,046	-	**883,863**
Derivatives (nominal value)	33,892,239	197,148	-	-	**34,089,387**
Hedging instruments (nominal value)	5,484,573	29,900	-	-	**5,514,473**
Repo transactions	182,635	-	-	-	**182,635**
9 months ended 30.09.2018					
STATEMENT OF PROFIT OR LOSS	**(6,356)**	**(3,088)**	**18,117**	**(55)**	**8,618**
Interest income	1,018	625	22,337	-	**23,980**
Interest expense	(23,468)	(314)	(20,501)	(55)	**(44,338)**
Fee and commission income	90	111	11,413	-	**11,614**
Fee and commission expense	(242)	-	(54)	-	**(296)**
Net trading income	29,719	(3,510)	371	-	**26,580**
Other operating income	-	-	5	-	**5**
Other operating expenses	(13,473)	-	(15,687)	-	**(29,160)**
General administrative expenses	-	-	20,233	-	**20,233**

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**
Hedging instruments	366	-	4,758,323	35	**4,758,724**
OTHER ASSETS	**2,901,637**	**33,249**	**5,186,468**	**4,113**	**8,125,467**
Liabilities	1,324,886	33,080	1,306,853	-	**2,664,819**
Loans and advances received	-	-	1,752,397	4,113	**1,756,510**
Current accounts and deposits	1,398,737	-	250,822	-	**1,649,559**
Subordinated liabilities	177,919	169	-	-	**178,088**
Derivative financial instruments	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	30.09.2018	31.12.2017
Short-term employee benefits	11,634	14,563
Long-term benefits	4,767	5,907
Benefits due to termination of employment	-	3,698
Post-employment benefits	-	3,101
Share-based payments	1,804	1,279
TOTAL	**18,205**	**28,548**

Supervisory Board	30.09.2018	31.12.2017
Short-term employee benefits	1,552	2,011
Long-term benefits	-	-
Benefits due to termination of employment	-	-
Share-based payments	-	-
TOTAL	**1,552**	**2,011**

42 CONSOLIDATED CAPITAL ADEQUACY RATIO

	30.09.2018	31.12.2017
Total equity	8,851,232	7,696,324
Total risk exposure	58,145,604	55,988,130
Total capital ratio	15.22%	13.75%
Tier 1 capital ratio	12.32%	10.81%

43 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 10 million and the Group's credit exposure to a customer is less than PLN 2 million;
- farmers, in case of whom the Group's credit exposure is less than PLN 2 million and the Standard Output (parameter describing the economic size of farms in accordance with the Community Typology for Agricultural Holdings) in the preceding financial year was less than EUR 75 thousand or EUR 100 thousand (depending on the region).

The scope of financial services offered by the Retail and Business Banking Segment includes maintenance of current and deposit accounts, acceptance of term deposits, granting mortgage loans, cash loans, mortgage advances, overdrafts, loans to microenterprises, issuing debit and credit cards, cross-border cash transfers, foreign exchange transactions, sale of insurance products as well as other services of lesser importance to the Group's income. Additionally, the performance of the Retail and Business Banking Segment includes: balances and performance of 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 retail customers) with annual net revenue for the preceding financial year of PLN 10-60 million or the Bank's credit exposure to one customer of PLN 2-25 million;
- farmers, in case of whom the Bank's credit exposure to a customer is PLN 2-25 million and the Standard Output (parameter describing the economic size of farms in accordance with the Community Typology for Agricultural Holdings) in the preceding financial year was at least EUR 75 thousand or EUR 100 thousand (depending on the region);
- Agro entrepreneurs with full financial reporting and sales revenue of PLN 10-60 million or the Bank's credit exposure of PLN 2-25 million, including agricultural producers groups.

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

Corporate Banking offers a wide variety of financial services to large and medium-sized enterprises as well as local government entities with annual turnover exceeding PLN 60 million or the Bank's exposure to a customer of PLN 25 million or more, in addition to entities operating in multinational capital groups.
Corporate Banking customers are classified into 4 key groups:

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

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

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

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

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

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

30.09.2018*	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	912,028	184,921	207,144	7,163	141,824	**1,453,079**	296,150	322,043
external interest income	1,106,207	276,115	283,190	14,962	372,995	**2,053,468**	504,457	486,018
external interest expenses	(259,804)	(51,372)	(109,871)	-	(179,343)	**(600,389)**	(46,177)	(24,140)
internal interest income	548,297	110,800	193,309	-	(852,406)	**-**	99,844	-
internal interest expenses	(482,673)	(150,622)	(159,484)	(7,799)	800,578	**-**	(261,974)	(139,835)
Net fee and commission income	237,257	56,676	93,794	1,243	(4,299)	**384,672**	94,979	60,733
Dividend income	-	-	-	-	4,781	**4,780**	-	-
Net trading income	26,497	19,862	59,104	47,921	47,711	**201,096**	16,663	88
Result on investment activities	-	-	452	-	30,174	**30,626**	-	-
Result on hedge accounting	-	-	-	-	4,612	**4,612**	-	-
Other operating income and expenses	233	(4,472)	(2,023)	95	(2,162)	**(8,330)**	(5,131)	(3,070)
Net impairment losses on financial assets and contingent liabilities	(128,711)	(32,920)	(35,319)	(757)	(21,409)	**(219,115)**	(118,260)	(9,587)
Total operating expenses	(606,799)	(78,804)	(104,196)	(18,534)	(326,369)	**(1,134,701)**	(7,202)	(195,158)
Depreciation and amortization	(57,774)	(2,578)	(6,276)	(3,152)	(54,446)	**(124,226)**	(120)	(8,791)
Expense allocation (internal)	(233,171)	(53,739)	(40,672)	(5,724)	333,306	**-**	-	(54,634)
Operating result	**149,560**	**88,946**	**172,008**	**28,255**	**153,722**	**592,493**	**277,079**	**111,624**
Tax on financial institutions	(79,881)	(25,791)	(35,356)	(1,668)	(5,647)	**(148,343)**	-	(19,908)
Segment profit before income tax	**69,680**	**63,155**	**136,652**	**26,587**	**148,075**	**444,150**	**277,079**	**91,716**
Income tax expense	**-**	**-**	**-**	**-**	**-**	**(124,651)**	**-**	**-**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**319,499**	**-**	**-**
STATEMENT OF FINANCIAL POSITION AS AT 30.09.2018								
Segment assets	30,804,647	9,085,515	13,972,998	463,677	17,497,045	**71,823,883**	15,773,458	8,406,703
Segment liabilities	30,618,623	7,388,026	13,407,946	-	13,065,334	**64,479,930**	6,536,198	-

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

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

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

As at 30 September 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:	87,669,864	89.88%	87,669,864	89.88%
BNP Paribas directly	57,784,889	59.24%	57,784,889	59.24%
BNP Paribas Fortis SA/NV directly	29,884,975	30.64%	29,884,975	30.64%
Rabobank International Holding B.V.	5,613,875	5.76%	5,613,875	5.76%
Other shareholders	4,254,579	4.36%	4,254,579	4.36%
Total	**97,538,318**	**100.00%**	**97,538,318**	**100.00%**

As at 30 September 2018, the Bank's share capital amounted to PLN 97,538,318 thousand.

The share capital is divided into 97,538,318 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, 28,099,554 I series shares, 2,500,000 J series shares and 10,800,000 K series shares.

The Bank's shares are ordinary bearer and registered shares (as at 30 September 2018, there were 23,824,915 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.

The Bank's Statute does not impose any limitations as to exercising the voting rights or set forth any provisions whereby the equity rights attached to securities would be separated from the holding itself. One right to vote at the General Shareholders' Meeting of the Bank is attached to each share. The Bank's Statute does not impose any limitations as to transferring the title to the securities issued by the Bank.

As at 30 September 2018 one of the members of the Management Board or Supervisory Board of the Bank declared holding any shares of Bank BGŻ BNP Paribas S.A., and there were no change in this respect from the date of presenting the report for the first half of 2018, i.e. 30 August 2018.

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

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

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

On 14 September 2018, the PFSA collected from BNP Paribas SA the liabilities regarding prudent and stable management of the Bank. As part of the liabilities, BNP Paribas SA committed to increase the liquidity of the Bank's shares on the Warsaw Stock Exchange to at least 25% plus one share by the end of 2023 at the latest.

45 DIVIDENDS PAID

The Group did not pay any dividends for 2017.

46 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.

47 LITIGATION AND CLAIMS

Legal risk

As at 30 September 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 September 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 September 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 September 2018 r the Bank was the defendant in (91) ninety one 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 32.42 million.

48 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 9 months 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 72% 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 forborne 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, especially extending the loan maturity date;
- 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;
- consolidation of loans into one new product, if the amounts of payments of the consolidated loan are lower than the sum of payments of these loans separately before the consolidation occurred;
- decrease of the base interest rate or margin;
- 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:

- exposure reclassified to performing portfolio as a result of the analysis of financial situation (in case of corporate portfolio), which proved that the customer does not meet the criteria for being classified to the impaired portfolio;
- 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

The use of sensitivity limits for the interest position in individual time periods in the third 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 31% at the end of September.

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 in the third quarter of 2018 decreased as compared with the previous quarter and was, on average, 17%. 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 period between July and September 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 120% -148%.

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 September 2018, 25% of the Bank's exposure towards countries was treasury transactions (including deposits and derivatives), 36% 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 48%, Belgium and the Netherlands both for 13%, Great Britain for 7%, and Germany for 5% of the exposure. The remaining exposure was related to Luxembourg, Switzerland and Sweden.

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 BGŻ 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 and the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and the internal control system, the remuneration policy and the detailed method of estimating internal capital in banks. 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).

In order to achieve the required levels of capital adequacy ratios of the Bank both on separate and consolidated levels, 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.

In addition, on 27 September 2018, the Bank received PFSA's decision approving the inclusion of Tier 1 capital in the share capital of BGŻ BNP Paribas S.A. net profit for the period from 1 January 2018 to 30 June 2018.

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.

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 as at 30 September 2018 are as follows:

CET I = 9.97%

Tier I =11.58%

Total Capital Ratio = 13.73%

As at 30.09.2018 the consolidated capital adequacy ratios of the Group were as follows:

CET I = 12.32%

Tier I = 12.32%

Total Capital Ratio = 15.22%

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 as at 30 September 2018 are as follows:

CET I = 9.98%

Tier I =11.60%

Total Capital Ratio = 13.75%

As at 30.09.2018 the separate capital adequacy ratios of the Bank were as follows:

CET I = 12.70%

Tier I = 12.70%

Total Capital Ratio = 15.69%

49 MANAGEMENT OF BANK BGŻ BNP PARIBAS S.A.

Composition of the Bank's Supervisory Board as at 30 September 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
Michel Falvert	Member of the Supervisory Board
Piotr Mietkowski	Member of the Supervisory Board
Monika Nachyła	Member of the Supervisory Board
Stéphane Vermeire	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 September 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 the Bank, 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 the Bank, with the effect from 13 June 2018.
- On 24 August 2018, the Extraordinary General Meeting of the Bank appointed Mr Michela Falvert and Mr Stéphane Vermeire as members of the Supervisory Board until the end of the current five-year joint term of office of the Supervisory Board members.

Composition of the Bank's Management Board as at 30 September 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 Bézieau	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 September 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.
- On 26 September 2018, Mr Blagoy Bochev submitted a resignation from the position of the Vice-President of the Management Board, with the effect from 31 October 2018. On the same day, the Supervisory Board appointed Mr André Boulanger as the Vice-President of the Management Board with the effect from 1 November 2018 for the period until the end of the current three-year joint term of office of the Management Board members.

50 FACTORS WHICH, ACCORDING TO THE BANK, WILL AFFECT THE BANK'S PERFORMANCE WITHIN AT LEAST THE NEXT QUARTER

The most significant external factors affecting the financial results of the Group in the subsequent periods include:

- **The economic situation in Poland.** Data on economic activity for the period July-September are consistent with a 4.6% increase in GDP (YoY) in the third quarter of 2018. Thus, GDP growth slowed down from 5.1% YoY a quarter earlier. In the second quarter of 2018, growth was based on domestic demand, with solid consumption growth maintained and investment growth higher than a quarter earlier. However, deteriorating OECD leading indicators, weaker Eurozone data and growing supply constraints suggest that GDP growth may continue to slow down in the coming quarters.

- **The situation on the domestic labour market.** The unemployment rate reaches another historical minimum. At the end of the third quarter of 2018 it was 5.9%, after eliminating the impact of seasonal factors. The impact of unfavourable demographic trends and lowering the retirement age on the number of economically active people was limited in the previous quarters by a significant influx of workers from Ukraine. In the medium- and long-term a reduction in labour supply may reduce the potential and real GDP growth. Recently, the wage pressure decreased, still remaining on a relatively high level.
- **Changes in the level of inflation.** In the third quarter of 2018, inflation stabilized around 2.0% YoY. N Lower dynamics of food and energy prices was compensated by higher core inflation. W In this context, the Monetary Policy Council kept interest rates unchanged. After recent MPC meetings, the President of the National Bank of Poland, Adam Glapiński, pointed out that in his opinion interest rates may remain unchanged at least until the end of 2019, and possibly even the end of 2020. In the context of the increase in electricity generation costs, the main upward risks for inflation appear to be the administratively determined electricity prices for households. On the other hand, the downward risk is the possibility of a smaller transfer of wage growth to core inflation in the conditions of increased productivity growth. Market interest rates in Poland at the end of the third quarter were growing, following their counterparts in the core markets (US and Eurozone). At the beginning of the fourth quarter, however, the partial reversal if interest rates occurred.
- **Potentially increasing imbalances in public finance**. Despite high economic activity and improvement of tax collection, which both favoured the reduction of the general government deficit from 2.3% of GDP in 2016 to 1.4% of GDP in 2017, according to the European Commission in 2017, the structural deficit was around 2% of GDP, and in in subsequent years, its deepening is forecasted. The growing forecasted structural deficit and increasing expenditures / decreasing the public finance sector revenues make them susceptible to a possible stronger slowdown in economic activity.
- **Potential significant weakening of Polish zloty exchange rate against key currencies**, in response to a possible increase in volatility and risk aversion in the financial markets. Another risk would be a potential a significant strengthening of the zloty exchange rate against key currencies, which, in the light of growing domestic labour costs, may reduce the competitiveness of Polish exports and, consequently, deteriorate the trade balance and current account, and weaken the rate of economic growth. BNP Paribas predicts that at the end of 2018 the EUR/PLN exchange rate will be lower than the current one (4.30), i.e. it will be around 4.25.
- **Further increase in market interest rates in the world**, as a potential risk factor for Polish bonds and Polish zloty exchange rate, as well as for the medium-term economic growth rate.
- **Potential increase in volatility and risk aversion on the European financial markets,** resulting from the tightening of monetary policy parameters by the ECB, including restrictions on the scale of assets purchase from the beginning of 2018 and announcements of its completion at the end of this year. Higher risk aversion on the European bond market may increase the risk premium for Polish assets and increase the profitability of Polish Treasury securities (especially at the long end of the yield curve).
- **The global trade war seems to be the main external risk**. Currently, the trade dispute is focused on the US-China line. The escalation of the dispute could contribute to the slowdown in economic growth in Poland.
- **A draft of bill on support for people having problems with timely payment of mortgage loans**. The bill prepared by the Chancellery of the President assumes the creation of a new Restructuring Fund. The fund will be financed from quarterly contributions paid by banks, depending on the volume of their own portfolios of denominated and indexed loans (maximum 0.5% of the balance sheet value of the loan portfolio). The bill assumes that the maximum annual burden on the banking sector will not exceed PLN 2.8 billion in the first year.
- **Implementation of the Payment Services Directive (PSD II)** related to payment services within the EU internal market in the Polish law through the changes in the act on payment services. PSD II will introduce, among others, an online access service to customer account data and payment initiation service at the customer's request. The above mentioned services may be provided by third parties. The Directive imposes on banks the obligation to provide public application interfaces software (APIs) and to implement additional security requirements.

51 MAJOR EVENTS IN BANK BGŻ BNP PARIBAS S.A. IN THE THIRD QUARTER 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 2018[2], 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, 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.

[2] 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).

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" tabs.

17.05.2018 **Announcement of the new *Fast Forward* strategy of Bank BGŻ BNP Paribas S.A. for the years 2018-2021,** based on 5 key pillars: simplicity, digitalization, quality, growth and enthusiasm.

The Bank's strategic goals are to achieve:

- the growth rate of the result on banking operations higher than the market average growth,
- ROE above 10%,
- C / I ratio at around 50%.

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:

- 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.

16.07.2018 **Conditional registration of ordinary bearer series J of Bank BGŻ BNP Paribas S.A. in the securities depository** kept by the National Depository of Securities [*KDPW*] – KDPW's statement no. 441/2018 of 13 July 2018.

17.07.2018 **Information on the admission and introduction to the exchange trading of series J bearer ordinary shares of Bank BGŻ BNP Paribas S.A. on the WSE Main List** – WSE's [*GPW*] Resolution No. 768/2018 of 16 July 2018.

Decision of the European Commission of 16 July 2018 on not raising objections to the notified concentration involving the acquisition of control on the core business of Raiffeisen Bank Polska S.A. by Bank BGŻ BNP Paribas S.A. and declaration that the notified concentration is compliant with the common market.

18.07.2018 **Announcement of the National Depository for Securities S.A. from 17 July 2018 regarding the registration of series J ordinary bearer shares of Bank BGŻ BNP Paribas S.A. on 19 July 2018**

8.08.2018 **Information from the Polish Financial Supervision Authority regarding the buffer rate of other systemically important institution imposed on Bank BGŻ BNP Paribas S.A.**

As a result of the review, the Authority concluded that there are no triggers to repeal or amend the Authority's Decision of 4 October 2016, as set out in the Authority's Decision of 19 December 2017.

	This means that the Authority's Decision on imposing on the Bank (on a consolidated and separate basis) a buffer of other systemically important institution equivalent to 0.25% of the total risk exposure amount calculated in accordance with article 92 paragraph 3 of the EU CRR Regulation (No. 575/2013), of 19 December 2017, remains in force.
3.09.2018	**The Bank received last missing individual interpretations of tax law related to the demerger of RBPL, specified in the Transaction Agreement.**
6.09.2018	**Application to the PFSA regarding the approval to include the net profit generated by the Bank in the first half of 2018, in the amount of PLN 194,073 thousand, into Tier 1 capital of the Bank.**
14.09.2018	**Decision of PFSA regarding the permit for the demerger of Raiffeisen Bank Polska S.A. and other decisions related to the planned acquisition of the core business of Raiffeisen Bank Polska S.A. by Bank BGŻ BNP Paribas S.A.**
26.09.2018	**Decisions of PFSA of 25 September 2018 related to the permit for changes in the Statute of Bank BGŻ BNP Paribas S.A. in relation to the planned acquisition of the core business of Bank BGŻ BNP Paribas S.A.** – fulfilment of all the terms of the Demerger specified in the Demerger Plan.
27.09.2018	**Decision of PFSA regarding the permit to include the net profit generated by the Bank in the first half of 2018, in the amount of PLN 194,073 thousand, into Tier 1 capital of the Bank.**

52 SUBSEQUENT EVENTS

11.10.2018	**Fulfilling or waiver of all terms precedent provided for in the transaction agreement regarding the acquisition of the core business of Raiffeisen Bank Polska S.A.**
16.10.2018	**Polish Financial Supervision Authority recommendation regarding additional capital requirement** On 16 October 2018, the Bank received a decision of PFSA regarding the coverage of additional capital requirement in order to hedge the risk resulting from foreign currency mortgage loans and advances for households, on the level of 0.36 p.p. over the value of the total capital ratio, specified in article 92 paragraph 1 of the Capital Requirements Regulation No. 575/2013. Tier 1 capital shall account for at least 75% of the additional capital requirement (which complies with the capital requirement on the level of 0.27 p.p. over the value of Tier I capital ratio, specified in article 92 paragraph 1 b of the Regulation No. 575/2013). At the same time, the Common Equity Tier 1 shall account for at least 56% of the additional capital requirement (which complies with the capital requirement on the level of 0.20 p.p. over the value of Common Equity Tier I ratio, specified in article 92 paragraph 1 a of the Regulation No. 575/2013). Simultaneously, the Management Board of the Bank informed that as at the date of receiving the PFSA's decision it maintains own capital on the level allowing to meet the recommended capital requirements both on separate and consolidated basis.
31.10.2018	**Registration of the demerger of Raiffeisen Bank Polska S.A.** On 31 October 2018, the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register entered into the register of entrepreneurs an increase in the Bank's share capital from PLN 97,538,338.00 to PLN 147,418,128.00 through the issue of 49,880,600 ordinary registered series L shares with a nominal value of PLN 1.00 each (registration of the Capital Increase), due to the demerger of Raiffeisen Bank Polska S.A. (RBPL) in the mode of article 529 § 1 point 4 of the Code of Commercial Companies (Demerger). According to article 530 § 2 of the Code of Commercial Companies, along with the Registration of Capital Increase, the core business of RBPL (Core Business of RBPL) were demerged, in the form of an organized part of the enterprise together with all assets and liabilities of RBPL related to this business, excluding assets and liabilities that will remain in RBPL after the Demerger, as well as the transfer of the Core Business of RBPL to the Bank. Thus, the Demerger became effective and the Core Business of RBPL became formally part of the Bank. Along with the Registration of the Capital Increase, also the registration of changes to the Bank's Statute related to the Demerger was made, including changes to the provisions regarding the Bank's share capital and the Bank's business, so that the Bank would be formally entitled to continue the activities of RBPL to the extent that it was transferred to the Bank as a result of the demerger. Amendments to the Bank's Statute were made on the basis of Resolutions No. 3 and No. 4 of the Extraordinary General

Meeting of the Bank dated 24 August 2018.

31.10.2018

Notification from BNP Paribas SA concerning the change of share in total number of shares

On 31 October 2018, the Bank received a notification prepared by BNP Paribas SA with its registered office in Paris, France, pursuant to article 69 paragraph 2 point 2 in connection with article 87 paragraph 5 point 1 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of 29 July 2005 (unified text: Journal of Laws of 2018, item 512, as amended) concerning changes of the share in the total number of votes by at least 1% of the total number of votes.

2.11.2018

Notification of Raiffeisen Bank International AG concerning the fact of reaching and exceeding a 5% share in the total number of votes

On 2 November 2018, the Bank received a notification prepared by Raiffeisen Bank International AG with its registered office in Vienna, Austria and Parent Entities, pursuant to article 69 paragraph 1 point 1 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of 29 July 2005 (unified text: Journal of Laws of 2018, item 512, as amended) concerning the fact of reaching and exceeding 5% of the total number of votes.

5.11.2018

Notification from Rabobank International Holding B.V. concerning the decrease of the share in share capital and decrease in the number of votes on the General Meeting of Bank BGŻ BNP Paribas S.A.

On 5 November 2018, a the Bank received a notification prepared by Rabobank International Holding B.V., with its registered office in Utrecht, pursuant to article 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of 29 July 2005 (unified text: Journal of Laws of 2018, item 512, as amended) concerning the decrease of the share in share capital and decrease in the number of votes on the General Meeting of the Bank.

Notification from Raiffeisen Bank International AG concerning the sale of all of the shares of Bank BGŻ BNP Paribas S.A.

On 5 November 2018, the Bank received a notification prepared by Raiffeisen Bank International AG, with its registered office in Vienna, Austria and the Parent Undertakings (RBI), pursuant to article 69 paragraph 1 point 2 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of 29 July 2005 (unified text: Journal of Laws of 2018, item 512, as amended) concerning the sale of all shares of the Bank held by RBI.

Notification from BNP PARIBAS SA concerning the change in total number of votes

On 5 November 2018, the Bank received a notification prepared by BNP Paribas SA with its registered office in Paris, France, pursuant to article 69 paragraph 2 point 2 in connection with article 87 paragraph 5 point 1 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of 29 July 2005 (unified text: Journal of Laws of 2018, item 512, as amended) concerning changes of the share in the total number of votes by at least 1% of the total number of votes.

5.11.2018

Purchase of the shares of Bank BGŻ BNP Paribas by the European Bank for Reconstruction and Development (EBRD)

On 5 November 2018, the Management Board of the Bank was informed that on 5 November 2018, EBRD has acquired the share in the share capital and in the total number of votes of approximately 4.5%, via the investment of PLN 430 million.

7.11.2018

Notification of BNP Paribas Fortis SA/NV concerning the change in total number of votes

On 7 November 2018, the Bank received a notification prepared by BNP Paribas Fortis SA/NV, with its registered office in Brussels, Belgium, pursuant to article 69 paragraph 1 point 2 and article 69 paragraph 2 point 1 a) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of 29 July 2005 (unified text: Journal of Laws of 2018, item 512, as amended) concerning the change in total number of votes and decrease in the share in total number of votes to the level below 25%.

8.11.2018

Changes in the composition of the Management Board of Bank BGŻ BNP Paribas S.A.

The Bank's Supervisory Board at a meeting held on 8 November 2018 appointed **Mr. Kazimierz Łabno** to the post of the Vice President of the Bank's Management Board till the end of the current joint three-year term of office as referred to in Article 21 item 1 of the Bank's Articles of Association.

Merger of BGŻ BNP Paribas with the demerged part of Raiffeisen Bank Polska S.A.

On 10 April 2018, the Bank concluded a Transaction Agreement regarding the acquisition of the core business of Raiffeisen Bank Polska S.A. (RBPL). The Agreement was concluded with Raiffeisen International AG (RBI) and BNP Paribas SA (BNPP).

The Agreement covered the following areas:

- acquisition of shares representing less than 50% of the share capital of RBPL, by BNPP from RBI; and

- demerger of RBPL in accordance with article 124c of the Banking Law and article 529 § 1 point 4 of the Code of Commercial Companies performed by transferring the RBPL Core Business to the Bank (by demerger) on the terms described in the Demerger Plan;

- issue of new shares of Bank BGŻ BNP to RBI and BNPP in accordance with the rules provided for in the Demerger Plan.

As a result of the Transaction Agreement, the acquisition of the Core Business of RBPL by BGŻ BNP took place on 31 October 2018, i.e. on the day of registration of the increase in the Bank's share capital by PLN 49,880,600 to the amount of PLN 147,418,918 by the competent court of registration (by issue of 49,880,600 ordinary registered series L shares with a value of PLN 1.00 each) in connection with the demerger of RBPL pursuant to article 529 § 1 point 4 of the Code of Commercial Companies.

As a result of the Transaction, on the day of registration of the Bank's share capital increase resulting from the Demerger by the competent court of registration ("Demerger Day"), the Bank acquired the core business of RBPL ("Core Business of RBPL"), in the form of an organized part of the enterprise, including all assets and liabilities connected with this activity, and excluding assets and liabilities that remained in RBPL after the Demerger ("RBPL Mortgage Activity"). Mortgage activity of RBPL, which remained in RBPL after the Demerger, includes foreign currency mortgage loans and foreign currency loans for non-residential purposes granted by RBPL, other credit exposures, as well as all legal relations between RBPL and six investment funds in liquidation, managed by FinCrea TFI S.A until November 2017.

On 31 October 2018, the Bank acquired the entire Core Business of RBPL.

The definition of control included in IFRS 10 specifies that the investor controls the subject of the investment when he is exposed to risk or has the right to variable returns from its involvement in the investment and has the ability to affect those returns through its power over the subject of the investment. The source of power is the relevant rights that allow managing relevant activities. The Bank is of the opinion that it gained control over the Core Business of RBPL on 31 October 2018. In accordance with the Transaction Agreement regarding the acquisition of the core business of Raiffeisen Bank Polska S.A., in the period between the conclusion of the Agreement and the date of the Demerger, the Bank did not exercise any rights arising from RBPL shares, subject to the exceptions provided for in this Agreement. While performing the above obligation, the Bank did not introduce its representatives to management and supervisory bodies during the Intermediate Period.

Pursuant to the Transaction Agreement, the Bank acquired the Core Business of RBPL with guaranteed Common Equity Tier 1 capital amounting to PLN 3,400 million ("Target Capital") for the agreed price of PLN 3,250 million ("Purchase Price") including a prepaid allowance of PLN 50 million towards the digitization investment projects that have been implemented in the period from the date of signing the Transaction Agreement to the Demerger

Date. The above implies a P / TBV multiplier (price to book value of tangible assets) on the level of 0.95x based on pro-forma basic RBPL financial data at the end of 2017 and a P / BV multiplier (price to book value) on the level 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 intangible assets of the Core Business of RBPL.

If the Common Equity Tier 1 capital of the Core Business of RBPL transferred to the Bank is 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 Common Equity 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 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 the RBPL and the Bank in cash together with the settlements relating to the Target Capital referred to above.

Until the date of approval of these financial statements, the final settlement of the purchase price between the parties has not yet been agreed.

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

Settlement of the transaction will be performed using the acquisition method in accordance with IFRS 3 "Business combinations", whose application requires, among others, recognition and measurement of identifiable assets acquired, liabilities assumed at fair value, and any non-controlling interest in the acquiree, as well as the recognition and measurement of goodwill or the gain on occasional acquisitions.

The day of acquisition of the Core Business of RBPL took place after the end of the reporting period, but before the financial statements were approved for publication. At the time of approval of the financial statements for publication, the initial settlement of the business combination is incomplete and therefore it is not possible to disclose the information required by IFRS 3 paragraph B64.

In accordance with IFRS 3.45, the maximum accounting period for the business combination (the measurement period) expires 12 months after the acquisition date, i.e. on 31 October 2019.

II INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

Interim condensed separate statement of profit or loss

	3Q 2018 from 01.07.2018 to 30.09.2018	3 quarters of 2018 from 01.01.2018 to 30.09.2018	3Q 2017 from 01.07.2017 to 30.09.2017	3 quarters of 2017 from 01.01.2017 to 30.09.2017
Interest income due to interest calculated with the use of EIR and other interest income	678,865	2,000,530	674,737	1,968,059
Interest expenses	(179,599)	(567,626)	(178,829)	(533,639)
Net interest income	**499,266**	**1,432,904**	**495,908**	**1,434,420**
Fee and commission income	158,512	460,846	136,215	415,986
Fee and commission expenses	(37,242)	(100,884)	(28,914)	(80,000)
Net fee and commission income	**121,270**	**359,962**	**107,301**	**335,986**
Net fee and commission income	3,971	10,425	-	25,238
Dividend income	62,511	200,984	61,176	186,721
Net trading income	23,900	30,626	4,448	25,543
Result on investment activities	1,789	4,612	3,793	5,436
Result on fair value hedge accounting	(90,736)	(200,846)	(78,539)	(256,272)
Net impairment losses on financial assets and contingent liabilities	(350,963)	(1,100,330)	(343,433)	(1,099,850)
General administrative expenses	(41,250)	(123,694)	(38,298)	(129,721)
Depreciation and amortization	21,265	74,064	39,852	106,910
Other operating income	(23,666)	(86,179)	(36,556)	(100,225)
Operating result	**227,357**	**602,528**	**215,652**	**534,186**
Tax on financial institutions	(48,472)	(148,343)	(51,053)	(154,608)
Profit before tax	**178,885**	**454,185**	**164,599**	**379,578**
Income tax expense	(44,649)	(125,876)	(57,363)	(142,313)
Net profit for the period	**134,236**	**328,309**	**107,236**	**237,265**
attributable to equity holders of the Bank	134,236	328,309	107,236	237,265
EARNINGS PER SHARE (IN PLN PER ONE SHARE)				
Basic	1.51	3.70	1.28	2.82
Diluted	1.51	3.70	1.28	2.82

Interim condensed separate statement of comprehensive income

	3Q 2018 from 01.07.2018 to 30.09.2018	3 quarters of 2018 from 01.01.2018 to 30.09.2018	3Q 2017 from 01.07.2017 to 30.09.2017	3 quarters of 2017 from 01.01.2017 to 30.09.2017
Net profit for the period	**134,236**	**328,309**	**107,236**	**237,265**
OTHER COMPREHENSIVE INCOME				
ITEMS THAT WILL BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS UPON FULFILMENT OF CERTAIN CONDITIONS	**5,168**	**(14,108)**	**(18,360)**	**95,222**
Measurement of financial assets available for sale	6,381	(16,741)	(22,429)	117,796
Deferred income tax	(1,213)	2,633	4,069	(22,574)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**466**	**16**	**103**	**(65)**
Actuary valuation of employee benefits	573	18	103	539
Deferred income tax	(107)	(2)	-	(604)
OTHER COMPREHENSIVE INCOME (NET)	**5,634**	**(14,092)**	**(18,257)**	**95,157**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**139,870**	**314,217**	**88,979**	**332,422**
attributable to equity holders of the Group	**139,870**	**314,217**	88,979	332,422

Interim condensed separate statement of financial position

ASSETS	30.09.2018	31.12.2017
Cash and balances at Central Bank	1,170,135	998,035
Amounts due from banks	160,109	2,515,457
Derivative financial instruments	378,014	474,421
Differences from hedge accounting regarding the fair value of hedged items	39,213	32,730
Loans and advances to customers measured at amortised cost	49,978,110	52,195,203
Loans and advances to customers measured at fair value through profit or loss	2,555,133	-
Financial assets available for sale	-	13,921,889
Securities measured at amortised cost	9,166,178	-
Financial instruments measured at fair value through profit or loss	138,961	-
Securities measured at fair value through other comprehensive income	4,541,389	-
Investments in subsidiaries	75,918	63,404
Intangible assets	317,378	287,907
Property, plant and equipment	453,333	500,348
Deferred tax assets	529,564	468,617
Current tax assets	5,303	-
Other assets	468,767	439,881
Total assets	**69,977,505**	**71,897,892**

LIABILITIES	30.09.2018	31.12.2017
Amounts due to banks	3,129,059	2,926,396
Differences from hedge accounting regarding the fair value of hedged items	4,664	(2,992)
Derivative financial instruments	375,858	427,710
Amounts due to customers	55,473,492	58,658,067
Liabilities due to the sale of securities in Repo transactions	800,580	-
Debt securities issued	-	288,553
Subordinated liabilities	1,689,887	1,645,102
Other liabilities	1,024,684	1,204,865
Current tax liabilities	-	112,235
Provisions	117,741	76,697
Total liabilities	**62,615,965**	**65,336,633**

EQUITY	30.09.2018	31.12.2017
Share capital	97,538	84,238
Supplementary capital	5,910,913	5,127,086
Other reserve capital	1,208,018	909,629
Revaluation reserve	127,825	141,917
Retained earnings	17,246	298,389
retained profit	(311,063)	-
net profit for the period	328,309	298,389
Total equity	**7,361,540**	**6,561,259**
Total liabilities and equity	**69,977,505**	**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	**-**	**-**	**-**	**(14,092)**	**-**	**328,309**	**314,217**
Net profit for the period	-	-	-	-	-	328,309	328,309
Other comprehensive income for the period	-	-	-	(14,092)	-	-	**(14,092)**
Distribution of retained earnings	**-**	**-**	**298,389**	**-**	**-**	**(298,389)**	**-**
Distribution of retained earnings intended for supplementary capital	-	-	298,389	-	-	(298,389)	-
Share issue	**13,300**	**783,827**	**-**		**-**	**-**	**797,127**
J and K series	13,300	786,695	-		-	-	799,995
Costs of share issue	-	(2,868)	-		-	-	(2,868)
Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance as at 30 September 2018	**97,538**	**5,910,913**	**1,208,018**	**127,825**	**(311,063)**	**328,309**	**7,361,540**

	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	**-**	**-**	**-**	**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	**-**	**-**	**-**	**95,157**	**237,265**	**332,422**
Net profit for the period	-	-	**-**	**-**	**237,265**	**237,265**
Other comprehensive income for the period	-	-	**-**	**95,157**	**-**	**95,157**
Distribution of retained earnings	**-**	**-**	**49,388**	**-**	**(49,388)**	**-**
Distribution of net profit	-	-	**49,388**	**-**	**(49,388)**	**-**
Balance as at 30 September 2017	**84,238**	**5,127,899**	**909,629**	**94,605**	**237,265**	**6,453,636**

Interim condensed separate statement of cash flows

CASH FLOWS FROM OPERATING ACTIVITIES:	3Q 2018 from 01.01.2018 to 30.09.2018	3Q 2017 from 01.01.2017 to 30.09.2017
Net profit (loss)	**328,309**	**237,265**
ADJUSTMENTS FOR:	**(3,168,824)**	**1,158,797**
Income tax expenses	125,876	142,313
Depreciation and amortization	123,694	129,721
Dividend income	(10,425)	(25,238)
Interest income	(2,000,530)	(1,968,059)
Interest expense	567,626	533,639
Change in provisions	41,121	(27,539)
Change in amounts due from banks	15,186	150
Change in derivative financial instruments (assets)	96,407	(71,691)
Change in loans and advances to customers measured at amortised cost	1,614,489	(401,307)
Change in loans and advances to customers measured at fair value through profit or loss	(2,555,133)	-
Change in amounts due to banks	293,244	260,642
Change in liabilities due to the sale of securities in Repo transactions	800,580	-
Change of financial liabilities held for trading	44,785	-
Change in derivative financial instruments (liabilities)	(51,852)	37,665
Change in amounts due to customers	(2,980,395)	349,424
Change in other assets and current tax assets	(92,504)	(160,837)
Change in other liabilities and deferred income tax liabilities	(292,416)	(135,757)
Other adjustments	(150,144)	54,914
Interest received	1,802,813	2,947,264
Interest paid	(561,053)	(506,507)
Net cash flows from operating activities	**(2,840,515)**	**1,396,062**

CASH FLOWS FROM INVESTING ACTIVITIES:	3Q 2018 from 01.01.2018 to 30.09.2018	3Q 2017 from 01.01.2017 to 30.09.2017
INVESTING ACTIVITIES INFLOWS	**16,241,837**	**15,280,590**
Sale and redemption of debt securities	16,225,707	15,232,051
Sale of intangible assets and property, plant and equipment	5,705	23,301
Dividends received and other inflows from investing activities	10,425	25,238
INVESTING ACTIVITIES OUTFLOWS	**(15,781,712)**	**(14,932,904)**
Purchase of debt securities	(15,658,929)	(14,802,758)
Purchase of intangible assets and property, plant and equipment	(122,783)	(130,146)
Net cash flows from investing activities	**460,125**	**347,686**
CASH FLOWS FROM FINANCING ACTIVITIES:		
FINANCING ACTIVITIES INFLOWS	**797,127**	**105,805**
Long-term loans received	-	105,805
Net inflows from share issue and equity infusion	797,127	-
FINANCING ACTIVITIES OUTFLOWS	**(585,658)**	**(2,406,543)**
Repayment of long-term loans and advances received	(300,658)	(2,396,543)
Redemption of debt securities	(285,000)	(10,000)
Net cash flows from financing activities	**211,469**	**(2,300,738)**
TOTAL NET CASH AND CASH EQUIVALENTS	**(2,168,921)**	**(556,990)**
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:	**1,273,750**	**1,895,745**
effect of exchange rate fluctuations on cash and cash equivalents	4,099	(12,434)
restricted cash and cash equivalents	532	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 quarter ended 30 September 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 quarter of 2018 and with the Separate financial statements of the Bank BGŻ 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.

	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	(2,771,900)	-	(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)**

	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 September 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 its registered office at Suwak 3 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000098813. The Bank holds 100% of the company's shares.

4. BNP Paribas Group Service Center S.A. ("GSC", formerly: Laser Services Polska S.A.), with its registered office at Suwak 3 in Warsaw. The company is registered by the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000022784. The Bank holds 100% of the company's shares.

5. Campus Leszno Sp. z o.o. with its registered office at Fabryczna 1 in Leszno. 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. due to the fulfilment of the control conditions only within the understanding 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

30.09.2018	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	**301,574**	**5,550**	**32,521**	**61**	**120,423**	**460,129**
Receivables on current accounts, loans and deposits	38,483	3,314	30,449	61	3	**72,310**
Derivative financial instruments	224,491	436	-	-	-	**224,927**
Hedging instruments	37,412	1,800	-	-	-	**39,212**
Other assets	1,188	-	2,072	-	120,420	**123,680**
LIABILITIES	**3,970,156**	**11,868**	**2,313,693**	**4,294**	**248,820**	**6,548,831**
Loans and advances received	-	-	1,349,187	4,291	119,768	**1,473,246**
Current accounts and deposits	1,567,723	11,488	586,783	-	128,332	**2,294,326**
Subordinated liabilities	1,437,176	-	376,590	-	-	**1,813,766**
Derivative financial instruments	152,769	380	-	-	-	**153,149**
Hedging instruments	11,267	-	-	-	-	**11,267**
Repo transactions	800,580	-	-	-	-	**800,580**
Other liabilities	641	-	1,133	3	720	**2,497**
CONTINGENT LIABILITIES						
Financial commitments granted	-	-	186,568	58	30,000	**216,626**
Guarantees granted	135,543	211,650	360,304	-	-	**707,497**
Commitments received	142,272	144,545	597,046	-	224	**884,087**
Derivatives (nominal value)	33,892,239	197,148	-	-	-	**34,089,387**
Hedging instruments (nominal value)	5,484,573	29,900	-	-	-	**5,514,473**
Repo transactions	182,635	-	-	-	-	**182,635**
9 months ended 30.09.2018						
STATEMENT OF PROFIT OR LOSS	**(6,356)**	**(3,088)**	**(33,604)**	**(55)**	**(52,628)**	**(95,731)**
Interest income	1,018	625	1,373	-	-	**3,016**
Interest expense	(23,468)	(314)	(20,501)	(55)	(55,747)	**(100,085)**
Fee and commission income	90	111	1,261	-	36	**1,498**
Fee and commission expense	(242)	-	(54)	-	(3,627)	**(3,923)**
Net trading income	29,719	(3,510)	-	-	-	**26,209**
Other operating income	-	-	4	-	14,740	**14,744**
Other operating expenses	(13,473)	-	(15,687)	-	-	**(29,160)**
General administrative expenses	-	-	-	-	(8,030)	**(8,030)**

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	30.09.2018	31.12.2017
Short-term employee benefits	11,634	14,563
Long-term benefits	4,767	5,907
Benefits due to termination of employment	-	3,698
Post-employment benefits	-	3,101
Share-based payments	1,804	1,279
TOTAL	**18,205**	**28,548**

Supervisory Board	30.09.2018	31.12.2017
Short-term employee benefits	1,552	2,011
Long-term benefits	-	-
Benefits due to termination of employment	-	-
Share-based payments	-	-
TOTAL	**1,552**	**2,011**

3 SEPARATE CAPITAL ADEQUACY RATIO

	30.09.2018	31.12.2017
Total own funds	8,879,656	7,699,319
Total risk exposure amount	56,611,144	55,307,981
Total capital ratio	15.69%	13.92%
Tier 1 capital ratio	12.70%	10.95%

4 SEASONAL OR CYCLICAL NATURE OF BUSINESS

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

5 ISSUE AND REDEMPTION OF SECURITIES

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

6 DIVIDENDS PAID

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

7 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.

8 CONTINGENT LIABILITIES

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

	30.09.2018	31.12.2017
CONTINGENT COMMITMENTS GRANTED	**21,356,834**	**19,449,876**
financial commitments	16,331,723	15,110,019
guarantees	5,025,111	4,339,857
CONTINGENT COMMITMENTS RECEIVED	**12,263,301**	**12,009,299**
financial commitments	10,948,332	10,871,719
guarantees	1,314,969	1,137,580

9 SUBSEQUENT EVENTS

Subsequent events are described in Note 52 of the Interim consolidated financial statements for the third quarter of 2018.

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

14.11.2018	Przemysław Gdański *President of the Management Board*	signature
14.11.2018	Jean-Charles Aranda *Vice-President of the Management Board*	signature
14.11.2018	Daniel Astraud *Vice-President of the Management Board*	signature
14.11.2018	Philippe Paul Bézieau *Vice-President of the Management Board*	signature
14.11.2018	Andre Boulanger *Vice-President of the Management Board*	signature
14.11.2018	Przemysław Furlepa *Vice-President of the Management Board*	signature
14.11.2018	Wojciech Kembłowski *Vice-President of the Management Board*	signature
14.11.2018	Kazimierz Łabno *Vice-President of the Management Board*	signature
14.11.2018	Jaromir Pelczarski *Vice-President of the Management Board*	signature
14.11.2018	Jerzy Śledziewski *Vice-President of the Management Board*	signature
14.11.2018	Patrycja Zenik-Rychlik *Managing Director of the Financial Accounting Division*	signature

Warsaw, 14 November 2018