



**BNP PARIBAS**

**MANAGEMENT BOARD REPORT**

**dated 10 October 2014**

**prepared by the Management Board of BNP Paribas Bank Polska Spółka Akcyjna**

**pursuant to Article 501 of the Commercial Companies Code**

**justifying the merger of**

**Bank Gospodarki Żywnościowej Spółka Akcyjna**

**and**

**BNP Paribas Bank Polska Spółka Akcyjna**

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## 1. DEFINITIONS

<b>Banking Law</b>	the Banking Law of August 29, 1997 (consolidated text in <i>Dziennik Ustaw</i> of 2012, item 1376, as amended);
<b>Banks</b>	BGZ and BNPP Polska jointly;
<b>Bidding Bank, BGZ</b>	Bank Gospodarki Żywnościowej S.A., a joint stock company incorporated under the laws of Poland with its registered office in Warsaw, at ul. Kasprzaka 10/16, 01-211 Warsaw, Poland, entered in the Register of Entrepreneurs of the National Court Register maintained by the District Court for the capital city of Warsaw, XII Commercial Division of the National Court Register, under KRS No. 0000011571, tax identification number (NIP): 5261008546, with share capital of PLN 56,138,764, fully paid up;
<b>BNP PARIBAS Group</b>	the Group consisting of BNP PARIBAS SA and its subsidiaries;
<b>CCC</b>	the Code of Commercial Companies of September 15, 2000 (consolidated text in <i>Dziennik Ustaw</i> of 2013 item 1030, as amended);
<b>Compensation</b>	has the meaning given in clause 7.5;
<b>BNPP Polska shareholder(s)</b>	means any entity which as at the Reference Day has BNPP Polska shares recorded on its securities account or registered in a relevant register kept by a brokerage house or a bank conducting brokerage activity, and with respect to collective accounts – the entities communicated to the entity keeping the collective account by its holder as the beneficial owners, as at the Reference Day, of the BNPP Polska shares recorded on that account;
<b>GM</b>	the general meeting of BGZ or the general meeting of BNPP Polska, as the context indicates;
<b>Information Memorandum</b>	the information memorandum of BGZ prepared pursuant to Article 38b Section 1 in conjunction with Article 7 Section 7 item 1) and Article 7 Section 14 item 1) of the Public Offer Act;
<b>KNF</b>	the Polish Financial Supervision Authority ( <i>Komisja Nadzoru Finansowego</i> );
<b>Management Board</b>	the Management Board of BGZ or the Management Board of BNPP Polska, as the context indicates;
<b>Management Board Report</b>	this document;
<b>Merged Bank</b>	BGZ after the completion of the merger with BNPP Polska;
<b>Merger</b>	the merger of BGZ and BNPP Polska;
<b>Merger Day</b>	the day of the registration of the Merger in the Register of Entrepreneurs of the National Court Register by the court competent for BGZ's registered office;
<b>Merger Plan</b>	merger plan related to the Merger;
<b>Merger Shares</b>	28,099,554 (in words: twenty eight million ninety nine thousand five hundred fifty four) Merger Shares, with the nominal value of PLN 1.00 (in words: one zloty) each, to be issued in relation to the Merger;
<b>NDS</b>	the National Depository for Securities ( <i>Krajowy Depozyt Papierów Wartościowych S.A.</i> );
<b>Public Offer Act</b>	the Act of July 29, 2005 on public offers and the conditions for introducing financial instruments to the organized trading system, and on public companies (consolidated text in <i>Dziennik Ustaw</i> of 2013, item 1382);
<b>Reference Day</b>	has the meaning given in clause 7.2;
<b>Share Exchange Ratio</b>	the ratio at which BNPP Polska shares are to be exchanged for BGZ shares;

<b>SSM</b>	the <i>Single Supervisory Mechanism</i> as regulated by, <i>inter alia</i> , the Council Regulation (EU) No. 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions and Regulation (EU) No. 1022/2013 of the European Parliament and of the Council of 22 October 2013 amending Regulation (EU) No. 1093/2010 establishing a European Supervisory Authority (European Banking Authority) as regards the conferral of specific tasks on the European Central Bank pursuant to Council Regulation (EU) No. 1024/2013;
<b>Target Bank, BNPP Polska</b>	BNP Paribas Bank Polska S.A., a joint stock company incorporated under the laws of Poland with its registered office in Warsaw, at ul. Suwak 3, 02-676 Warsaw, Poland, entered in the Register of Entrepreneurs of the National Court Register maintained by the District Court for the capital city of Warsaw, XIII Commercial Division of the National Court Register, under KRS No. 0000006421, tax identification number (NIP): 6760078301, with share capital of PLN 1,532,886,878.90, fully paid-up;
<b>WSE</b>	the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.);

## **2. GENERAL INFORMATION**

On 10 October 2014, BGŻ and BNPP Polska executed the Merger Plan, which pursuant to Article 499 Section 1 of the CCC, sets forth *inter alia* the method of the Merger and the Share Exchange Ratio. Therefore, acting pursuant to Article 501 of the CCC, the Management Board of BNPP Polska prepared this Management Board Report justifying the Merger.

As stipulated in Article 500 § 2 of the CCC, the Merger Plan will be published in the *Monitor Sądowy i Gospodarczy*.

## **3. NAMES, LEGAL STATUSES AND REGISTERED OFFICES OF THE BANKS**

### **3.1. Bidding Bank**

Bank Gospodarki Żywnościowej S.A., a joint stock company incorporated under the laws of Poland with its registered office in Warsaw, at ul. Kasprzaka 10/16, 01-211 Warsaw, Poland, entered in the Register of Entrepreneurs of the National Court Register maintained by the District Court for the capital city of Warsaw, XII Commercial Division of the National Court Register, under KRS No. 0000011571, tax identification number (NIP): 5261008546, with fully paid-up share capital of PLN 56,138,764.

The Bidding Bank is a public company in the meaning of the Public Offer Act.

### **3.2. Target Bank**

BNP Paribas Bank Polska S.A., a joint stock company incorporated under the laws of Poland with its registered office in Warsaw, at ul. Suwak 3, 02-676 Warsaw, Poland, entered in the Register of Entrepreneurs of the National Court Register maintained by the District Court for the capital city of Warsaw, XIII Commercial Division of the National Court Register, under KRS No. 0000006421, tax identification number (NIP): 6760078301, with fully paid-up share capital of PLN 1,532,886,878.90.

The Target Bank is a public company in the meaning of the Public Offer Act.

## **4. METHOD OF THE MERGER**

### **4.1. Legal basis and method of the Merger**

The Merger will be effected pursuant to Article 492 § 1 item 1 of the CCC by way of transferring all property (all assets and liabilities) of BNPP Polska (the Target Bank) to BGZ (the Bidding Bank), with a concurrent share capital increase in BGZ through the issuance of the Merger Shares, to be delivered by BGZ to the existing BNPP Polska shareholders.

As a result of the Merger, BGZ will assume all rights and obligations of BNPP Polska, and BNPP Polska will be wound-up without liquidation proceedings.

BNPP Polska's property (all assets and liabilities) will be transferred to BGZ on the day of the registration of the Merger in the Register of Entrepreneurs of the National Court Register maintained by the registration court competent for BGZ's registered office. BGZ's share capital increase through the issuance of the Merger Shares will be registered on the same day.

The Merged Bank will operate under the name "Bank BGŻ BNP Paribas Spółka Akcyjna".

#### 4.2. Required consents of the appropriate regulatory authorities

The Merger will not be consummated until all the required regulatory consents and approvals related to the Merger will be obtained, including:

- (a) the KNF's permit for the Merger, pursuant to the provisions of Article 124 Section 1 of the Banking Law;
- (b) the KNF's permit for the amendments to the Articles of Association of BGZ, pursuant to the provisions of Article 34 Section 2 in conjunction with Article 31 Section 3 of the Banking Law;
- (c) the decision on non-objection of the KNF to the acquisition by BGZ of shares in Towarzystwo Funduszy Inwestycyjnych BNP Paribas Polska Spółka Akcyjna with its registered office in Warsaw (pursuant to the provisions of Article 54 Section 1 of the Act of May 27, 2004 on investment funds) or when the statutory time period for the KNF to deliver the abovementioned decision has lapsed;
- (d) the decision of the competent regulatory authority within the framework of the SSM on non-objection to the strategic decision of BNP Paribas Fortis SA/NV underlying the Merger or the lapse of the statutory time period for the competent regulatory authority to deliver a decision raising objections to that strategic decision;
- (e) the decision on the approval by the KNF of the Information Memorandum pursuant to Article 38b Section 1 in conjunction with Article 7 Section 7 item 1) and Article 7 Section 14 item 1) of the Public Offer Act;
- (f) the KNF's permit for BGZ to carry out the brokerage activity consisting in managing portfolios, including one or more financial instruments, pursuant to the provisions of Article 69 Section 1 and Section 2 item 4) of the Act of July 29, 2005 on trading in financial instruments.

#### 4.3. Resolutions of the GMs of the Banks

Pursuant to Article 506 § 2 and 4 of the CCC, in order to effect the Merger, the GMs of the Banks shall pass certain resolutions, in particular those:

- a) approving the Merger Plan,
- b) expressing consent for the proposed amendments to BGZ's Articles of Association related to the Merger, as presented in Schedule 3 to the Merger Plan.

Pursuant to the provisions of Article 506 § 3 of the CCC, the resolutions of the GM of BGZ on the Merger will be adopted in voting by separate groups of shareholders holding: (i) ordinary shares, and (ii) privileged shares, in accordance with the provisions of the Articles of Associations of BGZ.

#### 4.4. Share capital increase in BGZ related to the Merger

In relation to the Merger, the share capital of BGZ will be increased from the amount of PLN 56,138,764 (in words: fifty six million one hundred thirty eight thousand seven hundred sixty four zloty) to the amount of PLN 84,238,318 (in words: eighty four million two hundred thirty eight thousand three hundred eighteen zloty) by way of the issuance of 28,099,554 (in words: twenty eight million ninety nine thousand five hundred fifty four) Merger Shares with the nominal value of PLN 1.00 (in words: one zloty) per share, with the total nominal value of

PLN 28,099,554 (in words: twenty eight million ninety nine thousand five hundred fifty four zloty), to be issued to the BNPP Polska shareholders pursuant to the terms of allotment of the Merger Shares set out in clause 7 below.

The Bidding Bank will take actions aiming to introduce the Merger Shares to trading on a regulated market operated by the WSE. For this purpose, the Bidding Bank shall submit: (i) an application to the KNF for an approval of the Information Memorandum, (ii) an application for registration of the Merger Shares in the NDS, and (iii) an application to the WSE to introduce the Merger Shares to trading on a regulated market. The resolution of the GM of the Bidding Bank on the Merger will include authorization for the Management Board of the Bidding Bank to apply for the admission and introduction of the Merger Shares to trading. The resolution will also include other provisions relating to the introduction of the Merger Shares to trading on a regulated market if such actions are required in accordance with the relevant regulations.

#### 4.5. General succession

As a result of the Merger, pursuant to Article 494 § 1 of the CCC, on the Merger Day BGZ will assume all rights and obligations of BNPP Polska.

BNP PARIBAS SA granted to BNPP Polska subordinated loans in the amount of CHF 60,000,000 and EUR 60,000,000, on the basis of the subordinated loan agreements concluded between BNPP Polska and BNP PARIBAS SA on November 15, 2012, which loans have been recognized as the supplementary capital of BNPP Polska on the basis of the KNF's decisions dated December 5, 2012, no. DBK/DBK3/7100/21/3/2012/MZ and no. DBK/DBK3/7100/22/3/2012/MZ, respectively ("**BNPP Subordinated Loans**"). The BNPP Subordinated Loans shall be transferred on the Merger Day to BGZ. Pursuant to the provisions of Article 494 § 2 and § 5 of the CCC, the bidding company takes over, effective on the day of merger, the permits, concessions and relief that had been granted to the target company, unless: (i) statutes or the decision granting the permit, concession or relief stipulate otherwise, or (ii) in the case of permits or concessions granted to a financial institution, if the authority that issued the permit or concession objected to it within one month of the publication of the merger plan. It is the intention of BGZ and BNPP Polska that the consent of the KNF to include monies from the BNPP Subordinated Loans in supplementary funds be transferred to BGZ effective on the Merger Day, so that these monies could be credited to BGZ's supplementary funds.

Pursuant to the provisions of Article 494 § 4 of the CCC, on the Merger Day the BNPP Polska shareholders will become shareholders of BGZ due to taking up the Merger Shares.

### 5. **COMMERCIAL SUBSTANTIATION OF THE MERGER**

The Banks belong to the same capital group, i.e. BNP PARIBAS Group. The Management Boards of the Banks consider the Merger as a positive step towards the consolidation of the banking business of BNP PARIBAS Group in Poland within one entity and strengthening its position on the Polish market.

Both BGZ and BNPP Polska are so far, relatively small participants of the Polish banking sector. The Merger will bring together two complementary organizations and will create a larger, medium-sized and operationally optimized bank with a critical mass. This would enable a better performance and allow to reach an improved market position to face the high level of competition in the Polish banking sector. The Merged Bank will reach approximately 4% market share, positioning the Merged Bank as the 7th largest bank in Poland in terms of assets level. Targeted organization, which should deliver assumed synergies and value added by the

year 2017 will be headquartered in Warsaw with optimized support functions managed in Warsaw and Krakow.

The objective of the Merger is to preserve both Banks' strengths and expertise, and to develop further a fully-fledged universal bank with activities well balanced between retail and corporate businesses. In order to achieve that objective, the scope of business activity shall be re-organized into five business lines: a) retail and micro, b) personal finance, c) small and medium businesses (SME) with Agro competence center, d) corporate banking with factoring and leasing activities and e) corporate investment banking (CIB). This new organization shall encourage more focused cooperation with clients, better selection of sales, marketing and technology tools.

As a result of the Merger, the Merged Bank will enjoy by end 2017 a large but optimized nationwide network of branches and business centers servicing corporate clients with a strong presence in medium-sized and small cities currently well covered by BGZ, as well as in larger cities, where BNPP Polska has a strong footprint today. A digital platform, currently managed by BGŻ Optima and targeting more affluent clients, shall add one more dimension to the wide offer and develop more technologically sophisticated service.

In retail banking, the Merged Bank will leverage its market position on an improved comprehensive product offer addressed to all segments, recognized strong client service practices and modern front-line tools supporting both clients as well as bank's employees. Retail business growth will be supported by strong consumer finance expertise, the specialized digital platform and also through external partnerships providing complementary non-banking products like insurance or leasing solutions. Furthermore, the expertise of BNP PARIBAS Group in wealth management will reinforce the development of this activity in the Merged Bank.

In corporate area, the Merged Bank will benefit from a deeper re-organization based on separating business lines with different clients characteristic like corporate banking and SME activity, as well as different product specificity like CIB. This modified approach should guarantee a well-structured sales offer and improved relationship with clients through better understanding of their needs. The Merged Bank will offer a wide range of transactional and financing solutions of the highest standards, leveraging on the global capabilities of BNP PARIBAS Group and its unique worldwide network of corporate centers.

Preserving and developing the leading role of the Merged Bank on the food and agro market is counted among the most important strategic objectives for the Merged Bank. Due to the Merger and the enlarged scale of operations, the Merged Bank will gain a possibility to reach out to the larger group of clients in the whole country. More specialized and focused sales approach as well as a larger team with Agro knowledge, will support a better targeted communication especially in the SME area. Agro expertise and teams, present in the BNP PARIBAS Group in different geographies like Turkey or USA, will be used for the knowledge sharing, clients' networking and new product initiatives.

Furthermore, the Merger will enable further advancement of the Banks' current market position through sustainable, enhanced growth as well as continuous improvement of the Merged Bank's profitability thanks to the expected synergies driven by complementarity, scale and process excellence enabled by the Merger. The synergies will be realized in both cost and revenue areas with the clear objective to improve the efficiency translated into cost-to-income ratio of the Merged Bank as well as accelerate its business growth measured by market share overall and in targeted segments.



## 6. RATIO OF EXCHANGE OF BNPP POLSKA SHARES TO BGZ SHARES

### 6.1. Share Exchange Ratio

The following Share Exchange Ratio will be applied:

BGZ Shares	BNPP Polska Shares
5	6

This means that in exchange for 6 (in words: six) shares of BNPP Polska, the BNPP Polska shareholders will receive 5 (in words: five) shares of BGZ (Merger Shares).

### 6.2. Methods used to calculate the Share Exchange Ratio

The Share Exchange Ratio was calculated using generally accepted methods of valuation. For the purpose of the valuation it was assumed that the Banks operated as independent businesses. The key valuation method used included the discounted cash flow method supported by the use of market multiples. With respect to both Banks, the models used in the valuation were based on the assumption that, barring the Merger, the Banks would continue independently as going concerns. The Management Boards determined the Share Exchange Ratio after having reviewed the results of the valuations of BNPP Polska and BGZ.

### 6.3. Opinions of external financial advisors

In preparing the valuation of the Banks and determining the Share Exchange Ratio, the Management Board of BNPP Polska has taken into consideration the opinion, dated 9 October 2014 it received from Citigroup Global Markets Limited as to the fairness, from a financial point of view and as of such date, of the Share Exchange Ratio to the BNPP Polska shareholders. In determining the Share Exchange Ratio, the Management Board of BGZ has taken into consideration the opinion it received from PwC Polska Sp. z o.o. as to the fairness, from a financial point of view, to the shareholders of BGZ, of the proposed Share Exchange Ratio.

## 7. RULES OF ALLOTMENT OF BGZ SHARES

7.1. The Merger Shares will be allotted to the BNPP Polska shareholders through the NDS using the Share Exchange Ratio.

7.2. The number of the Merger Shares to be allotted to a given BNPP Polska shareholder will be determined by multiplying the number of BNPP Polska shares held by the given shareholder on a reference date determined pursuant to the relevant regulations of the NDS (the “**Reference Day**”) by the Share Exchange Ratio, and rounding the product down to the nearest integer (unless the product is an integer).

7.3. The Management Board of the Bidding Bank shall inform the NDS of the chosen Reference Day, provided that the Reference Day in accordance with the *Detailed Rules of Activity of the NDS* must not fall earlier than the day following the day of receipt by the NDS of the documents referred to in § 218 of the *Detailed Rules of Activity of the NDS* and not earlier than the settlement date of a transaction involving the shares of the Target Bank concluded in organized trading before trading in these shares is suspended. If the Bidding Bank fails to indicate the Reference Day or indicates it in breach of the conditions defined in the *Detailed Rules of Activity of the NDS*, the Reference Day shall be the nearest business day that meets the conditions defined in the *Detailed Rules of Activity of the NDS*.

- 7.4 The Management Board of BNPP Polska shall take steps in order to cause a suspension of trading in BNPP Polska shares for a period beginning no sooner than on the day following the date of filing an application for the registration of the Merger in the Register of Entrepreneurs of the National Court Register, and ending on the day of the delisting of the BNPP Polska shares.
- 7.5 A BNPP Polska shareholder who does not receive a fractional Merger Share to which it was entitled to according to the Share Exchange Ratio as a result of the rounding referred to in clause 7.2 above will be entitled to cash compensation (the “**Compensation**”).
- 7.6 The Compensation payable to the BNPP Polska shareholder shall be calculated as the product of (i) the fractional amount of the share in the Bidding Bank which has not been issued to the BNPP Polska shareholder and (ii) PLN 80.47. The amount of the due Compensation will be rounded off to 1 grosz (PLN 0.01), it being understood that PLN 0.005 will be rounded up.
- 7.7 Compensation will be paid to the BNPP Polska shareholders through the NDS within 14 business days of the Reference Day.
- 7.8 The restriction referred to in Article 492 § 2 of the CCC shall apply to the Compensation. The Compensation will be funded from the Bidding Bank’s supplementary capital. The Compensation shall be reduced by the due amount of income tax, if such tax is payable on the Compensation in accordance with the current provisions of law.
- 7.9 Within 15 business days of the Reference Day the Management Board of the Bidding Bank shall take every effort in order to cause the Merger Shares that are not allotted to the BNPP Polska shareholders as a result of the rounding down pursuant to clause 7.2 to be allotted to a financial institution being a shareholder of the Target Bank selected by the Management Board of the Bidding Bank. Such Merger Shares are to be taken up for PLN 80.47 per Merger Share.

## **8. PARTICULAR PROBLEMS RELATED TO VALUATION OF THE BANKS**

No particular problems have been encountered in the course of the valuation of the property of the merging Banks and the valuation of the shares thereof.

## **9. THE DAY AS OF WHICH THE MERGER SHARES WILL PARTICIPATE IN THE PROFIT OF THE BIDDING BANK**

If the Merger Shares are delivered by BGZ to the authorized BNPP Polska shareholders before or on the dividend day established in 2015, referred to in Article 348 § 3 of the CCC, the Merger Shares will participate in the profit starting from January 1, 2014, and if the Merger Shares are delivered by BGZ to the authorized BNPP Polska shareholders after the dividend day established in 2015, referred to in Article 348 § 3 of the CCC, the Merger Shares will participate in the profit starting from 1 January 2015.

## **10. RIGHTS VESTED BY THE BIDDING BANK IN THE SHAREHOLDERS OF THE TARGET BANK AND CERTAIN PERSONS ENJOYING SPECIAL RIGHTS IN THE TARGET BANK**

No rights shall be vested by BGZ in the BNPP Polska shareholders or any persons enjoying special rights in BNPP Polska.

## **11. SPECIAL BENEFITS FOR MEMBERS OF THE CORPORATE BODIES OF THE MERGING BANKS AND OTHER PARTICIPANTS IN THE MERGER**

No special benefits will be granted in relation to the Merger to members of the corporate bodies of the merging Banks or any other participants in the Merger.

## **12. CONCLUSION AND RECOMMENDATIONS**

Considering the economic and financial reasons for the Merger, both from the perspective of the Banks themselves and of their shareholders, it can be concluded that the Merger is advisable in strategic, operational and cost-saving terms, as well as based on the experience of the merging Banks.

Therefore, the Management Board of BNPP Polska hereby recommends that the GM adopts a resolution on the Merger of BNPP Polska and BGZ and the consent for the proposed amendments to the Articles of Association of BGZ, as set out in Schedule 3 to the Merger Plan.

**BNP PARIBAS BANK POLSKA SPÓŁKA  
AKCYJNA:**

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Frederic Amoudru  
President of the Management Board

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Jan Bujak  
First Vice-President of the Management Board

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Jaromir Pelczarski  
Vice-President of the Management Board

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Michel Thebault  
Vice-President of the Management Board

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Adam Parfiniewicz  
Member of the Management Board

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Jean-Philippe Stephane Rodes  
Member of the Management Board

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Marta Oracz  
Member of the Management Board

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Wojciech Kemblowski  
Member of the Management Board