

**MANAGEMENT REPORT
ON THE ACTIVITIES
OF THE CAPITAL GROUP
OF BANK BGŻ BNP PARIBAS S.A.
IN THE 1ST HALF OF 2016**



BGZ BNP PARIBAS

The bank for a changing world



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1. THE CAPITAL GROUP OF BANK BGŻ BNP PARIBAS S.A.

The **Bank BGŻ BNP Paribas S.A. Capital Group** (hereinafter referred to as the “**Group**”) operates within **BNP Paribas**, a leading multi-national financial group present in **74 countries** with over **189,000 employees**, including more than 146,000 in Europe.

BNP Paribas Group operates in two key areas:

- **Retail Banking and Services** including Domestic Markets and International Financial Services;
- **Corporate and Institutional Banking.**

In Europe, **BNP Paribas Group** operates on four domestic markets (Belgium, France, Italy, and Luxembourg) and is a leader in consumer loans (BNP Paribas Personal Finance). The **BNP Paribas Group** develops its model of integrated retail banking in Mediterranean countries, Turkey, Eastern Europe and through a well-developed branch network in western United States. The **BNP Paribas Group** is a European leader in Corporate and Institutional Banking and International Financial Services; the Group's position in these areas is strong in the Americas and has seen fast growth in Asia and Pacific region.

In 2016, Bank BNP Paribas received the “Best Bank in the World” award in the prestigious annual Awards for Excellence competition organized by the leading financial magazine Euromoney.

In Poland, the Bank BNP Paribas Capital Group operates in many areas of financial services: banking, investment funds, custody services, factoring. Leasing, insurance, real estate and car fleet management.

Mission of Bank BGŻ BNP Paribas S.A.

The Mission of the Bank is to deliver responsibly innovative financial solutions to help clients change their world while supporting the local economy.

Vision of Bank BGŻ BNP Paribas S.A.

Bank BGŻ BNP Paribas is a universal bank with a full product offer intended for Polish and international corporations, SME, farmers and individual clients, present in local communities.

Ambitions and objectives of Bank BGŻ BNP Paribas S.A.

- **The most client-oriented bank in Poland** nurturing close, long-term relations with our clients through:
 - Building neighborly relations with retail clients and SME in small towns and in cities;
 - Adapting international corporate banking solutions to local clients' needs;
 - Providing an offer for every retail client segment and concentrate on chosen industries in SME and corporate banking;
 - Maintaining high quality of customer service;
- **A strong local bank with global reach** supporting further growth of the Polish economy, the best partner and Bank of choice for companies considering foreign expansion using the position of BNP Paribas Group, including:
 - Dedicated foreign service centers in five regions of the world which can help their local clients liaise with their potential business partners abroad;
 - International trade finance products;
- **A universal and integrated bank** for Polish and international corporations, SME, farmers, and retail customers; a bank that continues its growth on the Polish market and maintains the No. 1 position in the agro-food segment, the position of leader in the consumer credit segment and a leading position in providing services to large enterprises and international corporations through:
 - Growth in cooperation among business lines and Group entities in customer service;
 - Developing more overlapping products and business lines' shared focus on the sectors;
 - Comprehensive customer service, dedicated offer for each industry and full supply chain finance;
- **A fully mobile bank that is accessible to the customer** using a chain of branches ensuring strong relationships with the customers everywhere, including medium and small towns, and that is capable of satisfying the needs of the existing customer and winning new, young and forward-thinking customers through:
 - Implementation of new mobile banking functionalities;
 - Transformation of the single-product such as Optima, iGotówka;



- Optimization and automation of back-office processes and expansion of the IT platform.

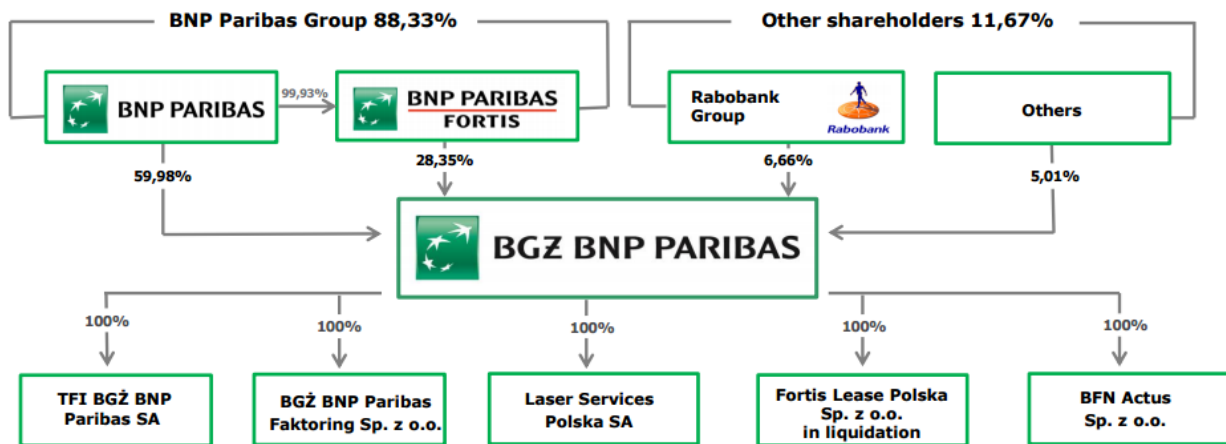
1.1. COMPOSITION OF THE CAPITAL GROUP AND CONSOLIDATED COMPANIES

Composition of the Group as at 30 December 2016:

Bank BGŻ BNP Paribas S.A. (henceforth: the “Bank”, “BGŻ BNPP”) – the parent, and five subsidiaries:

| Entity’s name | Core business | Bank’s interest in share capital | Consolidation and measurement method |
|---|--|----------------------------------|--------------------------------------|
| Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A. („TFI BGŻ BNPP”) | investment fund establishment and management | 100.0% | full method |
| BGŻ BNP Paribas Faktoring Sp. z o.o. („Faktoring”) | factoring | 100.0% | full method |
| Bankowy Fundusz Nieruchomościowy ACTUS Sp. z o.o. („Actus”) | purchase and sale of real property | 100.0% | full method |
| Fortis Lease Polska Sp. z o.o. in liquidation („FLP”) | leasing | 100.0% | full method |
| LaSer Services Polska S.A. („LSP”) | financial agency services | 100.0% | full method |

Shareholding structure of the Bank:



**Merger of Bank Gospodarki Żywnościowej S.A. and BNP Paribas Bank Polska S.A.**

On 30 April 2015, a merger of Bank Gospodarki Żywnościowej S.A. ("Bank BGŻ") and BNP Paribas Bank Polska S.A. ("BNPP Polska") was completed. The merger was preceded by decisions of the supervision authorities.

On 30 April 2015, the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, recorded the banks' merger in the National Court Register. Upon the entry of the merger in the National Court Register, the Bank's business name was changed from Bank Gospodarki Żywnościowej S.A. to Bank BGŻ BNP Paribas S.A. In relation to the merger, the Court also entered the amendments to the Statute, as adopted by the Extraordinary Shareholders' Meeting of Bank BGŻ on 25 February 2015, to the National Court Register.

The Merger was effected in accordance with Article 492.1.1 of the Code of Commercial Companies by transferring all the assets, equity and liabilities of BNPP Polska (the acquiree) onto Bank BGŻ (the acquirer), which was accompanied by an entry of the increase in the share capital of Bank BGŻ from PLN 56,138,764.00 to PLN 84,238,318.00 through the issue of 28,099,554 shares of Bank BGŻ with the par value of PLN 1.00 each, to be acquired by the existing shareholders of BNPP Polska (Merger Shares). The shareholders of BNPP Polska received 5 merger shares in exchange for 6 shares in BNPP Polska.

As a result of the merger, Bank BGŻ assumed all the rights and obligations of BNP Paribas Bank Polska S.A., which was wound up without a liquidation procedure.

Purchase of shares in Sygma Bank Polska S.A. and LaSer Services Polska S.A.

In 2014, following the BNP Paribas Group (BNP Paribas Personal Finance) assuming full control over the LaSer Group, the BNP Paribas Group commenced reorganization of the LaSer Group operations in individual countries, in accordance with the development strategy adopted by the BNP Paribas Group.

In 2015, BNP Paribas Group commenced formal and legal measures aimed at combining the operations of Sygma Banque SA Oddział w Polsce with the operations of Bank BGŻ BNP Paribas S.A., which was one of the commitments made to PFSA upon acquiring shares in BGŻ S.A. in 2014.

On 24 July 2015, a banking license was obtained to transform Sygma Banque SA Oddział w Polsce into Sygma Bank Polska Spółka Akcyjna with the registered office in Warsaw. Then, on 3 August 2015, the new bank was recorded in the Register of Entrepreneurs of the National Court Register.

On 28 July 2015, the Bank concluded a preliminary agreement concerning the purchase of 100% of shares in Sygma Bank Polska by Bank BGŻ BNP Paribas S.A. Then, once conditions precedent have been fulfilled, to include obtaining necessary permits and decisions of the Polish Financial Supervision Authority. i.e.:

- a decision that there were no grounds to object against the above transaction;
- a permit for BNP Paribas Personal Finance Société Anonyme with the registered office in Paris to sell shares in Sygma Bank Polska to the Bank,

on 1 December 2015 the transaction of purchasing 100% shares in Sygma Bank Polska by the Bank was concluded. At the same time, the Bank purchased 100% shares in LaSer Services Polska S.A. with the registered office in Warsaw from BNP Paribas SA Personal Finance.

Merger of Bank BGŻ BNP S.A. and Sygma Bank Polska S.A.

On 10 December 2015, the Management Boards of the Bank and of Sygma Bank Polska agreed and signed the merger plan prepared pursuant to Articles 498 and 499 of the Code of Commercial Companies of 15 September 2000 (consolidated text: Journal of Laws of 2013 item 1030, as amended) (henceforth: the "Merger", "Merger Plan").

On 19 April 2016, pursuant to Art. 124.1 of the Banking Law of 29 August 1997, the Polish Financial Supervision Authority gave its permission for the merger of Bank BGŻ BNP Paribas S.A. ("BGŻ BNPP") (the acquiring bank) and Sygma Bank Polska ("Sygma Bank Polska") (the acquired bank) by way of transferring all the assets and liabilities of Sygma Bank Polska to BGŻ BNPP in line with the conditions set forth in the Merger Plan.

On 31 May 2016, the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register recorded the merger through acquisition of Bank BGŻ BNP Paribas S.A., with its registered office in Warsaw, and Sygma Bank Polska S.A., with its registered office in Warsaw.



Pursuant to Art. 494.1 of the Code of Commercial Companies, as a result of the merger, on 31 May 2016, Bank BGŻ BNP Paribas S.A. – the acquirer acquired all the rights and duties of Sygma Bank Polska S.A. – the acquiree. The company Sygma Bank Polska S.A. was dissolved without any liquidation proceedings on the date of merger.

The net assets of Sygma Bank Polska S.A. were taken up for cash amounting to PLN 200 million.

The merger of Bank BGŻ BNP Paribas S.A. and Sygma Bank Polska S.A. was a merger under joint control because on the date of the merger both of the companies was a subsidiary of BNP Paribas, with the registered office in Paris.

The Merger is aimed at a more effective use of the potential of the combined companies and direct and indirect economic and financial synergies, including broadening of the product offering of Bank BGŻ BNP Paribas S.A. on the Polish consumer finance market, which will have a positive effect on the income generated both by the Bank.

2. EXTERNAL FACTORS AFFECTING THE GROUP'S OPERATIONS IN THE FIRST HALF OF 2016

2.1. MACROECONOMIC CONDITIONS

In the first quarter of 2016 growth declined to 3.0% vs. 4.3% in the previous quarter. GDP growth in the whole 2015 was 3.6%. Thus the economic growth rate dropped to the lowest level since 2013. This was mainly due to disappointing performance of investments which dropped 1.8% vs. a 4.4% increase in the prior quarter. The export performance was also disappointing with a growth decline to a rate of 6.9% vs. 8.2% in the last quarter of 2015. As a result, the contribution of domestic demand and net export to the GDP growth declined to 3.9 p.p. and -0.9 p.p., respectively.

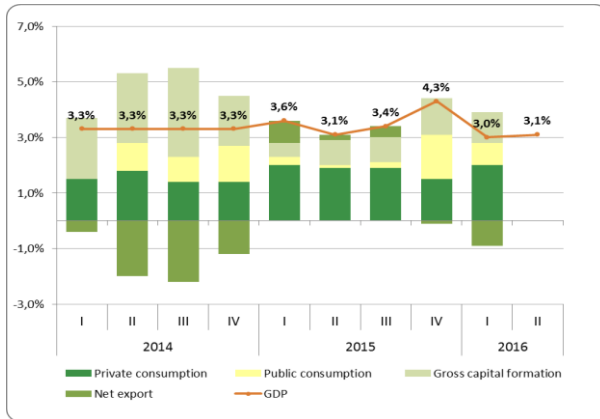
In the face of the poor performance of domestic demand and net export, private consumption became the main driver of economic growth. Private consumption saw a 3.2% year-on-year growth which was record high since 2011, contributing 2.0 p.p. to the GDP growth. The impressive performance was mainly attributed to a strong job market. In the first quarter of the current year, the employment rate in the enterprise sector grew 2.5% year-on-year and the average registered unemployment rate decreased to 10.2% vs. 11.8% in the previous year.

In the second quarter of 2016, the Polish economy accelerated to 3.1% YoY. Such economic developments as a 2.9% rise in employment year on year and the launch of the 500+ program by the government indicate that consumption remained the key driver of economic growth. The news is not so good as regards investments and export which can be hindered by the continuing shortage of EU funding and the overall global uncertainty stemming from the Brexit poll results in the UK among other things. Consumption may be the major factor supporting GDP growth also in the upcoming quarters.

The slowdown in economic activity had an overall negative impact on price trends. In the first quarter of this year the rate of consumer price growth declined to -0.9% (vs. -0.6% in the last quarter of 2015) and remained flat in the second quarter of 2016. Given the visible gradual increase in the prices of food and fuel, and the positive fiscal effects of the 500+ *Child Benefit Program*, there are reasonable grounds to expect deflation in Poland will decline gradually and the consumer price growth will be positive by the end of 2016.

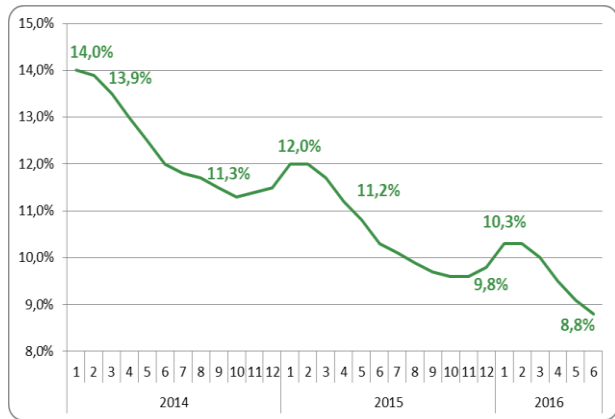


Chart 1. GDP growth YoY



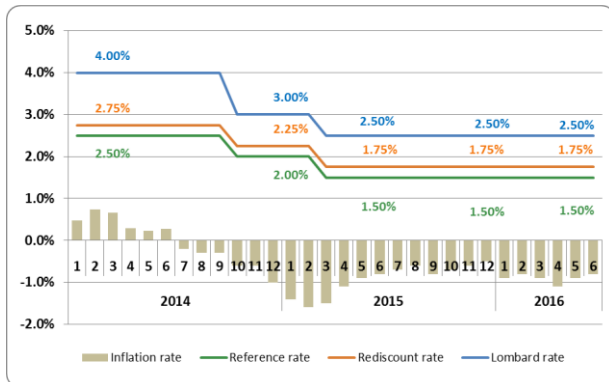
Source: Central Statistical Office

Chart 2. Registered unemployment rate



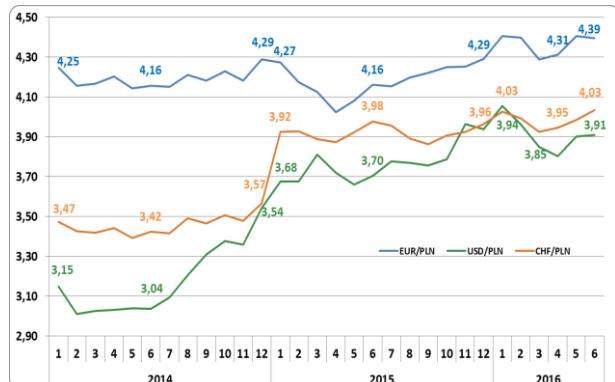
Despite deflation, the Monetary Policy Council refrained from making further adjustments to the cost of money following the cut to the benchmark interest rate to 1.5% in March 2015. The main argument for keeping interest rates on the same level was the expected reversal of the deflation trends within the monetary policy activity horizon. Today the probability of any changes in the cost of money is very small even though the GDP growth has been on the decline recently. Interest rate cuts could be justified by further deterioration in the overall economic situation and increase in deflation rate which is not the most likely Polish economic scenario.

Chart 3. Inflation and interest rates



Source: Central Statistical Office, National Bank of Poland, Bloomberg

Chart 4. PLN exchange rate



Despite a relatively sharp fluctuation in the yield on Polish treasury bonds, the market did not see a clear trend in this respect during the first months of 2016. The lowering of Poland’s credit rating by the rating agency S&P in January 2016 and the weakening of the market’s expectation of interest rate decreases that is visible in forward quotations, created favorable conditions for bond yield rises and bond price drops as a consequence. However, the lack of inflation pressure and the slower economic growth, especially in investments, had a very positive effect on Polish treasury bonds. Another driver of demand for treasury bonds were regulatory changes to the banking tax which strongly draw the domestic banking sector’s attention to treasury bonds. In the next few months the inflation trends in the Polish economy and rating agencies’ decisions will be key for the Polish debt market. Any increase in the price growth rate or a risk of further reduction in Poland’s credit rating could negatively impact demand for Polish treasury bonds.

The change in Poland’s credit rating by S&P also had an adverse effect on the Polish zloty and sent the PLN/EUR exchange rate soaring to 4.5. In the subsequent months in 2016, sentiments on the currency market improved and in spite of the anxiety over Brexit results, in Q1 and Q2 the value of the zloty fell below the January record. In the whole period the zloty benefitted from the weakening of the expectation of interest rate cuts by the Monetary Policy Council and the restraint of other rating agencies in lowering Poland’s credit rating. In addition, the developments resulting from Brexit strengthened investors’ expectations of quantitative easing



continuation in the U.S. and Euroland, which was also positive for growing economies' currencies. In the months to come the value of zloty will be determined mainly by the developments in the global economy, especially the monetary policy in the U.S. and possibly further effects of Brexit. Developments on the domestic market that may affect the value of the zloty will predominantly include the government's political decisions regarding the scale of public spending, the deficit increase risk and the final shape of the Swiss-Franc-mortgage law.

2.2. PERFORMANCE OF THE BANKING SECTOR

According to preliminary data published by the Polish Financial Supervision Authority, in the first half of 2016, the net profit of the Polish banking sector rose by 1.1% YoY to the level of PLN 8.0 billion (as compared to PLN 7.9 billion in 2015).

The year-on-year improvement in net income of the sector was determined by the increase in the net banking income (of c.a. PLN 2.8 billion, i.e. 9.9% YoY). The increase was equally due to the growth in the interest income of the sector and an increase in other items of the banking income (of c.a. over PLN 1.5 billion and over PLN 1.4 billion, respectively). The improvement in the interest income was determined by the effective consecutive quarterly reduction in the banks' interest expenses (in spite of a rapidly growing volume of deposits), which was accompanied by a slower loan origination growth in lower-margin loan segments, and an increase in loan margins in some of the sectors, e.g. mortgages. Besides, the key factor that led to the year-on-year growth in the aforementioned items of the banking income were very high revenues that banks earned on the sale of shares in the payment facilitator Visa Europe to the American company Visa Inc. According to market estimates, these revenues (after tax) surpassed PLN 1.5 billion in only 10% of the banks listed on the Stock Exchange in Warsaw (WSE). In addition, the increase in the net banking income was positively and negatively affected by, respectively, an increase in the banks' dividend revenue and a decrease in the fee and commission income. The latter was due to the poor overall situation on the equity market, negative changes on the market of insurances linked to banking products and the continuing competition on the personal account market.

Table 1. Selected income statement items of the banking sector

| PLN '000,000 | 1st half 2016 | 1st half 2015 | Change YoY | |
|---|-----------------|-----------------|----------------|--------------|
| | | | PLN '000,000 | % |
| Net interest income | 18 549 | 17 063 | 1 485 | 8.7% |
| Net fee and commission income | 6 266 | 6 670 | (404) | (6.1%) |
| Dividend income | 1 160 | 889 | 271 | 30.5% |
| Other items | 4 699 | 3 276 | 1 423 | 43.4% |
| Net banking income | 30 673 | 27 898 | 2 775 | 9.9% |
| Net profit on other operations | 1 146 | 710 | 436 | 61.4% |
| Operating expenses, personnel expenses | (7 909) | (7 494) | (414) | 5.5% |
| General administrative expenses | (7 869) | (6 443) | (1 427) | 22.1% |
| Amortization and depreciation | (1 450) | (1 382) | (68) | 5.0% |
| Total expenses | (17 228) | (15 318) | (1 910) | 12.5% |
| Impairment losses on assets and other provisions | (4 212) | (3 565) | (646) | 18.1% |
| Gross profit | 10 394 | 9 731 | 663 | 6.8% |
| Income taxes and other statutory reductions in profit | (2 371) | (1 798) | (574) | 31.9% |
| Net profit | 8 023 | 7 933 | 90 | 1.1% |

Source: PFSA; Note: As the figures have been rounded, the totals in the table may not add up.

The year-on-year increase in net banking income was also determined by the increase in the net profit on other operations (of PLN 0.4 billion, i.e. 61.4% YoY). The improvement in the sector's performance would have been much better had it not been for the exponential increase in general administration expenses (of over PLN 1.4 billion, i.e. 22.1% YoY). This was mainly due to the so-called tax on assets of some financial institutions introduced in February 2016. According to the PFSA, in the four month-period from its effective date, i.e. until May 2016, commercial banks paid PLN 1 173.1 million in this respect alone. The increase in general administrative expenses was accompanied by a moderate growth in employment-related expenses predominantly attributed to a one-off



event (i.e., according to PFSA, the acquisition by a branch of a credit institution of a company in the same capital group).

A rise in the negative balance of impairment allowances and other provisions (of over PLN 0.6 billion, i.e. 18.1% YoY) had a negative albeit minor effect on the annual change in the sector's profit. However, the increase was mainly attributed to the exponential year-on-year increase in the following: the balance of impairment allowances for non-financial assets (of about PLN 0.3 billion, i.e. 1 617.7% YoY) and the balance of other provisions (of over PLN 0.2 billion, i.e. 64.2% YoY). The aforesaid was accompanied by a moderate deterioration in incurred but not reported loss (of c.a. PLN 0.1 billion, i.e. 45.2% YoY). However, net impairment losses on loans and advances (and lease liabilities) did not change materially compared with the previous year (an increase of 0.4% YoY).

In the first half of 2016, credit activity of the banking sector measured with the nominal growth rate in the volume of loans granted to non-banking customers decreased noticeably. At the end of June 2016, total loans increased by 4.9% YoY, vs. 6.9% YoY at the end of December 2015. The nominal growth would have been slower had the value of the Polish zloty not fallen sharply against selected base market currencies (EUR and USD). Deposits from non-banking customers, however, saw a considerable rate of growth (rising to 11.4% YoY at the end of June 2016 vs. 7.4% YoY at the end of December 2015).

As at the end of June 2016 private debt went up by 4.8% YoY vs. a rise of 7.0% YoY as at the end of December 2015, which was determined by a negative rate of growth in private debt in respect of foreign currency home loans in the first half of 2016 (unlike in 2015). The negative growth was due to a virtual freeze on new loans while existing loans were being repaid regularly as the Zloty saw a relative stabilization against the CHF (YoY).

The PLN home loan sector also grew at a slower rate than in previous years. Demand for home loans in the period under discussion was moderate despite record low interest rates set by the National Bank of Poland, a further gradual upturn on the labor market and the continued favorable conditions on the real estate market, especially because – in spite of the interest rates being at a record low – the majority of investors bought properties in cash (in whole or in part). Furthermore, availability and sales of home loans in the Polish currency could be reduced by banks' implementation of even stricter down-payment requirements as of the beginning of 2016 (a further rise of 5.5 p.p. to 15%, in accordance with amended Recommendation S) and a regular growth in home loan margins. At the same time the home loan limit available to the average household was reduced significantly and gradually over the past four quarters. Among other things, the reduction was the effect of a stricter fiscal discipline prescribed by PFSA which considered banks' credit scoring practices incorrect and the amount of home loan granted excessive. It also needs to be emphasized that the overall condition of the home loan market deteriorated noticeably in the reviewed period. The second half of 2016 saw a moderate increase in liabilities in respect of home loans denominated in PLN, which had not changed much as compared to the growth in the first half of 2015. At that time, demand for new home loans was driven by the amended *Mieszkanie dla Młodych* program of subsidies for purchase of flats on the secondary market, and by the aforementioned expected implementation of stricter down-payment requirements. Another catalyst for potential customers' decisions to take a loan were the concerns about an increase in margins on loans. However, in the first half of 2016, the growth in liabilities in respect of PLN home loans fell sharply and was the lowest since the first half of 2009.

Consumer loans contributed significantly (more than in 2015) to the increase in loans granted in the private debt sector. The aforesaid was due to the continued pressure of banks on selling cash advances as high-income products in an attempt to maintain good financial performance in a tough regulatory environment. Besides the loan market saw an upturn resulting from credit card activity in the last months of the first half of 2016. As a consequence, at the end of June 2016, private debt related to consumer credit went up by 8.1% YoY and reached another record high.

The first half of 2016 saw a noticeable decline in the growth in credit activity in the enterprise segment measured as a nominal rate of growth in companies' bank debt (despite a clear depreciation of PLN against EUR YoY). The decline in the credit activity in the enterprise segment can be especially attributed to the continuing uncertainty regarding further developments on the domestic and international markets. As regards the former, companies' decisions were largely based on implementation of new taxes in the sector and stricter tax law, among other things; as regards the latter, Brexit and its possible effects were the main concerns. All this resulted in a visible slump in investments in enterprises. Besides, the slump was strongly affected by a delay in the absorption and distribution of EU funds under 2014-2020 Perspective, which was a factor in a material



decrease in public investment. To some extent, companies' demand for current and investment loans weakened as a consequence of their high liquidity ratios. On the other hand, banks themselves may have been less inclined to grant loans to enterprises, especially loans with the lowest margins, as a result of implementation of the so-called taxation on banks' assets. The effect may have been an increased popularity of alternative forms of debt financing as evidenced by a fast growth rate reported on the leasing market (17.7% YoY at the end of June 2016) and increase in the share of lease-funded investments in the overall GDP. The aforementioned negative effects on the enterprise loan market were reduced, although only partly, by the following: continuing of the *de minimis* SME guarantee program and low costs of financing caused by the record low interest rates.

Table 2. Banking sector loans by value

| PLN billion | 30.06.2016 | 31.12.2015 | 30.06.2015 | Change YoY | |
|--|----------------|----------------|----------------|-------------|-------------|
| | | | | PLN billion | % |
| Loans to private customers | 544.3 | 526.8 | 519.2 | 25.0 | 4.8% |
| - home loans | 386.4 | 377.9 | 376.4 | 10.0 | 2.7% |
| in PLN | 220.3 | 212.0 | 201.5 | 18.9 | 9.4% |
| in foreign currencies | 166.0 | 165.9 | 174.9 | (8.9) | (5.1%) |
| - consumer credit | 152.8 | 146.8 | 141.4 | 11.4 | 8.1% |
| - other loans | 5.1 | 2.1 | 1.5 | 3.7 | 247.6% |
| Loans to institutional customers | 548.7 | 538.7 | 522.8 | 25.9 | 4.9% |
| - non-bank financial institutions | 52.5 | 56.0 | 52.6 | (0.1) | (0.2%) |
| - business entities | 415.7 | 402.0 | 392.0 | 23.7 | 6.1% |
| corporate | 308.5 | 298.0 | 289.1 | 19.4 | 6.7% |
| individual entrepreneurs | 68.1 | 66.2 | 66.0 | 2.1 | 3.2% |
| farmers | 32.9 | 31.8 | 31.1 | 1.8 | 5.8% |
| non-commercial institutions | 6.2 | 6.1 | 5.7 | 0.4 | 7.7% |
| - public sector | 80.5 | 80.7 | 78.2 | 2.3 | 2.9% |
| Total loans to non-bank customers | 1 092.9 | 1 065.5 | 1 042.0 | 50.9 | 4.9% |

Source: National Bank of Poland, data for monetary financial institutions, excluding the Central Bank and Cooperative Savings and Credit Unions, residents only.

Note: As the figures have been rounded to one decimal place, therefore individual figures and percentages in the table may not add up.

Private customers' savings remained the key source of a rise in banking sector deposits. The annual growth rate in this customer group did not drop below the level recorded in December 2015 (9.7%); on the contrary, it went up to 11.5% as at the end of June 2016. Deposit activity among individuals rose despite the interest rates set by the National Bank of Poland being at a record low and despite further reductions in interest rates on saving products by the banks in the subsequent quarters of the reviewed period. This could be attributable to the aforementioned further, gradual improvement on the labor market which was reflected in the continued growth in average employment in the enterprise sector as well as a regular growth in the average gross monthly salary. Another notable factor may have been a gradual deterioration observed on the Warsaw Stock Exchange (WSE) since the second quarter of 2015. In the second quarter of 2016, the increase in the growth rate of private deposits may have been affected additionally by the launch of the 500+ *Child Benefit Program* at the beginning of April.

However, the first half of 2016 saw a small drop in enterprises' deposit activity (8.5% YoY at the end of June 2016 vs. 10.3% YoY at the end of December 2015), although it remained relatively high. The aforesaid may have been supported by a rise in sales income generated by enterprises on the Polish market, which was reflected by at least a moderate annual increase in real retail sales over the whole period reviewed. On the other hand, the continued increase in corporate deposits also may have been positively affected by the continuing YoY growth in exports (despite the continuing – although softened - Russian embargo on certain food products).


Table 3. Banking sector deposits by value

| PLN billion | 30.06.2016 | 31.12.2015 | 30.06.2015 | Change YoY | |
|-----------------------------------|----------------|----------------|--------------|--------------|--------------|
| | | | | PLN billion | % |
| Private deposits | 636.7 | 602.9 | 570.8 | 65.9 | 11.5% |
| - current | 326.5 | 295.6 | 281.9 | 44.7 | 15.8% |
| - term | 310.1 | 307.3 | 288.9 | 21.2 | 7.4% |
| Institutional deposits | 447.1 | 424.8 | 401.7 | 45.4 | 11.3% |
| - non-bank financial institutions | 53.9 | 55.8 | 48.9 | 5.0 | 10.3% |
| - business entities | 311.8 | 317.6 | 285.3 | 26.5 | 9.3% |
| corporate | 244.0 | 250.1 | 224.9 | 19.0 | 8.5% |
| individual entrepreneurs | 34.6 | 37.0 | 31.2 | 3.4 | 11.1% |
| farmers | 12.0 | 10.9 | 10.0 | 1.9 | 19.1% |
| non-commercial institutions | 21.3 | 19.6 | 19.2 | 2.1 | 10.8% |
| - public sector | 81.4 | 51.4 | 67.5 | 13.8 | 20.5% |
| Total non-bank deposits | 1 083.7 | 1 027.6 | 972.5 | 111.3 | 11.4% |

Source: National Bank of Poland, data for monetary financial institutions, excluding the Central Bank and Cooperative Savings and Credit Unions, residents only

Note: As the figures have been rounded to one decimal place, therefore individual figures and percentages in the table may not add up.

2.3. STOCK MARKET AND INVESTMENT

The first half of 2016 saw a negative change in the WIG stock market index, which represents all companies listed on the Warsaw Stock Exchange (WSE) with a 3.7% decrease YoY. However, in the analyzed period WSE saw differences in market trends for the shares in large, medium-sized and small enterprises, which was reflected in the relevant indices. WIG20, which represents the largest enterprises, recorded a strong revaluation of 5.8% in the first half of 2016; mWIG40, which comprises medium enterprises, fell 4.9% and sWIG80 lost 0.3%. The major factor responsible for the relative weakness of WIG20 and mWIG40 was political risk, which affected mainly entities exposed to foreign capital outflow.

Table 4. Major WSE indices

| Index | 30.06.2016 | 31.12.2015 | 30.06.2015 | Change YoY |
|--------|------------|------------|------------|------------|
| WIG | 44 749 | 46 467 | 53 328 | (16.1%) |
| WIG20 | 1 751 | 1 859 | 2 318 | (24.5%) |
| mWIG40 | 3 393 | 3 567 | 3 658 | (7.2)% |
| sWIG80 | 13 178 | 13 211 | 12 902 | 2.1% |

Source: WSE

The following factors determined the situation on the Warsaw Stock Exchange in 2016: (i) anticipation and results of Brexit referendum with supporters of the UK leaving the European Union taking the upper hand; (ii) lowering of Poland's long-term credit rating by the rating agency S&P; (iii) political uncertainty caused by implementation of new taxes (banking and sales tax); (iv) political uncertainty caused by announced reforms (pension system, translation of home loans in Swiss-Franc into PLN); (v) concerns about slower GDP growth in Poland in 2016 and higher deficit in the subsequent years.

The first half of 2016 saw considerable volatility on the Polish treasury bond market caused by factors including the lowering of Poland's credit rating and uncertainty related to the Brexit referendum in the UK. Consequently, the yield on 10-year bonds dropped slightly from ca. 2.94% at the end of 2015 to 2.92% at the end of June 2016.

In the first half of 2016, nine new companies entered WSE, including three as a result of transfer of quotations from the New Connect market. The number of WSE listed companies decreased from 487 at the end of 2015 to 483 at the end of June 2016.

In the first half of 2016, there were seven new arrivals on the New Connect market (as compared to 19 in the whole of 2015).

A total of 552 bond issues were listed on the Catalyst market and their issue value exceeded PLN 671 billion.



Table 5. Number of companies, cap and trading volume on WSE

| | 30.06.2016 | 31.12.2015 | 30.06.2015 | Change YoY |
|--|------------|------------|------------|------------|
| Number of companies | 483 | 487 | 474 | 1.9% |
| Cap of domestic companies (PLN '000,000) | 496 094 | 516 785 | 605 185 | (18.0%) |
| Share trading volume (PLN '000,000) | 89 790 | 225 287 | 113 945 | (21.2%) |
| Futures trading volume ('000) | 3 750 | 7 767 | 4 009 | (6.5%) |

Source: WSE

3. MAJOR EVENTS IN THE CAPITAL GROUP OF BANK BGŻ BNP PARIBAS S.A. IN THE FIRST HALF OF 2016

8.01.2016 Payment of a contribution to the Borrowers' Support Fund – pursuant to a decision of the Board of the Borrowers' Support Fund of 5 January 2016 regarding the actual amount and due date of the contribution to the Borrowers' Support Fund (the "Fund"), the Bank was obliged to pay a contribution of PLN 38 167 677.50 by 18 February 2016.

In the fourth quarter of 2015, the Bank recognized the relevant provision for the said contribution.

19.01.2016 The estimated effect of the Act (of 15 January 2016, Journal of Laws, item 68, which came into force as of 1 February 2016) on Tax on Certain Financial Institutions on the performance of Bank BGŻ BNP Paribas S.A. in 2016 – the Management Board of the Bank estimated that the related reduction of the Bank's net profit would be ca. PLN 200 million.

29.01.2016 PFSA decisions granting the consent for classification of subordinated loans (of PLN 440 million and EUR 40 million) as the Bank's Tier 2 capital - received by the Bank on 28 January 2016.

The Bank raised the funds from realization of subordinated loan agreements concluded with BNP Paribas S.A. on 29 December 2015. Once the aforesaid subordinated loans are classified as Tier 2 capital, the Bank's equity will be sufficient to satisfy the capital requirements recommended by PFSA.

26.02.2016 Shareholders' first announcement of planned merger of Bank BGŻ BNP S.A. and Sygma Bank Polska S.A.

14.03.2016 Entry of amendments made to the Statute of Bank BGŻ BNP Paribas S.A. adopted by the Extraordinary Shareholders' Meeting of the Bank on 15 December 2015.

21.03.2016 Second announcement of the draft terms of merger of Bank BGŻ BNP Paribas S.A. with Sygma Bank Polska S.A.

23.03.2016 Management Board of Bank BGŻ BNP Paribas S.A. gives positive opinion on merger of Bank BGŻ BNP Paribas S.A. with Sygma Bank Polska S.A.

24.03.2016 Recommendations of the Polish Financial Supervision Authority (KNF) on the additional capital requirement for the Bank on consolidated level and regarding an increase of the Bank's own funds through retaining total earnings generated in 2015.

PFSA recommends that the Capital Group of the Bank maintain equity necessary to satisfy an additional capital requirement of 0.72 p.p. with Tier 1 capital accounting for at least 75% (i.e. 0.54 p.p.).

Effective from 1 January 2016, the Bank's minimum capital ratios taking into account the additional capital requirement should be as follows:

- separate presentation: Tier 1 – 10.78%; TCR* - 13.96%;
- consolidated presentation: - 10.79%; TCR* - 13.97%.

In addition the Bank was instructed to increase its equity through retaining its whole profit earned from 1 January to 31 December 2015.

*TCR (Total Capital Ratio)



| | |
|-------------------|---|
| 30.03.2016 | The Extraordinary Shareholders' Meeting of Bank BGŻ BNP Paribas S.A. - decision on planned merger of Bank BGŻ BNP Paribas S.A. with Sygma Bank Polska S.A., and approval of Merger Plan. |
| 13.04.2016 | Announcement of amended Strategy of Bank BGŻ BNP Paribas S.A. for 2016-2018. The key strategic goals to be achieved by 2018 (on stable economic growth assumption): <ul style="list-style-type: none">• over 5% share in the loans and deposits market;• an improvement in effectiveness as a result of post-integration cost synergies and increased revenues;• a 14-percent increase in Net Banking Income measured as a compound annual growth rate from 2015 to 2018, resulting from implementation of new initiatives in all business lines;• a decrease in the cost/income ratio from 74% in 2015 (excluding integration cost) to about 55% by 2018);• an increase in ROE to about 10%. The key to effective implementation of the Strategy will be completion of the operating integration of Bank BGŻ S.A. with BNP Paribas Bank Polska S.A. by the end of 2016, as well as a legal merger of the Bank with Sygma Bank Polska S.A. by the end of 2016. The four pillars of the Strategy are: <ul style="list-style-type: none">- Focus on the customer;- Support for international expansion of corporate clients;- Integrated universal bank;- Implementation of digital services in each operating segment. |
| 19.04.2016 | Obtaining a permission of Polish Financial Supervisory Authority to merge Bank BGŻ Paribas S.A. and Sygma Bank Polska S.A. Pursuant to Art. 124.1 of the Banking Law of 29 August 1997, the Polish Financial Supervision Authority gave its permission for the merger of Bank BGŻ BNP Paribas S.A. ("BGŻ BNPP") (the acquiring bank) and Sygma Bank Polska ("Sygma Bank Polska") (the acquired bank) by way of transferring all the assets and liabilities of Sygma Bank Polska to BGŻ BNPP in line with the conditions set forth in the Merger Plan agreed between the banks on 10 December 2015. |
| 31.05.2016 | Registration of the merger of Bank BGŻ BNP Paribas S.A. and Sygma Bank Polska S.A. in the National Court Register |
| 31.05.2016 | Change in the deadline to fulfil the investor obligation of BNP Paribas SA regarding increasing the liquidity of the shares of Bank BGŻ BNP Paribas S.A. , justified with an unforeseen adverse change in market conditions compared to the date of accepting the obligation, consists in PFSA considering the obligation fulfilled if liquidity of shares of Bank BGŻ BNP Paribas S.A. reaches at least: <ul style="list-style-type: none">• 12.5% shares by the end of 2018; and• 25% plus one share by the end of 2020. |
| 09.06.2016 | General Meeting of BGŻ BNP Paribas S.A. – part 1 , approving amendments to the Bank's Statute. Announcing a break in the meeting until 30 June 2016. |
| 17.06.2016 | Information about the effects of acquisition of Visa Europe by Visa Inc. on the financial performance of Bank BGŻ BNP Paribas S.A. – update The share of the Bank as a beneficiary of the transaction: <ul style="list-style-type: none">• EUR 6.9 million in cash – the equivalent of PLN 30 518 thousand (at the average exchange rate of the National Bank of Poland of 20 June 2016 4.3945);• 2,521 Preference Visa Inc. C series shares. The transactions were settled in the second quarter of 2016. Following an amendment to the terms of the transaction regarding its settlement, as announced in the current report no. 90/2015, the earn-out payment was replaced by an increase in the cash amount payable in the second quarter of 2016 and a deferred cash amount payable in the second quarter of 2019. (Deferred payment) According to the communication, the deferred payment may be adjusted in cases described in Transaction Terms. The total amount of the Deferred Payment assigned to all participants of the Transaction shall be EUR 1.12 billion, 0.0535214433% of which is assigned to the Bank. |



30.06.2016 Ordinary General Shareholders' Meeting of Bank BGŻ BNP Paribas S.A. – part 2 (continuation after the break announced on 9 June 2016):

- approving Financial Statements for 2015 and Management Board Reports for 2015;
- acknowledgement of the fulfilment of duties by members of the Management and Supervisory Board;
- re-appointing the Supervisory Board of the Bank for the new five-year office term.

4. GOVERNING BODIES OF BANK BGŻ BNP PARIBAS S.A.

4.1. COMPOSITION OF THE SUPERVISORY BOARD OF BANK BGŻ BNP PARIBAS S.A.

Composition of the Supervisory Board of Bank BGŻ BNPP as at 30 June 2016:

| Full name | Office held in the Supervisory Board of the Bank |
|-----------------------|--|
| Józef Wancer | Chairman of the Supervisory Board |
| Jarosław Bauc | Vice-Chairman, Independent Member of the Supervisory Board |
| Jean-Paul Sabet | Vice-Chairman of the Supervisory Board |
| Stefaan Decraene | Member of the Supervisory Board |
| Jacques d'Estais | Member of the Supervisory Board |
| Alain Van Groenendael | Member of the Supervisory Board |
| Thomas Mennicken | Member of the Supervisory Board |
| Piotr Mietkowski | Member of the Supervisory Board |
| Monika Nachyła | Member of the Supervisory Board |
| Mariusz Warych | Independent Member of the Supervisory Board |

The composition of the Supervisory Board of Bank BGŻ BNP Paribas S.A. did not change in the first half of 2016.

On 30 June 2016, the General Meeting of the Bank determined the number of the Supervisory Board members of the new office term for ten people and re-appointed the former members for the new five-year office term.

4.2. COMPOSITION OF THE MANAGEMENT BOARD OF BANK BGŻ BNP PARIBAS S.A.

As at 30 June 2016 the composition of the Management Board of Bank BGŻ BNPP did not change compared to the end of 2015 and was as follows:

| Full name | Office held in the Management Board of the Bank |
|---------------------|---|
| Tomasz Bogus | President of the Management Board |
| Daniel Astraud | Vice-President of the Management Board |
| François Benaroya | Vice-President of the Management Board |
| Blagoy Bochev | Vice-President of the Management Board |
| Jan Bujak | Vice-President of the Management Board |
| Wojciech Kembłowski | Vice-President of the Management Board |
| Magdalena Legęć | Vice-President of the Management Board |
| Jaromir Pelczarski | Vice-President of the Management Board |
| Stephane Rodes | Vice-President of the Management Board |
| Michel Thebault | Vice-President of the Management Board |
| Bartosz Urbaniak | Member of the Management Board |

Changes in the composition of the Management Board of the Bank after 30 June 2016:

- On 21 April 2016, Mr. Jean-Philippe Stephane Rodes submitted his resignation from the position of Vice-President and Member of the Management Board of the Bank with effect from 31 July 2016. On 16 June



2016 Mr. Jean-Philippe Stephane Rodes submitted a representation, changing the effective date of his resignation from the position of President of the Management Board of the Bank to 18 July 2016.

- During a meeting on 21 April 2016, the Supervisory Board of the Bank appointed Mr. Jerzy Śledziwski Vice-President of the Management Board effective from 1 August 2016, until the end of the existing three-year joint office of the members of the Management Board.
- On 16 June 2016 Mr. Michel Thebault submitted a statement of resignation from the position of Vice-President of the Management Board of the Bank effective from 30 June 2016.
- During a meeting on 16 June 2016, the Supervisory Board of the Bank appointed Mr. Philippe Paul Bézieau Vice-President of the Management Board effective from 1 July 2016, until the end of the existing three-year joint office of the members of the Management Board.

5. RATINGS

The Bank's ratings have been assigned by Moody's Investors Service Ltd. (the "Agency").

On 21 May 2015, the ratings for the Bank's long- and short-term deposits have been upgraded to Baa2/Prime-2 from Baa3/Prime-3 with a stable outlook.

The aforesaid change resulted from confirmation of the Baseline Credit Assessment (BCA) at the ba2 level and the Advanced Loss Given Failure (LGF) analysis, which enabled to improve the rating by one grade as compared to the adjusted Baseline Credit Assessment at the baa3 level.

Additionally, the Bank obtained new Counterparty Risk Assessments of A3(cr)/P-2 (cr).

The change in the ratings was driven by the close of the rating review process carried out for 10 banks in Poland following implementation of a new rating methodology for banks, as announced on 16 March 2015.

The last review of the rating was based on data from the end of Q2 2015, and published by the Agency on 26 November 2015. All the previous scores remained unchanged. The report justifying the rating mentions the good equity base and safe liquidity profile of Bank BGŻ BNP Paribas S.A.

| Moody's Investors Service | Rating |
|---|----------------|
| Long-term deposit rating | Baa2 |
| Short-term deposit rating | Prime-2 |
| Baseline Credit Assessment, BCA | ba2 |
| Adjusted Baseline Credit Assessment, Adjusted BCA | baa3 |
| Counterparty Risk assessments, CRa | A3(cr)/P-2(cr) |
| Outlook | stable |

6. AWARDS AND ACCOLADES

In 2016, the Bank received the following rewards and accolades:

| | |
|--------------------|--|
| 28 January | first place in the Best Farmer 2016 ranking prepared by research agency Martin&Jacob |
| 16 February | name Top Employer Polska 2016 for its HR policy developed in line with best market practices |
| 6 April | the Fastest Developing Bank -an award received during the 5 th Great Gala of Banking and Insurance Leaders at 9 th Banking Forum |
| 17 May | the Srebrny Listek CSR POLITYKI - award bestowed by the Polityka weekly and Deloitte to socially responsible companies; award received for the second time |
| 19 May | first place in the Ranking of Responsible Companies in the "Banking, Insurance and Financial Sector" category. The ranking is published by Dziennik Gazeta Prawna; the business partners are Responsible Business Forum and Deloitte. |
| 20 June | winner in the "Consumer finance" category in the ranking of the "Top 50 Polish Banks" prepared by Miesięcznik Finansowy BANK monthly |
| 23 June | winner in the "Growth Rate" category in the second edition of the "Banking Stars" rating organized by Dziennik Gazeta Prawna and business partner PwC |



7. SHAREHOLDER STRUCTURE OF BANK BGŻ BNP PARIBAS S.A.

7.1. SHAREHOLDER STRUCTURE

As at 30 June 2016 the structure of the shareholders of Bank BGŻ BNP Paribas S.A., including those holding at least 5% of the total number of votes at the General Meeting, was as follows:

Table 6. Shareholder structure

| Shareholders | Number of shares | % interest in share capital | Number of votes at the General Shareholders' Meeting | % interest in the total number of votes at the General Shareholders' Meeting |
|--|-------------------|-----------------------------|--|--|
| BNP Paribas, total: | 74 409 864 | 88.33% | 74 409 864 | 88.33% |
| <i>BNP Paribas directly</i> | 50 524 889 | 59.98% | 50 524 889 | 59.98% |
| <i>BNP Paribas Fortis SA/NV directly</i> | 23 884 975 | 28.35% | 23 884 975 | 28.35% |
| Rabobank International Holding B.V. | 5 613 875 | 6.66% | 5 613 875 | 6.66% |
| Other shareholders | 4 214 579 | 5.01% | 4 214 579 | 5.01% |
| Total | 84 238 318 | 100.00% | 84 238 318 | 100.00% |

There were no changes in shareholding structure in the first half of 2016.

As at 30 June 2016, the Bank's share capital amounted to PLN 84 238 thousand and was divided into 84 238 318 shares with the par value of PLN 1.00, including: 15 088 100 A series shares, 7 807 300 B series shares, 247 329 C series shares, 3 220 932 D series shares, 10 640 643 E series shares, 6 132 460 F series shares, 8 000 000 G series shares, 5 002 000 H series shares and 28 099 554 I series shares.

The Bank's shares are ordinary bearer and registered shares (as at 30 June 2016, there were 13 024 915 registered shares, including four B series shares).

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

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

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

As at 30 June 2016, none of the members of the Management Board or Supervisory Board of the Bank declared holding any shares of Bank BGŻ BNP Paribas S.A., and there were no change in this respect from the date of presenting the report for the first quarter of 2016, i.e. 9 May 2016.

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 traded freely 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 had the reaching the assumed percentage of freely traded shares within the declared deadline been unreasonable due to unforeseen or exceptional market conditions, or would it expose 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 freely traded shares.

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



8. SHARE PRICE OF BANK BGŻ BNP PARIBAS S.A. ON WSE

The Bank’s shares, to which ISIN code PLBGZ0000010 has been assigned, are listed on the Main Market of the Warsaw Stock Exchange (WSE).

On 23 December 2014, trading in the shares in Bank BGŻ was suspended until 18 May 2015, when the banks’ merger had been registered, the new I series share issue recorded in the securities depository and the shares admitted and introduced to trading on the Main Market of WSE.

The Bank’s shares are traded under the abbreviated name of BGZBNPP, marked “BGZ” and classified to the 250 PLUS segment. They do not form part of any stock market indices.

During the first session after reintroduction of the shares to trading, i.e. on 18 May 2015, the price was PLN 77.50 and it dropped to PLN 47.90 on 30 June 2016. The average price of the Bank’s shares in the period was PLN 51.87. The average trading volume exceeded 2 892 shares per session, while the average value of the Bank’s shares traded per session was PLN 144 thousand.

Chart 5. The Bank’s share price from 18 May 2015 to 30 June 2016

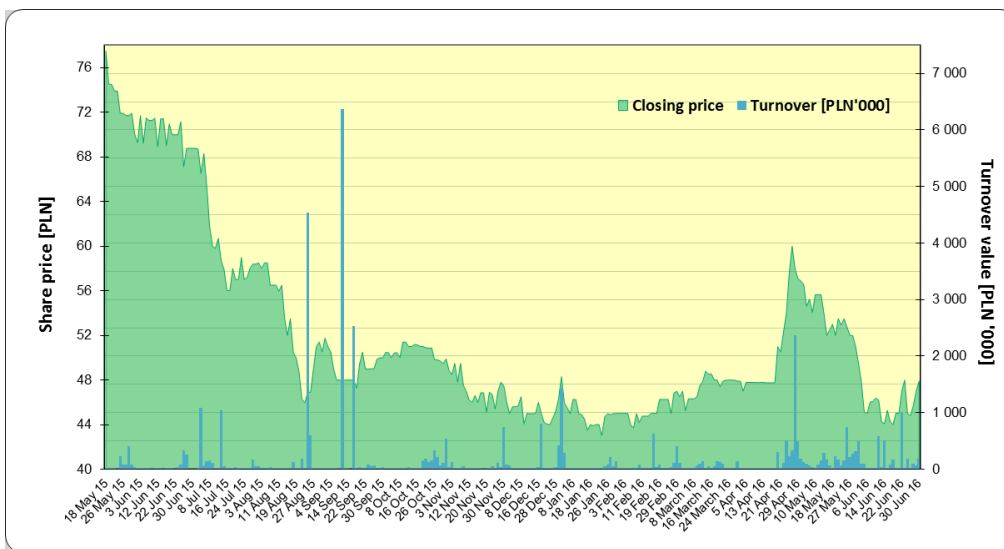
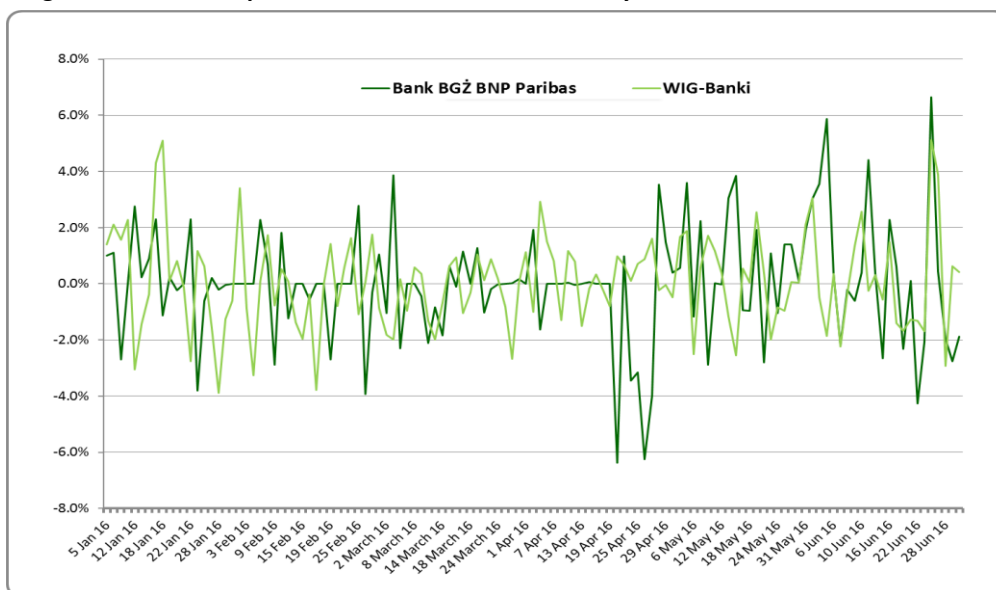


Chart 1. Change in Bank’s share price vs. WIG-Banki from 5 January 2016 to 30 June 2016





9. FINANCIAL STANDING OF THE CAPITAL GROUP OF BANK BGŻ BNP PARIBAS S.A.

The financial data for the 1st half of 2016 applies to the Capital Group of Bank BGŻ BNP Paribas S.A. (i.e. Bank BGŻ BNP Paribas S.A., Sygma Bank Polska S.A. (integrated into the Bank's structure in 31 May 2016), TFI BGZ BNP Paribas S.A., BGZ BNP Paribas Faktoring Sp. z o.o., Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o., Fortis Lease Polska Sp. z o.o. in liquidation, Laser Services Polska S.A.), whereas the figures presented for the 1st half of 2015 exclude Sygma Bank Polska S.A. and Laser Services Polska S.A. (listed above).

The financial performance presented was affected by the following transactions:

- A legal merger of Bank BGŻ and BNP Paribas Bank Polska on 30 April 2015. The business combination transaction was accounted for using the book value method and the results of operations of BNPP Bank Polski S.A were recognized in the consolidated financial statements of the Capital Group of Bank BGŻ BNP Paribas prospectively, i.e. as of 30 April 2015;
- Purchase of 100% of shares in Sygma Bank Polska S.A. and 100% of shares in the company Laser Services S.A. on 1 December 2015, and a legal merger of Bank BGŻ BNP Paribas with Sygma Bank Polska on 31 May 2016. As a consequence of the accounting for the merger of Bank BGŻ BNP Paribas S.A. with Sygma Bank Polska S.A., on 31 May 2016, Bank BGŻ BNP Paribas S.A. recognized in its financial statements a sum of PLN 111 155 thousand, i.e. difference between net assets of Sygma Bank Polska S.A. (PLN 311 154 thousand) and the netbook value of the acquisition prior to the legal merger (PLN 200,000 thousand). The results of operations (revenue and expenses) of Sygma Bank Polska were recognized in the separate financial statements of Bank BGŻ BNP Paribas prospectively, i.e. from 31 May 2016.

As at 31 May 2016, the book value of the assets of Sygma Bank Polska was PLN 1 846 619 thousand, which accounted for 2.6% of the balance sheet total of the Bank (separate presentation) as at 30 June 2016. In addition, the net loans of PLN 1 530 414 thousand transferred on 31 May 2016, represented almost 3% of the Bank's loans as at the end of June 2016.

The aforesaid events had an effect on data comparability, especially the items of the income statement for the periods under discussion, as well as on the ratios.

9.1. CONSOLIDATED STATEMENT OF PROFIT OR LOSS

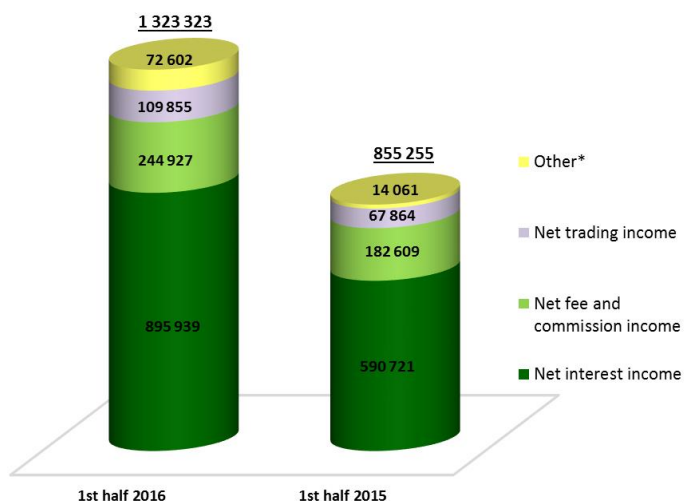
In the first half of 2016, the Capital Group of Bank BGŻ BNP Paribas generated a net profit of PLN 64,638 thousand, i.e. PLN 46,835 thousand (up 263.1%) higher than in the same period in the previous year.

The main factors that determined the change in the performances in the reporting periods under discussion were the aforementioned mergers of banks BGŻ, BNPP Polska and Sygma Bank Polska in 2015 and 2016. Data comparability was upset by the prospective recognition of the result of BNPP Polska in the profit or loss of the Capital Group in the first half of 2015, i.e. from 30 April 2015, and failure to consolidate the results of Sygma Bank Polska in the first half of 2015.

In addition, pursuant to the Act on Tax on Certain Financial Institutions of 15 January 2016, banks' assets are subject to taxation at a monthly rate of 0.0366%. The Capital Group's total charges in this respect amounted to PLN 82 545 thousand in the current year.

In the first half of 2016, the cost of integration of the banks rose 24.1% compared with the same period in 2015, and amounted to PLN 104 976 thousand.

Had the integration cost been eliminated, the net profit of the Capital Group for the six-month period in 2016 would have amounted to PLN 149 669 thousand and would have been 15.3% higher than in the same period in the previous year.

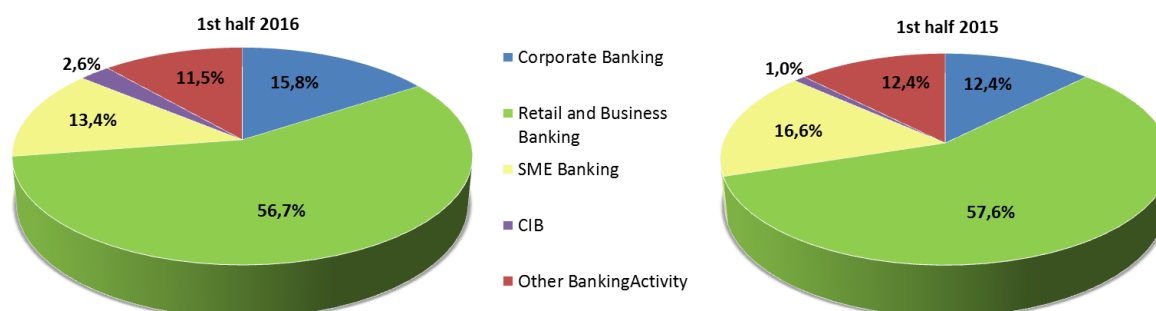

Table 7. Net banking income in PLN '000


* Other comprises net investment income, result on hedge accounting, dividend income as well as other operating income and expenses

Table 7. Statement of profit or loss

| PLN '000 | 1st half 2016 | 1st half 2015 | Change YoY | |
|---|------------------|----------------|----------------|---------------|
| | | | PLN '000 | % |
| Net interest income | 895 939 | 590 721 | 305 218 | 51.7% |
| Net fee and commission income | 244 927 | 182 609 | 62 318 | 34.1% |
| Dividend income | 5 758 | 5 230 | 528 | 10.1% |
| Net trading income | 109 855 | 67 864 | 41 991 | 61.9% |
| Result on investment activities | 42 433 | 35 200 | 7 233 | 20.5% |
| Result on hedge accounting | 140 | 0 | 140 | x |
| Other operating revenue and expenses | 24 271 | (26 369) | 50 640 | (192.0%) |
| Net banking income | 1 323 323 | 855 255 | 468 068 | 54.7% |
| Net impairment losses on financial assets and provisions for contingent liabilities | (165 815) | (133 896) | (31 919) | 23.8% |
| General administrative expenses | (856 111) | (632 773) | (223 338) | 35.3% |
| Amortization and depreciation | (96 386) | (63 057) | (33 329) | 52.9% |
| Operating result | 205 011 | 25 529 | 179 482 | 703.1% |
| Loans from financial institutions | (82 545) | 0 | (82 545) | x |
| Profit (loss) before income tax | 122 466 | 25 529 | 96 937 | 379.7% |
| Income taxes | (57 828) | (7 726) | (50 102) | 648.5% |
| Net profit (loss) for the period | 64 638 | 17 803 | 46 835 | 263.1% |
| Integration costs | (104 976) | (138 331) | 33 355 | (24.1%) |
| Net profit/ (loss) for the period except for integration costs | 149 669 | 129 851 | 19 818 | 15.3% |

Note: As the figures have been rounded up, the totals in the tables and charts of this Report may not add up.


Chart 8. Net banking income by segments

Net interest income

In the first half of 2016, the net interest income, which represents the major source of the Capital Group's income, went up by PLN 305,218 thousand, i.e. 51.7%, which was driven by a rise in interest income of PLN 369,026 thousand, i.e. 40.9% YoY, while interest expense saw a rise of PLN 63,808 thousand, i.e. 20.5% YoY. The level of interest income and expense was mainly affected by the growth rate of commercial volumes resulting from the merger of Bank BGŻ with BNPP Polska in April 2015, as well as acquisition of Sygma Bank Polska (December 2015: acquisition of 100% shares and integration into the Capital Group's structure; May 2016: legal merger with Bank BGŻ BNP Paribas).

Interest income on loans and advances to customers which saw an increase of PLN 288 855 thousand, i.e. 45.8% YoY, was the largest item in the structure of the Capital Group's interest income. In addition to interest on loans and advances, the Group saw a rise in interest on overdrafts to customers (up PLN 30 559 thousand, i.e. 20.8% YoY). The aforesaid increases were observed mainly in the Corporate Banking and Retail and Business Banking segments and resulted from a larger activity scale.

The Capital Group's growth rate in the gross loan volume amounted to 8.4% YoY.

Table 8. Net interest income

| PLN '000 | 1st half 2016 | 1st half 2015 | Change YoY | |
|---|------------------|------------------|-----------------|--------------|
| | | | PLN '000 | % |
| Loans and advances to banks | 12 955 | 11 178 | 1 777 | 15.9% |
| Loans and advances to customers in current accounts | 177 228 | 146 669 | 30 559 | 20.8% |
| Loans and advances to customers | 919 338 | 630 483 | 288 855 | 45.8% |
| Hedging instruments | 39 647 | 396 | 39 251 | 9 911.9% |
| Reverse repo transactions | 0 | 7 559 | (7 559) | (100.0%) |
| Debt securities | 121 439 | 105 296 | 16 143 | 15.3% |
| Interest income | 1 270 607 | 901 581 | 369 026 | 40.9% |
| Amounts due to banks | (54 920) | (22 876) | (32 044) | 140.1% |
| Debt securities issued | (6 621) | (9 975) | 3 354 | (33.6%) |
| Amounts due to customers | (272 745) | (270 427) | (2 318) | 0.9% |
| Hedged items | (40 265) | (1) | (40 264) | x |
| Repo transactions | (117) | (7 581) | 7 464 | (98.5%) |
| Interest expense | (374 668) | (310 860) | (63 808) | 20.5% |
| Net interest income | 895 939 | 590 721 | 305 218 | 51.7% |



The rise in interest expense was driven by an increase in amounts due to banks. The increase was due to a year-on-year rise in the share of amounts due to banks in the Capital Group's sources of financing throughout most part of the first half of 2016, and consequently was a result of consolidation of assets and liabilities of Bank BGŻ and BNPP Polska from 30 April 2015, and consolidation of assets and liabilities of Sygma Bank Polska from 1 December 2015.

The Capital Group applied hedge accounting as at the end of June 2016. Hedged items are fixed-rate PLN and EUR current accounts. The hedging instruments are standard IRS transactions, i.e. plain vanilla IRS in EUR and PLN with a nominal value of PLN 5 519 570 thousand. The change in the fair value measurement of hedging instrument is recognized in the Result on hedge accounting; interest on IRS transactions and hedged items is recognized in interest income.

In the six-month period in 2016, the net interest result on hedge relationships (the sum of interest income on hedging instruments and interest expense on hedged items) was negative (a loss of PLN 618 thousand) as compared to an income of PLN 395 thousand in the first half of 2015.

Net fee and commission income

In the six-month period in 2016, net fee and commission income went up by PLN 62 318 thousand, i.e. 34.1% YoY, which was driven by a rise in fee and commission income of PLN 83 796 thousand, i.e. 39.9% YoY, whereas fee and commission expenses went up by PLN 21 478 thousand, i.e. 78.8% YoY.

An increase in fee and commission income, mainly as a consequence of acquisition of the customer base of BNPP Polska and Sygma Bank Polska, was recorded in almost all fee categories (except for broker fees), especially the following:

- loans and advances – up PLN 26 798 thousand, i.e. 42.4%;
- account administration and clearing transactions (the total of PLN 25 286 thousand, i.e. 36.8%), which was attributable mainly to an increase in the accounts as well as changes introduced to the Rates and Charges Information;
- payment cards – up PLN 7 607 thousand, i.e. 25.0%;
- insurance products sold – up PLN 6 767 thousand, i.e. 59.2%.

Table 9. Net fee and commission income

| PLN '000 | 1st half 2016 | 1st half 2015 | Change YoY | |
|--------------------------------------|------------------|------------------|-----------------|--------------|
| | | | PLN '000 | % |
| Fee and commission income | | | | |
| loans and advances | 90 070 | 63 272 | 26 798 | 42.4% |
| settlements | 31 501 | 15 511 | 15 990 | 103.1% |
| account maintenance | 62 459 | 53 163 | 9 296 | 17.5% |
| guarantee commitments | 13 346 | 7 260 | 6 086 | 83.8% |
| brokerage operations | 11 663 | 11 800 | (137) | (1.2%) |
| payment cards | 38 033 | 30 426 | 7 607 | 25.0% |
| insurance activity | 18 197 | 11 430 | 6 767 | 59.2% |
| asset management | 2 115 | 1 612 | 503 | 31.2% |
| other | 26 289 | 15 403 | 10 886 | 70.7% |
| Fee and commission income | 293 673 | 209 877 | 83 796 | 39.9% |
| Fee and commission expenses | | | | |
| loans and advances | (216) | (2 003) | 1 787 | (89.2%) |
| payment cards | (23 691) | (19 332) | (4 359) | 22.5% |
| insurance activity | (3 284) | (443) | (2 841) | 641.3% |
| related to partners' network | (7 538) | (962) | (6 576) | 683.6% |
| other | (14 017) | (4 528) | (9 489) | 209.6% |
| Fee and commission expenses | (48 746) | (27 268) | (21 478) | 78.8% |
| Net fee and commission income | 244 927 | 182 609 | 62 318 | 34.1% |

An increase in fee and commission expense was mainly driven by higher fees charged by the partner network, fee expenses on payment cards, paid to card operators due to a higher number of transactions carried out by the customers.



Dividend income

In the first half of 2016 dividend income was derived from 2015 profit generated by companies, in which the Bank holds minority interests, i.e. Krajowa Izba Rozliczeniowa S.A. (PLN 910.6 thousand), Biuro Informacji Kredytowej S.A. (PLN 3 201.0 thousand) and PONAR Silesia S.A. (PLN 1 646.7 thousand).

Net trading income and net investment income

The net trading income for the six-month period of 2016 increased by PLN 41 991 thousand, i.e. 61.9% YoY. The level of and changes in net trading income are mainly shaped by the valuation of derivatives and result on foreign exchange transactions.

The net investment income for the six-month period of 2016 went up by PLN 7 233 thousand year-on-year and amounted to PLN 42 433 thousand.

The major factor (99%) affecting the income for the current period was the income from settlement of a transaction involving the acquisition of Visa Europe Limited by Visa Inc. As a result of the settlement, the Capital Group of BGŻ BNP Paribas received EUR 6.9 million in cash – the equivalent of PLN 30 518 thousand (at the average exchange rate of the National Bank of Poland of 20 June 2016 4.3945); and 2 521 C-series preference shares in Visa Inc. The Bank's net income from the aforementioned transaction amounted to PLN 41 817 thousand in the second quarter of 2016.

In the first half of 2015, net investment income was mainly determined by realized gains on the sale of the available-for-sale securities portfolio.

Other operating income

Other operating income for the first quarter of 2016 increased by PLN 66 922 thousand, i.e. 397.0% YoY, mainly as a result of the following:

- sale of the loan portfolio. The effect of sale of receivables, mainly the portfolio of Sygma Bank Polska loans, on the Bank's performance is presented under *operating income from recovered overdue debts, redeemed receivables, non-collectible debts and payment of receivables excluded from the consolidated statement of financial position*;
- Higher gain on sale/liquidation of fixed assets and goods and services;
- Reversal in the first quarter of 2016 of a part of the provision for a penalty imposed by UOKiK on the Bank in 2012 for using a certain template of an agreement on maintaining individual pension accounts which was deemed to be in breach of collective consumer interests.

Table 10. Other operating income

| PLN '000 | 1st half 2016 | 1st half 2015 | Change YoY | |
|--|------------------|------------------|---------------|---------------|
| | | | PLN '000 | % |
| Gain on sale and liquidation of property, plant and equipment and intangible assets | 3 155 | 956 | 2 199 | 230.0% |
| Gain on sale of goods and services | 11 909 | 2 618 | 9 291 | 354.9% |
| Release of provisions for litigation and claims and other liabilities | 3 459 | 172 | 3 287 | 1 911.0% |
| Recovery of debt collection costs | 3 323 | 1 811 | 1 512 | 83.5% |
| Recovery of overdue debts, redeemed receivables, non-collectible debts and payment of receivables that were excluded from the consolidated statement of financial position | 24 927 | 3 273 | 21 654 | 661.6% |
| Income from leasing operations | 12 372 | 3 073 | 9 299 | 302.6% |
| Other | 24 635 | 4 955 | 19 680 | 397.2% |
| Total other operating income | 83 780 | 16 858 | 66 922 | 397.0% |

Furthermore, *other operating income* includes an annual adjustment to input VAT for 2015 in amount of PLN 8 820 thousand.

Other operating expenses

In the first half of 2016, other operating expenses totaled PLN 59 509 thousand and were 37.7% (i.e. PLN 16 282 thousand) higher compared with the same period in the previous year.



In the period under discussion, other operating expenses were affected by the following:

- Bank integration expenses - intangible assets written off, liquidation of property, plant and equipment and additional expenses incurred as a result of termination of collaboration with a firm providing cashless payment services – amounting to PLN 20.0 million (PLN 29.7 million in the previous period);
- Leasing activity expenses resulting from integration of leasing activity in the operating structure of the Bank from the date of legal merger with BNPP Polska;
- Debt collection expenses.

In the first half of 2015 the item *Other operating expenses in respect of provisions for restructuring of assets* included expenses in respect of a provision for liquidation of branches of Bank BGŻ as part of the restructuring process related to the merger with BNPP Polska of PLN 6.9 million.

In the first half of 2016, other operating expenses included the costs of damages totaling PLN 7 428 thousand.

Table 11. Other operating expenses

| PLN '000 | 1st half 2016 | 1st half 2015 | Change YoY | |
|--|------------------|------------------|-----------------|--------------|
| | | | PLN'000 | % |
| Loss on sale or liquidation of property, plant and equipment and intangible assets | (13 431) | (14 092) | 661 | (4.7%) |
| Provisions for restructuring of assets, litigation and claim and other liabilities | (750) | (10 606) | 9 856 | (92.9%) |
| Debt collection | (12 092) | (5 529) | (6 563) | 118.7% |
| Donations made | (2 121) | (23) | (2 098) | 9 121.7% |
| Costs of leasing operations | (11 507) | (2 935) | (8 572) | 292.1% |
| Other operating expenses | (19 608) | (10 042) | (9 566) | 95.3% |
| Total other operating expenses | (59 509) | (43 227) | (16 282) | 37.7% |

Net impairment losses on financial assets and provisions for contingent liabilities

Total net impairment losses on financial assets and provisions for contingent liabilities in the first half of 2016 went up PLN 31 919 thousand, i.e. 23.8% YoY, predominantly due to BNPP Polska's exposures that had been factored in the Bank's loan portfolio since May 2015 (as at 30 April 2015 the value of the portfolio acquired was PLN 18.8 billion), and to a lesser extent, as a consequence of the consolidation with Sygma Bank Polska since December 2015 (as at 31 December 2015 Sygma Bank Polska's loans amounted to PLN 1.8 billion).

In the first half of 2016 the annualized cost of credit risk exposure, i.e. net impairment losses on loans and advances relative to the average balance of net loans and advances to customers (calculated on the basis of quarter-end balances) was 0.63%, i.e. went down by 0.1 p.p. compared to the same period last year.

As regards the key operating segments¹:

- Retail and Business Banking Segment recorded a decrease in impairment losses of PLN 13 677 thousand YoY;
- SME and AGRO Segment recorded an increase of PLN 15 698 thousand YoY;
- Corporate Banking Segment saw a negative change of PLN 18 345 thousand YoY resulting from derecognition of provisions in the first half of 2015 with a total value of PLN 24 130 thousand as compared to the provisions recognized in the first half of 2016.

General administrative expenses, amortization and depreciation

The Capital Group's general administrative expenses for the period from 1 January to 30 June 2016 went up by PLN 856 111 thousand, i.e. by PLN 223 338 thousand or 35.3% YoY. This was mainly due to the merger and integration costs:

¹ Information based a note to the Consolidated Interim Report of the Capital Group of Bank BGŻ BNP Paribas S.A. for the six-month period ended 30 June 2016



- the expenses incurred in the first half of 2015 do not take account of the expenses of BNPP Polska and its subsidiaries in the period from January to April, or the expenses of Sygma Bank Polska and Laser Services integrated into the structure of the Capital Group on 1 December 2015,
- the expenses of Sygma Bank Polska of PLN 62.8 million were charged to the expenses of the first half of 2016.

Table 12. General administrative expenses, amortization and depreciation

| PLN '000 | 1st half 2016 | 1st half 2015 | Change YoY | |
|---|------------------|------------------|------------------|--------------|
| | | | PLN '000 | % |
| Personnel expenses | (477 136) | (353 355) | (123 781) | 35.0% |
| Marketing expenses | (44 660) | (19 755) | (24 905) | 126.1% |
| IT and telecom costs | (64 649) | (49 174) | (15 475) | 31.5% |
| Rental expenses | (89 098) | (58 942) | (30 156) | 51.2% |
| Other non-personnel expenses | (93 654) | (98 963) | 5 309 | (5.4%) |
| Business travels | (4 533) | (1 502) | (3 031) | 201.8% |
| ATM and cash handling costs | (1 858) | (1 162) | (696) | 59.9% |
| Costs of outsourcing services related to leasing operations | (12 126) | (2 643) | (9 483) | 358.8% |
| Bank Guarantee Fund fee | (61 336) | (42 262) | (19 074) | 45.1% |
| Polish Financial Supervision Authority fee | (7 061) | (5 015) | (2 046) | 40.8% |
| Total general administrative expenses | (856 111) | (632 773) | (223 338) | 35.3% |
| Amortization and depreciation | (96 386) | (63 057) | (33 329) | 52.9% |
| Total expenses | (952 497) | (695 830) | (256 667) | 36.9% |

* For purposes of calculation of the expense to income ratio, adjusted by integration costs of PLN 104 976 thousand (for 6 months 2016) and PLN 138 331 thousand (for 6 months 2015)

The integration costs incurred by the Capital Group in the first half of 2016 totaled PLN 105.0 million and included:

- PLN 85.0 million recognized as general administrative expenses;
- PLN 20.0 million recognized as other operating expenses.

Integration costs recognized as general administrative expenses comprise mainly:

- PLN 26.0 million related to recognition of an additional provision for employment restructuring;
- PLN 24.5 million related to the integration of Bank BGŻ and BNPP Polska;
- PLN 5.4 million related to the merger of Bank BGŻ BNP Paribas with Sygma Bank Polska;
- PLN 10.9 million related to accelerated amortization of intangible assets that will be decommissioned after the operating merger;
- PLN 8.0 million in expenses related to the merger incurred by Sygma Bank Polska before the merger;
- PLN 2.3 million - retention program of PLN 2.3 million.

Integration expenses recognized under operating expenses are mainly related to intangible assets written off, liquidation of property, plant and equipment and additional expenses incurred as a result of termination of collaboration with a firm providing cashless payment services – cash settlements.

Apart from the aforementioned expenses, in the first half of 2016 operating expenses were also affected by an increase in payments to the Bank Guarantee Fund and Polish Financial Supervision Authority of PLN 21.1 million as a result of an increase in the scale of activity following the merger with BNPP Polska and a change in the rates effective from 2016.

In the reporting period, **the costs of amortization and depreciation** went up by PLN 33 329 thousand, i.e. 52.9% as compared with the first quarter of 2015. The increase was a result of acquisition of intangible assets and property, plant and equipment from BNPP and an increase in depreciation and amortization charges related to preparation of the operating merger.



9.2. STATEMENT OF COMPREHENSIVE INCOME

In the first half of 2016, the Capital Group's comprehensive income was PLN 157 705 thousand higher than in the same period the year before.

The factors which had a positive impact on the increase in the Capital Group's comprehensive income were a growth in net profit of PLN 46 835 (+54.7%) YoY, mainly as a result of an increase in the scale of activity following the merger with BNPP Polska as well as, firstly, the acquisition of (on 1 December 2015), and secondly, merger (on 31 May 2015) with Sygma Bank Polska, and the positive measurement of financial assets available for sale (PLN 139 637 thousand).

Table 13. Statement of comprehensive income

| PLN '000 | 1st half 2016 | 1st half 2015 | Change YoY | |
|--|------------------|------------------|----------------|-----------------|
| | | | PLN '000 | % |
| Net profit (loss) for the period | 64 638 | 17 803 | 46 835 | 263.1% |
| Other comprehensive income | | | | |
| Items that are or may be reclassified subsequently to profit or loss when specific conditions are met | (4 749) | (117 855) | 113 106 | (96.0%) |
| Net change in valuation of available for sale financial assets | (5 862) | (145 499) | 139 637 | (96.0%) |
| Deferred tax | 1 113 | 27 644 | (26 531) | (96.0%) |
| Items that will not be reclassified subsequently to profit or loss | 812 | 3 048 | (2 236) | (73.4%) |
| Actuarial valuation of employee benefits | 1 003 | 3 763 | (2 760) | (73.3%) |
| Deferred tax | (191) | (715) | 524 | (73.3%) |
| Other (net) comprehensive income (net of tax) | (3 937) | (114 807) | 110 870 | (96.6%) |
| Total comprehensive income for the period | 60 701 | (97 004) | 157 705 | (162.6%) |



9.3. STATEMENT OF FINANCIAL POSITION OF THE CAPITAL GROUP

Assets

As at 30 June 2016 the balance sheet total of the Capital Group was PLN 69 717 354 thousand, which constitutes a rise of PLN 4 345 016 thousand, i.e. 6.6% YoY.

Loans and advances to customers, which accounted for 77.0% of total assets as at the end of the first half of 2016 vs. 80.0% at the end of 2015, were the key item in the structure of assets. In terms of value, net loans and advances increased by PLN 1 406 226 thousand, i.e. 2.7%.

In the period under discussion, also the following items changed materially: (i) financial assets available for sale (an increase of PLN 2 166 198 thousand, mainly as a result of an increase in the portfolio of treasury bonds of PLN 2 093 269 thousand) which accounted for 14.4% of total assets, and (ii) amounts due from banks (an increase of PLN 386 040 thousand, including PLN 293 713 thousand related to current accounts).

The reserve requirement declared as at the end of June 2016 was PLN 1 719 284 thousand vs. PLN 1 590 634 thousand in December 2015.

Table 14. Assets

| PLN '000 | 30.06.2016 | 31.12.2015 | Change | |
|---|-------------------|-------------------|------------------|-------------|
| | | | PLN '000 | % |
| Cash and balances with the Central Bank | 2 998 185 | 2 826 416 | 171 769 | 6.1% |
| Loans and advances to banks | 881 471 | 495 431 | 386 040 | 77.9% |
| Derivative financial instruments | 365 705 | 368 147 | (2 442) | (0.7%) |
| Hedging instruments | 35 692 | 2 711 | 32 981 | 1 216.6% |
| Loans and advances to customers | 53 675 770 | 52 269 544 | 1 406 226 | 2.7% |
| Available for sale financial assets | 10 011 272 | 7 845 074 | 2 166 198 | 27.6% |
| Investment property | 54 487 | 54 627 | (140) | (0.3%) |
| Intangible assets | 236 462 | 256 455 | (19 993) | (7.8%) |
| Property, plant and equipment | 537 587 | 537 201 | 386 | 0.1% |
| Deferred tax asset | 459 761 | 465 211 | (5 450) | (1.2%) |
| Other assets | 460 962 | 251 521 | 209 441 | 83.3% |
| TOTAL ASSETS | 69 717 354 | 65 372 338 | 4 345 016 | 6.6% |

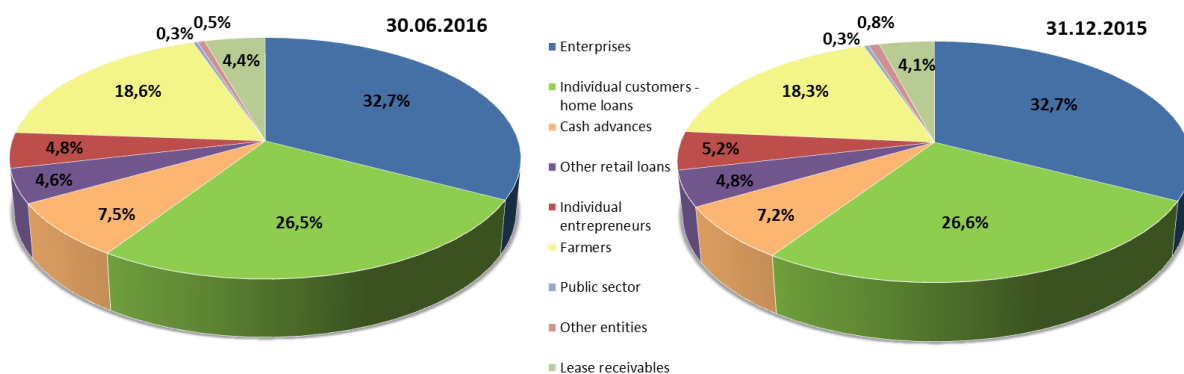
Loan portfolio

At the end of June 2016, gross loans and advances to customers amounted to PLN 56 601 313 thousand and went up by PLN 1 325 670, i.e. 2.4% vs. year-end in 2015.

Loans and advances to enterprises rose 2.6% and represent one-third of the gross loan portfolio (no change as compared to the previous period). Loans and advances to households (including individual entrepreneurs and farmers) increased by PLN 762 017 thousand, i.e. 2.2%. As at 30 June 2016 mortgage loans amounted to PLN 15 004 469 thousand and accounted for almost 43% of loans and advances to households (no change compared to the balance at the end of December 2015).


Table 15. Loan portfolio structure

| PLN '000 | 30.06.2016 | | 31.12.2015 | |
|--------------------------------------|-------------------|------------------|-------------------|------------------|
| | PLN '000 | Percentage share | PLN '000 | Percentage share |
| Gross loans and advances | 56 601 313 | 100.0% | 55 275 643 | 100.0% |
| Corporate | 18 529 324 | 32.7% | 18 058 790 | 32.7% |
| Individual customers – housing loans | 15 004 469 | 26.5% | 14 722 641 | 26.6% |
| - in PLN | 8 029 575 | 14.2% | 7 710 797 | 13.9% |
| - in foreign currencies | 6 974 894 | 12.3% | 7 011 844 | 12.7% |
| Cash loans | 4 267 001 | 7.5% | 4 007 009 | 7.2% |
| Other retail loans | 2 599 150 | 4.6% | 2 627 244 | 4.8% |
| Individual entrepreneurs | 2 695 118 | 4.8% | 2 850 113 | 5.2% |
| Farmers | 10 535 599 | 18.6% | 10 132 313 | 18.3% |
| Budget sector | 176 482 | 0.3% | 180 865 | 0.3% |
| Other entities | 308 702 | 0.5% | 457 976 | 0.8% |
| Lease receivables | 2 485 468 | 4.4% | 2 238 692 | 4.1% |

Chart 9. Structure of loans and advances (gross)

Table 16. Quality of the loan portfolio

| PLN '000 | 30.06.2016 | | | 31.12.2015 | | |
|--|-----------------------|---------------------|------------------|-----------------------|---------------------|------------------|
| | Portfolio gross value | Including: impaired | Percentage share | Portfolio gross value | Including: impaired | Percentage share |
| Gross loans and advances | 56 601 313 | 4 309 584 | 7,6% | 55 275 643 | 4 202 122 | 7,6% |
| Individual customers – housing loans | 15 004 469 | 626 914 | 4,2% | 14 722 641 | 626 922 | 4,3% |
| - in PLN | 8 029 575 | 199 077 | 2,5% | 7 710 797 | 202 055 | 2,6% |
| - in foreign currencies | 6 974 894 | 427 837 | 6,1% | 7 011 844 | 424 867 | 6,1% |
| Cash loans | 4 267 001 | 588 409 | 13,8% | 4 007 009 | 613 075 | 15,3% |
| Other retail loans | 2 599 150 | 203 401 | 7,8% | 2 627 244 | 239 396 | 9,1% |
| Farmers | 10 535 599 | 414 291 | 3,9% | 10 132 313 | 311 287 | 3,1% |
| Institutional customers, excluding farmers | 21 709 626 | 2 345 709 | 10,8% | 21 547 744 | 2 283 580 | 10,6% |
| Lease receivables | 2 485 468 | 130 860 | 5,3% | 2 238 692 | 127 862 | 5,7% |

The share of impaired exposures in gross loans and advances to the Bank's was equal to 7.6% at the end of June 2016 (similar to the end of 2015).


Table 17. Loan portfolio quality ratios

| PLN '000 | 30.06.2016 | 31.12.2015 | Change | |
|--|-------------------|-------------------|------------------|-----------------|
| | | | PLN '000 | % |
| Total gross loans and advances to customers | 56 601 313 | 55 275 643 | 1 325 670 | 2.4% |
| Impairment losses | (2 925 543) | (3 006 099) | 80 556 | (2.7%) |
| Total net loans and advances to customers | 53 675 770 | 52 269 544 | 1 406 226 | 2.7% |
| Gross carrying exposure | 52 291 498 | 51 073 521 | 1 217 977 | 2.4% |
| IBNR provision | (303 397) | (318 483) | 15 086 | (4.7%) |
| Net exposure | 51 988 101 | 50 755 038 | 1 233 063 | 2.4% |
| Impaired exposures | 4 309 815 | 4 202 122 | (4 133) | 2.6% |
| Impairment allowances | (2 622 146) | (2 687 616) | 65 470 | (2.4%) |
| Net exposure | 1 687 669 | 1 514 506 | 61 337 | 11.4% |
| Indicators | | | | |
| Share of impaired exposures in gross portfolio | 7.6% | 7.6% | - | 0.0 p.p. |
| Impairment allowances for impaired exposures | (60.8%) | (64.0%) | - | 3.1 p.p. |

Liabilities and equity

As at the end of June 2016, the Group's total liabilities amounted to PLN 63 388 104 thousand and were PLN 4 284 120 thousand, i.e. 7.2% higher compared with the end of 2015.

Table 18. Liabilities and equity

| PLN '000 | 30.06.2016 | 31.12.2015 | Change | |
|-------------------------------------|-------------------|-------------------|------------------|-------------|
| | | | PLN '000 | % |
| Amounts due to banks | 8 014 535 | 9 876 892 | (1 862 357) | (18.9%) |
| Hedged instruments | 13 748 | 1 605 | 12 143 | 756.6% |
| Derivative financial instruments | 358 133 | 351 539 | 6 594 | 1.9% |
| Amounts due to customers | 51 852 581 | 46 527 391 | 5 325 190 | 11.4% |
| Debt securities issued | 397 816 | 469 083 | (71 267) | (15.2%) |
| Subordinated liabilities | 1 496 873 | 847 568 | 649 305 | 76.6% |
| Other liabilities | 1 083 466 | 816 984 | 266 482 | 32.6% |
| Current tax liabilities | 4 010 | 40 716 | (36 706) | (90.2%) |
| Deferred tax liability | 8 026 | 8 052 | (26) | (0.3%) |
| Provisions | 158 916 | 164 154 | (5 238) | (3.2%) |
| TOTAL LIABILITIES | 63 388 104 | 59 103 984 | 4 284 120 | 7.2% |
| Share capital | 84 238 | 84 238 | 0 | 0.0% |
| Other supplementary capital | 5 108 418 | 5 092 196 | 16 222 | 0.3% |
| Other reserve capital | 860 241 | 780 874 | 79 367 | 10.2% |
| Revaluation reserve | 194 153 | 198 090 | (3 937) | (2.0%) |
| Retained earnings | 82 200 | 112 956 | (30 756) | (27.2%) |
| - retained profit | 17 562 | 99 663 | (82 101) | (82.4%) |
| - net profit for the period | 64 638 | 13 293 | 51 345 | 386.3% |
| TOTAL EQUITY | 6 329 250 | 6 268 354 | 60 896 | 1.0% |
| TOTAL LIABILITIES AND EQUITY | 69 717 354 | 65 372 338 | 4 345 016 | 6.6% |



The main factors contributing to the change in total liabilities in the first half of 2016:

- An increase in amounts due to customers – at the end of June 2016, amounts due to customers went up by PLN 5 325 190 thousand, i.e. 11.4% compared to the end of December 2015, and amounted to PLN 51 852 581 thousand. They accounted for 81.8% of total liabilities vs. 78.7% at the end of 2015;
- An increase in subordinated liabilities – as a result of classification of subordinated loans of PLN 440 million and EUR 40 million received by the Bank from BNP Paribas S.A. as the Bank’s Tier 2 capital (PFSA consent of 29 January 2016);
- A decrease in amounts due to banks – the item decreased by PLN 1 862 357 thousand, i.e. 18.9%, mainly as a result of a decrease in the volume of interbank deposits;
- A decrease in liabilities arising from issue of debt securities through redemption of certificates of deposit: (i) a tranche comprised of 66 certificates of deposits with a total par value of PLN 33 000 thousand in March 2016, and (ii) a tranche of 76 certificates of deposits with a total par value of PLN 38 000 thousand in May.

Deposits

At the end of June 2016, customer deposits amounted to PLN 51 852 581 thousand and went up by 11.4% compared to the end of December 2015.

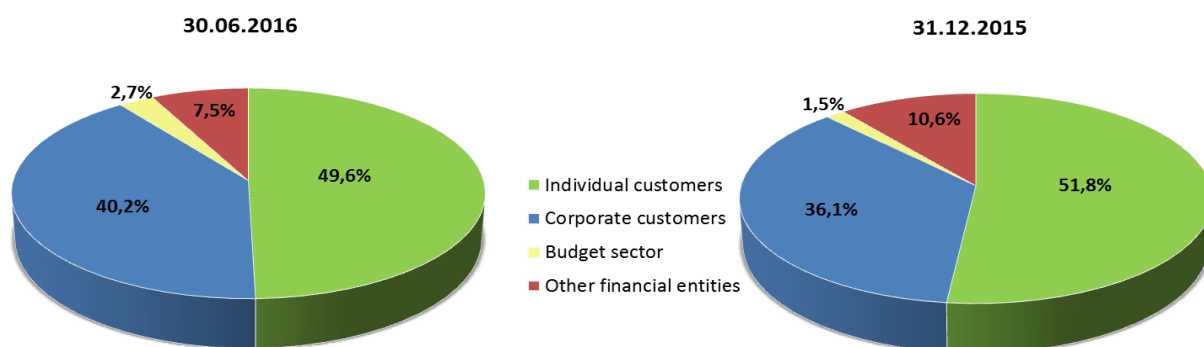
The share of current and savings accounts in total deposits dropped to 49.0% vs. 52.5% at the end of December 2015. The value of funds deposited in current accounts increased by PLN 1 006 620 thousand, i.e. 4.1%. The share of term deposits in total deposits went up to 46.1% at the end of June 2016 from 41.9% at the end of December 2015. In terms of value, term deposits increased by PLN 4 405 614 thousand, i.e. 22.6% vs. end of 2015. The balance of loans and advances taken out and other liabilities decreased by PLN 87 044 thousand.

Table 19. Amounts due to customers by products

| PLN '000 | 30.06.2016 | | 31.12.2015 | |
|---------------------------------|-------------------|------------------|-------------------|------------------|
| | PLN '000 | Percentage share | PLN '000 | Percentage share |
| Amounts due to customers | 51 852 581 | 100.0% | 46 527 391 | 100.0% |
| Current accounts | 25 419 246 | 49.0% | 24 412 626 | 52.5% |
| Term deposits | 23 917 048 | 46.1% | 19 511 434 | 41.9% |
| Loans and advances received | 2 156 906 | 4.2% | 2 240 934 | 4.8% |
| Other liabilities | 359 381 | 0.7% | 362 397 | 0.8% |

As regards the structure of deposits, individual customer deposits rose by PLN 1 623 495 thousand, i.e. 6.7%, and accounted for almost half of all deposits at the end of the first half of 2016. At the end of December the aforesaid deposits accounted for 51.8%. Corporate customer deposits increased by PLN 4 051 197 thousand, i.e. 24.1%. Their share in total deposits rose to 40.2% at the end of June 2016 from 36.1% at the end of 2015.

Chart 10. Structure of customer deposits





Equity

As at the end of June 2016, the Group's equity amounted to PLN 6 329 250 thousand and was PLN 60 896 thousand higher compared to the end of 2015. The change in equity was mainly due to an increase in the profit for the current period.

After the merger with Sygma Bank Polska, the Capital Group recognized PLN 16 222 thousand and PLN 71 104 thousand under supplementary capital and other reserve capital, respectively, in its equity. At the same time, the aforesaid amounts reduced the item *retained profit*. In addition, pursuant to a Resolution of the General Shareholders' Meeting of the Bank, the Bank's net profit for 2015 of PLN 8 263 thousand was allocated to other reserve capital (unidentified banking risk reserve).

9.4. EQUITY AND CAPITAL RATIOS

The total capital requirement of the Group was 14.56% at the end of June 2016 and improved by 1.11 p.p. compared to the December 2015.

Table 20. Equity and capital ratios of the Capital Group

| PLN '000 | 30.06.2016 | 31.12.2015 | Change | |
|--|-------------------|-------------------|----------------|--------------|
| | | | PLN '000 | % |
| Tier 1 capital | | | | |
| - share capital | 84 238 | 84 238 | 0 | 0.0% |
| - supplementary capital | 3 272 501 | 3 272 501 | 0 | 0.0% |
| - reserve capital | 2 118 392 | 2 102 171 | 16 221 | 0.8% |
| - general risk reserve | 577 765 | 498 399 | 79 366 | 15.9% |
| - intangible assets | (236 421) | (256 396) | 19 975 | (7.8%) |
| - other items of equity included in Tier 1 capital | 100 565 | 188 049 | (87 484) | (46.5%) |
| Total Tier 1 capital | 5 917 040 | 5 888 962 | 28 078 | 0.5% |
| Tier 2 capital | | | | |
| - subordinated liabilities classified as equity | 1 492 705 | 846 600 | 646 105 | 76.3% |
| Total equity | 7 409 745 | 6 735 562 | 674 183 | 10,0% |
| Risk exposure due to | | | | |
| - credit risk | 45 970 199 | 44 902 695 | 1 067 504 | 2.4% |
| - market risk | 311 444 | 228 147 | 83 297 | 36.5% |
| - operational risk | 4 533 056 | 4 870 121 | (337 065) | (6.9%) |
| - credit valuation adjustment | 79 896 | 94 789 | (14 893) | (15.7%) |
| Total risk exposure | 50 894 595 | 50 095 752 | 798 843 | 1.6% |

| Capital ratios of the Group | 30.06.2016 | 31.12.2015 | Change | |
|----------------------------------|---------------|---------------|-------------|--------|
| | | | p.p. | % |
| Total capital requirement | 14.56% | 13.45% | 1.11 p.p. | 8.3% |
| Tier 1 ratio | 11.63% | 11.76% | (0.13 p.p.) | (1.1%) |

As at 30 June 2016, total equity went up by PLN 674 183 thousand as compared to 31 December 2015, primarily due to:

- Classification of subordinated loans of PLN 440 million and EUR 40 million received by the Bank from BNP Paribas S.A. as the Bank's Tier 2 capital - PFSA consent issued in January 2016;
- Allocation of the net profit for 2015 of PLN 8 263 thousand, to the general risk reserve and to the Bank's reserve capital.

In the analyzed period, the total risk exposure rose by PLN 798 843 thousand.

On 23 October 2015, the Management Board of Bank BGŻ BNP Paribas received a recommendation from the Polish Financial Supervision Authority concerning the Bank's maintenance of equity necessary to satisfy an additional capital requirement at the level of 0.71 p.p. in order to hedge the risk resulting from foreign



currency mortgage loans granted to households, with Tier 1 capital accounting for at least 75% (i.e. 0.53 p.p.) of such equity.

On 24 October 2016, the Management Board of Bank BGŻ BNP Paribas received a recommendation from the Polish Financial Supervision Authority concerning the Bank's maintenance of equity necessary to satisfy an additional capital requirement at the level of 0.72 p.p. in order to hedge the risk resulting from foreign currency mortgage loans granted to households, with Tier 1 capital accounting for at least 75% (i.e. 0.54 p.p.) of such equity.

Furthermore, pursuant to Art. 19.1 and Art. 84.1 of the Act on macroprudential supervision over the financial system and crisis management in the financial system of 5 August 2015, in the period from 1 January 2016 to 31 December 2017, Banks have to maintain Tier 1 capital corresponding to 1.25% of all risk-weighted exposures to cover the additional capital requirement.

In short, as at 30 June 2016, the Bank's minimum capital ratios taking into account the additional capital requirement recommended by PFSA should be as follows:

- separate presentation: Tier 1 – 10.78%; TCR – 13.96%;
- consolidated presentation: Tier 1 – 10.79%; TCR – 13.97%.



9.5. FINANCIAL RATIOS

In the first half of 2016, the Capital Group of the Bank saw a slight deterioration in the ROE year-on-year, mainly as a result of a tax of PLN 82 545 thousand which reduced the Group's profit - following the adoption of the Act of 15 January 2016 on Tax on Certain Financial Institutions. Following elimination of the integration costs, ROE would have amounted to 4.7%. The synergy effects and results of the merger of the banks BGŻ S.A., BNPP Polska and Sygma Bank Polska, and effects of restructuring initiatives should result in an improvement in the said ratio in the future. The ROA declined slightly and would have amounted to 0.4% were integration costs eliminated.

Net interest margin rose to 2.7% year-on-year, among other things as a result of an increase in the share of high-margin consumer loans in total assets following integration of Bank Sygma Bank Polska into the Capital Group in December 2015.

The Expense to Income ratio improved by 1.8 p.p. year-on-year. If the cost of integration were excluded, the Expense to Income ratio would have been 64.6%. The improvement as compared to the end of 2015, among other things, was a result of the absence of any one-off fees charged by the Bank Guarantee Fund in the first quarter of 2016, related to the bankruptcy of SK Bank.

Cost of risk dropped to 0.6% at the end of the first half of 2016, i.e. below the level observed at the end of 2015 (0.1 p.p.).

Loan to deposit and sources of finance financial ratios have deteriorated as compared to the previous periods due to a faster growth in the deposit customer base.

Table 21. Financial ratios

| | 30.06.2016 | 31.12.2015 | 30.06.2015 | Change YoY p.p. |
|---|------------|------------|------------|-----------------|
| Return on equity ⁽¹⁾ | 4.7%* | 3.4%* | 5.4%* | (0.7) |
| Return on assets ⁽²⁾ | 0.4%* | 0.3%* | 0.5%* | (0.1) |
| Net interest margin ⁽³⁾ | 2.7% | 2.6% | 2.5% | 0.2 |
| Expense to Income ⁽⁴⁾ | 64.6%* | 74.2%* | 66.4%* | (1.8) |
| Cost of credit risk ⁽⁵⁾ | (0.6%) | (0.7%) | (0.7%) | 0.1 |
| Net loans to Deposits ⁽⁶⁾ | 108.0% | 118.0% | 118.7% | (10.7) |
| Gross loans to Total sources of founding ⁽⁷⁾ | 92.2% | 98.2% | 97.5% | (5.3) |

* Normalized figures except for integration costs

(1) Net profit relative to average equity, calculated based on quarter-end balances.

(2) Net profit relative to average assets, calculated based on quarter-end balances.

(3) Net interest income relative to average assets, calculated based on quarter-end balances.

(4) Total general administrative expenses, amortization and depreciation relative to total net banking.

(5) Net impairment losses on loans and advances relative to the average balance of net loans and advances to customers, calculated based on quarter-end balances.

(6) (Net) loans and advances to customers relative to customer deposits, balance at the end of the period.

(7) Gross loans and advances to customers relative to total liabilities to customers, debt securities issued, loans from other banks and subordinated liabilities, balance at the end of the period.



10. FACTORS WHICH, ACCORDING TO THE BANK, WILL AFFECT THE CAPITAL GROUP'S PERFORMANCE WITHIN AT LEAST THE NEXT QUARTER

The major factors which may affect the Capital Group's performance in the future are:

- Despite a slower GDP growth in the first half of 2016, the outlook for the Polish economy remains optimistic. This is mainly attributable to a strong rise in employment and private consumption in addition to gradual improvement of economic conditions in the eurozone. According to the latest forecasts of the European Commission, Polish GDP growth rate should surpass 3.5% both in 2016 and 2017. The growth projections for the Eurozone in the same period are 1.6% and 1.8%, respectively. The government's 500+ Child Benefit Program gives the consumption growth prospects an additional boost.
- In January 2016, Standard&Poor's reduced the long-term foreign currency rating for Poland from A- to BBB+ with a negative outlook. The agency also reduced the long- and short-term domestic currency rating from A/A-1 to A/A-2. The rating agencies Fitch and Moody did not change their ratings. Further rating cuts are possible if the condition of public finance deteriorates.
- External conditions are the key risk factor for the growth of the economy as a whole. The adverse effects of the geopolitical situation in the Middle East and Ukraine have continued; the key negative macroeconomic factors include the slump in China and gradual abandonment of the quantitative easing in the U.S.A. The condition of the banking sector in Italy is another cause for concern in the euro zone.
- The consequences of possible Brexit is a significant threat to the GDP growth in Poland. Brexit could hamper the GDP growth of the whole EU, and depending on the exit scenario, even result in adjustments to the budget for 2014-2020. However, it will probably take a few quarters before the Polish economy begins to feel the consequences of Brexit.
- Stabilization of the interest rates of the National Bank of Poland at a record low reduces banks' freedom to increase margins. On the one hand, it may result in a decrease of financing costs incurred by individuals and enterprises, which should translate into a higher demand for loans. On the other hand, it may discourage households from investing their savings in the form of bank deposits and have an adverse effect on the yield on zero-interest deposits.
- The tax on financial institutions imposed in February 2016 has a negative effect on the profitability of banking activity. As regards banks, the tax will be charged on an annual basis at a rate of 0.4392% of the value of assets in excess of PLN 4 billion, excluding equity and treasury securities. According to preliminary estimates of the Management Board, this will reduce the net profit of the Bank by approx. PLN 200 million in 2016.
- Pursuant to Recommendation S, since January 2016 the amount of down-payment requirement regarding mortgage loans has increased from 10% to 15% of the value of real property. Banks may use the lower 10% requirement with the remaining 5% being covered with insurance. The increased requirement may negatively impact demand for home loans.



11. OPERATIONS OF THE CAPITAL GROUP OF BANK BGŻ BNP PARIBAS S.A. IN THE FIRST HALF OF 2016

The operations of the Capital Group of Bank BGŻ BNP Paribas S.A. are carried out in the following key business areas:

- **Retail and Business Banking** providing comprehensive services to:
 - retail customers; and
 - business customers (microenterprises), to include:
 - entrepreneurs whose annual net income for the preceding financial year is below PLN 10 million and the Bank's credit exposure to a customer is less than PLN 2 million;
 - farmers, where the Bank's credit exposure to a customer is less than PLN 1 million and Standard Output² in the preceding financial year was less than EUR 75 thousand.

The Bank has also identified **Personal Finance Banking** responsible, in particular, for development of the product offering and management of consumer credit distributed through the branch network of Retail and Business Banking as well as external distribution channels.

- **SME and Agro Banking** providing services to:
 - institutional customers with net annual income for the preceding financial year of PLN 10-60 million or the Bank's credit exposure of PLN 2-25 million;
 - farmers with the Bank's credit exposure of PLN 1-25 million or the Standard Output³ in the preceding financial year of EUR 75 thousand or more; and
 - Agro entrepreneurs with full financial reporting and sales income of PLN 10-60 million or the Bank's credit exposure of PLN 2-25 million, including agricultural producer groups.
- **Corporate Banking** providing services to institutional customers with net annual income for the preceding financial year equal to or exceeding PLN 60 million or the Bank's credit exposure of PLN 25 million or more;
- **Corporate and Institutional Banking (CIB)** supports sales of products of the Capital Group of BNP Paribas dedicated to the largest Polish enterprises; It comprises services to strategic customers and the Financial Markets Division;
- **Other Operations** carried out mainly through the ALM Treasury.

11.1. BRANCHES AND ATM NETWORK

Branches

As at 30 June 2016, the Bank had 487 retail and business banking branches. Seven external cash desks handling cash transactions and seven Private Banking Centers have been added to the network.

As of the date of the legal merger of Bank BGŻ and BNPP Polska, i.e. 30 April 2015, the retail sales network was reorganized. New division was made in Poland, i.e. into nine Regions with 75 leading branches and 412 branches. 140 Customer Service Desks (formerly part of Sygma Bank Polska S.A.) were added to the retail chain.

In the first half of 2016, 22 branches were liquidated and five relocated. One external cash desks was closed.

Banking products and services dedicated to corporate customers were sold by 44 SME Business Centers, operating within 7 SME Banking Regional Branches, and by 9 Corporate Business Centers.

ATM network

As at 30 June 2016, the Bank's branches operated 512 ATMs owned by IT Card. The ATMs carried the logo of Bank BGŻ BNP Paribas.

² Parameter determining economic value of farms according to the Community Typology of Agricultural Farms

³ See above



11.2. ALTERNATIVE DISTRIBUTION CHANNELS

Online banking

The Bank reported a decrease in the number of retail customers having access to eBGŻ service and at the same time saw an increase in the number of customers actively using eBGŻ Lite and eBGŻ Firma services.

In the reviewed period, the number of online transactions rose, with the fastest growth reported in mobile banking.

Table 22. Information on the eBGŻ system

| eBGŻ system | | 30.06.2016 | 30.06.2015 | Change YoY | |
|--|----------------|------------|------------|------------|--------|
| | | | | No. | % |
| Number of customers with access | eBGŻ/eBGŻ Lite | 445 600 | 465 855 | (20 255) | (4.4%) |
| | eBGŻ Firma | 101 339 | 97 984 | 3 355 | 3.4% |
| Number of active users | eBGŻ | 295 120 | 288 107 | 7 013 | 2.4% |
| | eBGŻ Lite | 102 131 | 74 168 | 27 963 | 37.7% |
| | eBGŻ Firma | 60 238 | 57 287 | 2 951 | 5.2% |
| Average monthly number of transactions | eBGŻ | 1 310 600 | 1 269 732 | 40 868 | 3.2% |
| | eBGŻ Lite | 67 650 | 42 728 | 24 922 | 58.3% |
| | eBGŻ Firma | 1 316 168 | 1 249 967 | 66 201 | 5.3% |

Table 1. Information on the PI@net system

| System PI@net | 30.06.2016** | 30.06.2015 | Change YoY | |
|--|--------------|------------|------------|-------|
| | | | No. | % |
| Number of customers with access to the system* | 468 828 | 245 033 | 223 795 | 91.3% |
| Average monthly number of transactions | 490 913 | 430 804 | 60 109 | 14.0% |

| Mobile PI@net application | 30.06.2016 | 30.06.2015 | Change YoY | |
|--|------------|------------|------------|-------|
| | | | No. | % |
| Number of customers with access to the system* | 13 207 | 8 781 | 4 426 | 50.4% |
| Average monthly number of transactions | 28 450 | 16 395 | 12 055 | 73.5% |

*Customers being parties to an online banking agreement

**Value includes customers migration from BGŻOptima to PI@net system in February 2016.

The functionalities of the online banking system eBGŻ and PI@net were updated on a regular basis to reflect changes introduced to the Bank's offering: e.g. e-payments with more integrators.

A new platform for acquisition of BGŻ BNP Paribas and BGŻ Optima customers was introduced.

In February 2016, BGŻOptima customers received access to a new website. In addition, the previous online banking service used by BGŻOptima customers was replaced with PI@net, which has been adapted to the customers' requirements. As at 30 June 2015, the number of customers using the BGŻOptima system was 163 898 and the average monthly number of transactions was 56 411.

Bank cards

As regards issuing and management of payment cards, Bank BGŻ BNP Paribas S.A. partners with such organizations as MasterCard and Visa. The card portfolio includes debit, credit and deferred payment cards. As at 30 June 2016, the number of cards issued amounted to 1 467.1 thousand and was over 580 thousand more than a year before. The 65.4% increase results mostly from the merger of Bank BGŻ BNP Paribas S.A. with Sygma Bank Polska S.A. and is attributed predominantly to credit card retail customers.


Table 24. Number of bank cards issued by Bank BGŻ BNP Paribas S.A.

| Thousand | 30.06.2016 | 30.06.2015 | Change YoY | |
|-------------------------------------|----------------|--------------|--------------|--------------|
| | | | Thousand | % |
| Debit cards – retail customers | 703,7 | 699,1 | 4,6 | 0,7% |
| Credit cards – retail customers | 670,7 | 104,5 | 566,2 | 541,7% |
| Debit cards – business | 76,9 | 76,4 | 0,5 | 0,7% |
| Deferred payment cards – business | 5,8 | 5,8 | - | 0,0% |
| Credit cards – business | 1,0 | 1,0 | 0,0 | 0,0% |
| Prepaid cards | 9,0 | 0,0 | 9,0 | x |
| Total number of cards issued | 1 467,1 | 886,8 | 580,3 | 65,4% |

Telephone banking

As at 30 June 2016, the total number of customers using the telephone banking system was 639.9 thousand, i.e. 1.2% less than a year before. In the first quarter of 2016 the Bank continued work on unification of solutions used in Bank BGŻ and BNPP Polska. In March 2016, a new voice menu was introduced in BGŻ BNP Paribas Call Centre. A unified IVR system was implemented in the Bank post-merger and two telephone platforms integrated.

Table 25. Number of customers with access to TeleBGŻ

| TeleBGŻ | 30.06.2016 | 30.06.2015 | Change YoY | |
|-------------------------|----------------|----------------|----------------|---------------|
| | | | No. | % |
| Retail customers | 489 480 | 503 409 | (13 929) | (2.8%) |
| Institutional customers | 150 472 | 144 399 | 6 073 | 4.2% |
| Total | 639 952 | 647 808 | (7 856) | (1.2%) |

Cooperation with intermediaries

At the end of the first half of 2016, the Bank cooperated actively with 14 network intermediaries: Open Finance, Notus, Expander, and eight local intermediaries. The scope of such cooperation included acquisition of banking products.

11.3. RETAIL AND BUSINESS BANKING

Retail and Business Banking provides financial services to individuals, private banking customers as well as businesses (microenterprises). Additionally, the segment offers advisory services involving any day-to-day banking transactions, savings, investment and loan products. The following customer segments are the focus of Retail and Business Banking:

- Retail Customers:
 - Mass;
 - Personal Banking;
 - *Private Banking*, i.e. customers investing their assets of at least PLN 600 thousand through the Bank.
- Business Customers (microenterprises):
 - Professionals: entrepreneurs with limited financial reporting, in conformity with the principles laid down in the Accounting Act, and following occupations defined in a separate document;
 - Entrepreneurs:
 - with limited financial reporting, in conformity with the principles laid down in the Accounting Act;
 - with full financial reporting, in conformity with the Accounting Act, and those whose net annual income for the preceding financial year is lower than PLN 10 million, while the Bank's exposure is lower than PLN 2 million;
 - Agro entrepreneurs (whether with full financial reporting or not), the activities of which are classified based on selected PKD 2007 codes;



- farmers, where the Bank's credit exposure to a customer is less than PLN 2 million and Standard Output⁴ in the preceding financial year was less than EUR 75 thousand;
- Non-profit organizations (e.g. foundations, associations);
- Flat owners associations.

PRODUCT OFFERING

In the first half of 2016, the Bank's priority in the retail and business banking offering management was the continuation of an effective merger of two organizations (Bank BGŻ and BNPP Polska), in particular actions aiming to integrate the systems and applications used by the two banks, and preparation of a single consistent and attractive offer available for customers in the branch network as well as alternative distribution channels. Furthermore, regulations, price lists, sales and post-sales and service processes were standardized.

The Bank actively continued to advertise its flagship products, i.e. cash loans and a comprehensive offer for entrepreneurs. The Bank also conducted a social campaign supporting local business that encouraged customers to use services provided by local businesses – **"Wspieramy Sąsiedzki Biznes"**, which was the first such initiative in the history of Polish banking. The campaign included creation of a special website www.sasiedzkibiznes.pl where firms and consumers could learn about the initiative, its benefits, as well as join in the initiative. Almost 7 500 business joined; the high point of the initiative was the Neighborly Business Week at the beginning of June. The initiative was accompanied by the Local Business Academy program launched in 10 Polish cities.

In the analyzed period the Bank also repeated a campaign advertising iKonto Aktywator targeting online users, and carried out regular motivation campaigns encouraging personal account holders to have their salaries transferred to their bank accounts and to use debit cards for making cashless payment, offering them:

- waiver of the account maintenance fee if the salary transferred amounts to at least PLN 1 000;
- waiver of the card fee for three months in return for the first cashless transaction.

In order to strengthen its position in the "farmers" segment, in mid-April the Bank launched a nationwide "Let's invest together" campaign to promote investment loans, preferential loans and EU subsidized loans for the AGRO segment.

Table 26. Retail and Business Banking Deposits and Loans⁵

| PLN '000 | 30.06.2016 | 31.12.2015 | Change | |
|-------------------------------|-------------------|-------------------|------------------|------------|
| | | | PLN '000 | % |
| Current accounts | 7 075 115 | 6 367 866 | 707 250 | 11% |
| Savings accounts | 10 260 871 | 9 783 776 | 477 094 | 5% |
| Term deposits | 12 391 493 | 11 675 382 | 716 110 | 6% |
| Overnight deposits | 637 554 | 566 004 | 71 551 | 13% |
| Accounts and deposits | 30 365 033 | 28 393 028 | 1 972 005 | 7% |
| <i>including: BGŻOptima</i> | <i>7 480 916</i> | <i>6 557 984</i> | <i>922 932</i> | <i>14%</i> |
| Consumer credit | 5 711 636 | 5 120 362 | 591 275 | 12% |
| Investment loans | 4 495 701 | 4 924 534 | (428 833) | (9%) |
| Overdrafts | 3 021 009 | 3 139 709 | (118 700) | (4%) |
| Housing loans | 14 690 001 | 14 412 829 | 277 171 | 2% |
| Lease receivables | 493 717 | 313 120 | 180 598 | 58% |
| Credit cards | 712 025 | 700 841 | 11 184 | 2% |
| Short-term loans | 103 845 | 367 535 | (263 691) | (72%) |
| Other loans | 187 371 | 203 368 | (15 997) | (8%) |
| Factoring | 0 | 1 694 | (1 694) | (100%) |
| Net loans and advances | 29 415 305 | 29 183 993 | 231 312 | 1% |

⁴ See Footnote p. 35

⁵ The value of deposits and loans in selected segments is based on data from the management information systems as they provide more detailed product information.

The value of deposits excludes balances of some credit institutions which are considered as interbank deposits in the management reporting, whereas in the financial reporting they are recognized as customer deposits. In addition, the balances exclude accrued interest before maturity.



Deposits

The first half of 2016, like most of year 2015, saw interest rates set by NBP at a record low. In spite of these demanding macroeconomic conditions, the deposit operations of the Bank did not focus exclusively on ensuring stability of the retail customer savings portfolio. The bank carried out a few promotion campaigns to acquire new deposits. In the first half of 2016, the Bank's customers were offered a number of special term deposits and promotional interest on savings accounts, awarding clients who deposited new funds as well as those who decided to keep their existing funds with the Bank. The key campaigns promoted the following:

- *Konto z Zyskiem* and *Konto Dobrze Oszczędnościow* saving accounts;
- Progressive deposits and *Inwestor Ekstra* deposits;
- *Silna Lokata* deposits.

The integration of the two banks included ensuring uniformity of the interest rates on all the products wherever it was technically possible.

The Bank regularly launched attractive special offers to its Personal and Private Banking customers for selected maturities of the *Lokata bardzo osobista* deposit.

Customers who expected profits higher than the interest on deposits were offered a wide range of investment products, including:

- about 200 investment funds managed by 14 investment fund management companies, available on PI@net;
- *Lokata Profit Plus* - a product bearing interest up to 8% of the margin offered in combination with investment funds;
- Two investment deposits;
- Four subscriptions for close-ended investment funds (in collaboration with TFI KBC and TFI BGŻ BNP Paribas) for Personal and Private Banking customers.

As part of its deposit activity, the Bank offers a comprehensive range of products and services for the Business Customers:

- for micro-enterprises which are not subject to the requirements of the Accounting Act: *Biznes Lider Ekstra Package*;
- for customers with integrated accounts: *Biznes Lider Premium Package* – an account tailored to the needs of individual enterprises;
- for farmers: *Agro Lider Package*;
- for non-profit organizations: *Spółeczny Lider Package*.

With a view to building stronger customer relationships and facilitating access to its products and services, in the first half of 2016 the Bank launched a mobile version of the electronic banking system dedicated to enterprises – Mobile Biznes PI@net.

The offering for all Business Customers included a three-month deposit on special terms.

Additionally, at the beginning of the year, farmers were offered preferential interest on the savings account (*Agro Eskalacja*) to invest their direct subsidies on favorable terms.

The Bank cooperates with Elavon in the provision of POS terminals to Business Customers. Since April 2016, promotional pricing terms for the lease of POS terminals have been offered to the Bank's customers. The POS terminal has been provided fee-free for two out of twelve months of the agreement to each business entity that decided to use it and held or opened an account with the Bank.

As at 30 June 2016, Retail and Business Banking deposits amounted to PLN 30 365 million and were PLN 1 972 million, i.e. 7% higher than at the end of December 2015.


Table 27. Number of retail customer deposit accounts

| Thousand | 30.06.2016 | 30.06.2015 | Change YoY | |
|--|----------------|----------------|--------------|--------------|
| | | | Thousand | % |
| Number of accounts* at branches | 1 956.1 | 1 813.8 | 142.3 | 7.8% |
| Current accounts | 880.2 | 971.1 | (90.9) | (9.4%) |
| Saving accounts | 690.8 | 524.6 | 166.2 | 31.7% |
| Term deposits | 385.1 | 318.1 | 67.1 | 21.1% |
| Number of BGŻOptima accounts | 262.9 | 220.1 | 42.8 | 19.4% |
| Saving accounts | 214.7 | 188.1 | 26.6 | 14.1% |
| Term deposits | 48.2 | 32.0 | 16.2 | 50.6% |
| Total number of accounts | 2 219.0 | 2 033.9 | 185.1 | 9.1% |

* Excluding auxiliary accounts

BGŻOptima

BGŻOptima complements the savings and investment products offered by the Bank. The offering is addressed to customers who want to use online financial services on the Internet. BGŻOptima comprises deposits, savings accounts as well as distribution of investment fund units.

As at 30 June 2016, the number of customers using BGŻOptima services was 190.7 thousand, which denotes a growth of 27 thousand compared to 30 June 2015.

Deposits saw a fast value growth. As at 30 June 2016, the balance of funds deposited in bank accounts amounted to PLN 7 481 million which denotes a growth of PLN 923 million compared to the end of 2015.

Loans

To meet customers' expectations, the Bank implemented solutions aimed at supporting those customers that had taken out housing loans in the Swiss franc, as proposed by the Polish Bank Association (the so called six-pack), which included, among other things, application of negative LIBOR rates, reduction of the currency spread for CHF and waiving the right to demand additional collateral to be provided by the customer.

In January 2016, an offer of mortgage loans with an attractive margin was introduced, addressed to holders of personal accounts with Cardif insurance. The new pricing takes into account the new tax on banking assets. At the beginning of May, the Bank also introduced new credit products that comply with the requirements of the amended law on the shaping of the agricultural system.

The loans offered in the Business Banking Segment to finance day-to-day operations and investment needs are addressed to micro-enterprises, small companies (subject to simplified accounting requirements), companies with integrated accounts (annual revenue of up to PLN 10 million) as well as farmers and larger Agro sector customers.

In the first half of 2016, the Bank launched a comprehensive range of financing products dedicated to housing communities. Considering the unique characteristics of the industry, the Bank launched loan products responding to the needs of housing communities in Poland.

Individual farmers, also those who are not subject to the requirements of the Accounting Act, may use an unsecured loan to finance their day-to-day operations ("Rzeczówka"). Additionally, Bank BGŻ BNP Paribas offers overdraft facilities, investment and preferential loans to farmers, thus increasing pro-actively the share of financing in the key "farmers" segment.

The Bank's offering addressed to farmers and the Agro segment customers includes also dedicated packages and insurance provided in cooperation with TU Concordia, which specializes in agricultural insurance covering crops, agricultural produce, movable property and buildings.

Business entities with integrated accounts may use specialist funding in the form of collection point loans dedicated to agri-food sector entities which purchase and store agricultural products.

Considering the amendments to the Act on Trading in Agricultural Land, as planned by the government, Bank BGŻ BNP Paribas offers a land purchase loan (Agro Progres) on attractive pricing terms to agricultural producers, regardless of their legal form.

In April 2016, the Bank launched a special financing offer addressed to medical sector customers, such as doctors, dentists, independent health care institutions, clinics and medical practices (business customers). Bank BGŻ BNP Paribas offers loan products tailored to the needs of business entities from the medical sector and it is planning



to launch a dedicated business account and transactional solutions that will facilitate the operations and ensure sustainable growth of medical sector entities in the future.

As the end of June 2016, the value of the Retail and Business Loan portfolio was PLN 29 415 million, which represents a one percent rise as compared to the end of the previous year. The sharpest rise in value was recorded in consumer loans and amounted to PLN 591 million. In the analyzed period, the volume of home loans denominated in foreign currencies (withdrawn in 2008-2009) amounted to PLN 6 975 million with CHF loans accounting to almost 99% of the total.

Bank guarantees

The Bank offers fast and comprehensive services based on dedicated IT tools.

In the first half of 2016, the Bank issued 57 bank guarantees at the request of Business Segment customers, which totaled PLN 3.23 million.

NET BANKING INCOME – RETAIL AND BUSINESS BANKING

The net banking income on Retail and Corporate Banking for the first half of 2016 amounted to PLN 750.8 million and which constituted a 52% year-on-year increase. It represented 56.7% of the total net banking income of the Capital Group for the first half of 2016. Almost 39% of the net banking income was attributable to Personal Finance (21.0% in the same period in the previous year). The growth is mainly attributable to the fact that Sygma Bank Polska joined the Capital Group.

Table 28. Net banking income – Retail and Business Banking⁶

| PLN '000 | 1st half 2016 | 1st half 2015 | Change YoY | |
|-------------------------------|------------------|------------------|----------------|------------|
| | | | PLN '000 | % |
| Net interest income | 552 510 | 360 080 | 192 430 | 53% |
| Net fee and commission income | 142 770 | 113 866 | 28 904 | 25% |
| Net trading income | 18 498 | 18 560 | (62) | 0% |
| Dividend income | 0 | 834 | (834) | (100%) |
| Other | 37 013 | (906) | 37 919 | (4 185%) |
| Net banking income | 750 791 | 492 434 | 258 357 | 52% |

11.4. PERSONAL FINANCE

Personal Finance is responsible for the Bank's operations involving financial services provided to consumers, with three major product groups:

- cash loans – distributed mainly through the branch network, but also via the Internet and the Contact Center;
- installment loans – offered to retail customers in the shops (including online) of the Bank's commercial partners with whom the Bank has cooperation agreements in place;
- car loans – for new and used vehicles, initiated mainly by used car dealers and authorized car dealers;
- operating and finance leases – sold mainly by second-hand car dealers and authorized car dealers;
- credit cards – offered to customers by the Bank's own branch network as well as the Bank's credit card desks located in shopping centers and retail chains with whom the Bank has cooperation agreements in place. Credit cards are also offered to customers who have signed cash loan agreements, car loan agreements and installment loan agreements linked with possibility of having a credit cards as part of the cross-selling process.

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

⁶ Information based a note to the Consolidated Interim Report of the Capital Group of Bank BGŻ BNP Paribas S.A. for the six-month period ended 30 June 2016 presents data ensuring comparability of the periods ended 30 June 2016 and 31 December 2015



It also assumes responsibility for the following key processes:

- authorization of consumer credit and microenterprise loan applications as well as credit approval based on specific criteria;
- debt collection;
- telephone customer service via the Contact Center, including: CRM campaigns (cross-selling) and selling loans over the phone.

PRODUCT OFFERING

Cash loans

In the first half of 2016, the Bank launched the following offers related to cash loans:

- The “final year with no interest” special cash advance offer. Customers were offered attractive interest on their loans and 0% interest for the final 12 months for those who had been paying their instalments in a timely manner. The available loan term was from 24 to 84 months;
- Special cash loans offer for customers who opened *Konto Praktyczne* or *Konto Bardzo Osobiste* saving accounts with their cash advance agreements. Customers were offered attractive interest reduced by one percentage point as compared to those who had not decided to opening personal bank accounts. The condition for receiving a reduced interest rate over the cash loans term was a minimum of PLN 1 000 credited to the account.
- 0% cash loans – offered for a period from 6 to 24 months to customers who signed an insurance agreement.

In the first half of 2016, sales of the new cash loans amounted to PLN 1 267 million.

Installment loans

Bank BGŻ BNP Paribas has been offering installment loans since 31 May 2016, i.e. merger with Sygma Bank Polska. The loan is offered to retail customers for purchase of goods or services that are not connected to the customer’s line of business. Installment loans of PLN 50 up to PLN 31 000 are available for a term of from 3 to 60 months. Today, the Bank offers installment sold in over 11 000 shops (including online shops) of its commercial partners. The terms and conditions of installment loans are linked to the loan offer of each commercial partner in a given time.

Car loans

In the first half of 2016, the Bank launched the following offers related to the car loans:

- Special offers for Hyundai, Kia and Mitsubishi cars and modified standard offer for authorized car dealers;
- A new *Non Stop Auto* loan offer for Hyundai authorized dealers;
- Cancellation of the maximum car age limit;
- Modification of the *Promo Komis* special offer.

Furthermore, the car loan offer was made available from all branches of the Bank.

Leases

Apart from car loans, the Bank’s customers may enter into operating and finance lease agreements (including the VAT Marża finance lease) from PLN 20 000 (from PLN 13 000 for new motorcycle dealers) to PLN 1 000 000 for new vehicles and PLN 500 000 for used vehicles. Lease agreements may be signed for passenger cars, trucks of up to 8 tons, buses, tractors, motor scooters, motorcycles and quads.

In the first half of 2016, new lease offers were launched with subsidized products, dedicated to Hyundai, KIA and Mitsubishi dealers with whom the Bank had signed partnership contracts.

Furthermore, the car leasing offer was made available from all branches of the Bank.



Credit cards

As a result of the merger with Sygma Bank Polska S.A. on 31 May 2016, of Bank BGŻ BNP Paribas S.A. has become one of the largest issuers of credit cards in Poland with a 13% market share. Today, the Bank offers credit cards in all of its branches and 140 Customer Service Points located in shopping centers and retail chains cooperating with the Bank. Another important element of the acquisition process is cross selling of credit cards whereby cards are sent to customers who have signed a cash advance agreement, car loan agreement or installment loan agreement. The available limits range from PLN 2 000 to PLN 6 000.

At the end of the first half of 2016, as a consequence of the merger with Sygma Bank Polska S.A., the following were added to the credit card offer of Bank BGŻ BNP Paribas:

- Seven co-branded cards issues in cooperation with leading retail chains or leading known brands in their industry;
- *mamBONUS* loyalty program for holders of credit cards that were offered by Sygma Bank before.

In the first half of 2016 the Bank also continued the following:

- pre-approved offer addressed to regular customer of the Bank, available in branches and through Contact Center; and
- Modification of insurance products linked with credit cards as a result of unification of the Bank's offer. Today credit card insurance is offered in collaboration with the insurance companies Towarzystwo Ubezpieczeń na Życie Cardif Polska S.A., Cardif Assurances Risques Divers S.A. and Europ Assistance S.A.

11.5. OPERATIONS OF THE BROKERAGE OFFICE OF BGŻ BNP PARIBAS S.A.

The operations of the Brokerage Office of BGŻ BNP Paribas focus on provision of services to retail customers complementing the investment products offered by the Bank. Additionally, the Brokerage Office provides services to selected institutional customers such as open-end investment funds, investment fund management companies and other asset managers.

Additional activities of the Brokerage Office consist in portfolio management and investment advice. Investment advice is provided to Personal Banking and Private Banking customers.

The Brokerage Office offers a wide range of investment funds managed by recognized Polish Investment Fund Management Companies. As at the end of June 2016, the Brokerage Office had sold units in more than 300 funds managed by 16 Investment Fund Management Companies. As at 30 June 2016, the value of Investment Fund Management Company assets sold by Bank BGŻ BNP Paribas totaled PLN 2.18 billion.

Fee income on sales of units in Investment Fund Management Companies (through the Bank's branches) amounted to PLN 9 087 thousand as compared to PLN 9 617 thousand in the first half of 2015. The net broker fee income for the first six months of 2016 amounted to PLN 2 133 thousand vs. PLN 2 050 thousand for the first half of 2015.

The total net commission income of the Bank's Brokerage Office fell by PLN 447 thousand YoY.

Table 29. Fee and commission income of the Bank's Brokerage Office

| PLN '000 | 30.06.2016 | 30.06.2015 | Change YoY | |
|--|---------------|---------------|--------------|---------------|
| | | | PLN '000 | % |
| Broker fees and charges | 2 133 | 2 050 | 83 | 4.0% |
| Fees on sales of units in Investment Fund Management Companies | 9 087 | 9 617 | (530) | (5.5%) |
| Fee and commission income from brokerage operations | 11 220 | 11 667 | (447) | (3.8%) |

**Table 30. Share of the Bank's Brokerage Office in WSE trading volume**

| | | 30.06.2016 | | 30.06.2015 | |
|-------------------------|-------------|------------|-------|------------|-------|
| | | Volume | Share | Volume | Share |
| Shares | PLN'000,000 | 351 | 0.21% | 473 | 0.23% |
| Bonds | PLN'000,000 | 25 | 2.24% | 7 | 1.00% |
| Contracts | number | 24 840 | 0.34% | 50 907 | 0.64% |
| Investment certificates | PLN'000,000 | 1 | 1.11% | 1 | 1.07% |
| Options | number | 4 247 | 1.25% | 3 926 | 1.03% |

11.6. SME AND AGRO BANKING

SME and Agro Banking Segment provided services to customers with full financial reporting and sales income of PLN 10-60 million or the Bank's credit exposure of PLN 2-25 million. Additionally, the SME segment includes the SME Farmers and the Agro sub-segments:

- **SME Farmers** are customers with full financial reporting and sales income of less than PLN 60 million or farmers without full financial reporting and the Standard Output (SO)⁷ of EUR 75 thousand or more in the preceding financial year. As regards loan customers, the SME segment includes farmers with the Bank's credit exposure of PLN 1-25 million.
- **Agro SME subsegment** consists of customers with full financial reporting and sales income of PLN 10-60 million or the Bank's credit exposure of PLN 2-25 million, including agricultural producer groups.

The SME and Agro sub-segment includes also public finance sector entities that do not fulfil the criteria allowing their classification to another segment with net income of PLN 10-60 million, as well as financial institutions, cooperative banks and associated banks.

The SME sales network has been divided into seven SME Regions with 44 SME Business Centers dedicated solely to provision of services to Small and Medium-Sized Enterprises. West – 8 SME Business Centers; North – 7 SME Business Centers; Northeast – 5 SME Business Centers; Central Poland – 6 SME Business Centers; East – 5 SME Business Centers; South – 5 SME Business Centers; Southwest – 8 SME Business Centers.

PRODUCT OFFERING

The Bank offers a wide variety of products to its SME and Agro customers. The offering developed for small and medium-sized enterprises includes such products as:

- transactional products as part of the customer's account or package (cashless domestic and cross-border transactions, cash transactions, also closed ones, automatic fund transfers between accounts);
- deposit products for the customer's investment of surplus cash (e.g. standard deposits, negotiated deposits with maturity and interest rate agreed on a case-by-case basis, deposits made through the online banking system as well as deposit accounts for flexible surplus cash management);
- loan products providing funding for the day-to-day running of the business as well as implementation of investment and development projects, refinancing expenditure that has already been incurred or loans granted by other banks (overdrafts, revolving and non-revolving working capital loans and investment loans);
- trade finance products (export and import documentary LCs, export and import documentary collection, LC discounting as well as nostro and loro guarantees);
- financial market transactions for purposes of currency, interest rate and commodity price risk management (e.g. FX Spot, FX Forward, FX options, IRS, interest rate options, commodity swap, commodity options);
- other financial services, such as lease of machines and equipment, process lines, vehicles, real property as well as factoring services dedicated to manufacturing, sales and service companies entering into deferred payment sales transactions (offered in cooperation with BGŻ BNP Paribas Faktoring Sp. z o.o.).

⁷ See Footnote p. 35



The said products ensure increased flexibility, as a result of which numerous parameters may be matched to the individual needs of each customer.

New products and business line development in the first half of 2016

In the first half of 2016, the Bank undertook a number of initiatives to build the image of a bank specializing in services to small and medium businesses and maintaining good relationship with business customers. The initiatives include a series of Academy of Business meetings to share thoughts and experiences, called "Business knows no boundaries" focusing on international expansion in five Polish cities. Furthermore, the MSP and Agro Banking Segment organizes business meetings for the current and prospective customers called "Flavors of the Changing World". These small-scale events are the opportunity for businesspeople to presentation of technical matters, engage in networking and share experiences. Furthermore the Bank is the partner of the ranking "Polish Company of the Future" for small, medium and microbusinesses, organized with *Gazeta Wyborcza* daily newspaper.

In the first quarter of 2016, the Bank simplified rules on annual reviews and quarterly monitoring procedures for chosen groups of customers. The Bank also offers simpler rules on revolving loans as well as issuance and renewal of credit and charge cards to eligible customers.

Agro sub-segment The Bank has developed a comprehensive offering for the agri-food segment: deposits and loans and agricultural insurance (voluntary and obligatory).

As regards loans, the Bank offers a wide variety of working capital and investment loans to farmers and agro enterprises. Such products as overdrafts collateralized with mortgage, *Agro Ekspres*, *Agro Progres* investment loan for financing agricultural holdings as well as preferential loans are very popular among the Bank's customers.

As a consequence of the new law which came into force changing the rules of trade in agricultural land and establishing security of agricultural property, the Bank had to make changes to its internal rules on financing investments in agricultural farms, especially regarding trade in land.

Preferential loans

In the first half of 2016, the Bank continued granting preferential loans on the terms and conditions introduced in 2015. Loans were limited to farming and inland fishing, for purchase of agricultural land, for investments in processing of agri products, fish, crustaceans and snails, purchase of shares, and loans for recovery from the effects of natural disasters. The Agency for Restructuring and Modernization of Agriculture (ARMA) did not offer loans with partial principal repayment for purchase of agricultural land, intended for young farmers.

One entity may obtain: a loan for investments in the agricultural holding of up to PLN 5 million, a loan for investments in specialized agricultural production of up to PLN 8 million and a loan for processing of up to PLN 16 million.

In 2016 Bank GBŻ continued to offer the most favorable pricing terms: no arrangement fees and a markup of 2.48%. At present, the interest rate offered to customers is 3% p.a.

In March 2016, the Bank began offering revolving loans for agricultural producers awaiting direct subsidies.

Owing to a failure of ARIMR's IT system, the Ministry of Agriculture and Rural Development launched a credit line to finance food producers' cost of production. The line was interest-free for the customer (the Agency paid all the interest); the customer only paid a fee of 0.25% of the loan sum.

Typically, preferential loans are used mainly for purchases of agricultural land, construction and modernization of buildings, purchases of machines and equipment as well as establishment of perennial crop plantations. The offering is addressed not only to farmers but also to agri-food sector enterprises.


Table 31. Deposits and loans – SME and Agro⁸

| PLN '000 | 30.06.2016 | 31.12.2015 | Change | |
|-------------------------------|-------------------|-------------------|------------------|-------------|
| | | | PLN '000 | % |
| Current accounts | 3 201 509 | 3 876 044 | (674 535) | (17%) |
| Savings accounts | 395 869 | 406 573 | (10 704) | (3%) |
| Term deposits | 1 260 141 | 1 090 930 | 169 211 | 16% |
| Overnight deposits | 550 870 | 535 153 | 15 717 | 3% |
| Accounts and deposits | 5 408 389 | 5 908 700 | (500 311) | (8%) |
| Consumer credit | 870 | 1 699 | (830) | (49%) |
| Investment loans | 7 261 635 | 6 958 849 | 302 786 | 4% |
| Overdrafts | 2 236 432 | 2 134 283 | 102 149 | 5% |
| Lease receivables | 474 877 | 461 065 | 13 812 | 3% |
| Credit cards | 1 103 | 1 378 | (276) | (20%) |
| Short-term loans | 923 931 | 1 095 864 | (171 933) | (16%) |
| Factoring | 505 796 | 342 260 | 163 536 | 48% |
| Other loans | 18 120 | 19 140 | (1 020) | (5%) |
| Net Loans and advances | 11 422 763 | 11 014 539 | 408 223 | 4% |

OFFERING RELATED TO PUBLIC PROGRAMS
Unia+ loan

In March 2016, the bank launched Unia+ Loan which is the effect of unification of investment loans for projects co-funded by the EU and domestic state aid, available before the merger of Bank BGŻ and BNP Paribas.

PolSEFF2 Program

In June 2016, the Bank stopped selling PolSEFF2 Program for energy efficiency projects and thermo-modernization of buildings as the market leader in Poland.

EBI Energo Leasing GI

In May 2016 the Bank stopped selling Energo Leasingu GI as part of the EIB Line for energy efficiency projects, also as market leader.

EIB

Under the cooperation agreement with the European Investment Bank concerning a credit facility of EUR 100 million, beneficiaries can use investment loans and leasing.

SME and MIDCAP segment customers may be beneficiaries of the facility. Customers who meet the eligibility criteria are offered a lower markup.

Technological loan

Under the cooperation agreement with Bank Gospodarstwa Krajowego regarding loans originated under *Sub-measure 3.2.2.*, the Bank grants "Loan for Innovative Technologies". The loans are addressed to SME under Intelligent Development Operational Program 2014-2020 to fund investments in technology and partly repaid from the Technology Loan Fund. Beneficiaries could apply for a technology premium up to PLN 6 million, limited by the cap of 70% of eligible investment costs. Bank Gospodarstwa Krajowego announced the second investment co-funding competition in June 2016 and will be held from 28 July 2016 to 30 September 2016.

⁸ See Footnote p. 38



TRADE FINANCE PRODUCTS FOR SME SEGMENT CUSTOMERS

The offer of trade financing products for SME customers includes export and import documentary LCs, documentary collection regarding import and export, LC discounting as well as nostro and loro guarantees.

Bank guarantees and LCs

The Bank offers fast and comprehensive services related to guarantees and LCs, which are based on dedicated IT solutions.

In the first half of 2016, the Bank issued 417 bank guarantees at the request of SME customers with a total value of PLN 48.3 million.

In the first half of 2016, the Bank opened 77 import LCs with a total value of PLN 16.1 million at the request of customers from this segment, and handled 55 export LCs with a total value of PLN 12.1 million issued by third-party banks for the benefit of those customers.

NET BANKING INCOME – SME AND AGRO BANKING

In the first half of 2016, net banking income in SME and Agro Banking was PLN 177.5 million, which denotes a 25% increase year-on-year. It represents 13.4% of the total net banking income of the Capital Group.

Table 32. Net banking income – SME and Agro Banking⁹

| PLN '000 | 1st half 2016 | 1st half 2015 | Change YoY | |
|-------------------------------|------------------|------------------|---------------|------------|
| | | | PLN '000 | % |
| Net interest income | 115 570 | 86 655 | 28 915 | 33% |
| Net fee and commission income | 46 966 | 39 477 | 7 489 | 19% |
| Net trading income | 13 476 | 14 704 | (1 228) | (8%) |
| Dividend income | 796 | 2 | 794 | 39 700% |
| Other | 695 | 1 131 | (436) | (39%) |
| Net banking income | 177 503 | 141 969 | 35 534 | 25% |

11.7. CORPORATE BANKING

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);
- large Polish corporations (with annual turnover of more than PLN 600 million and an investment banking potential);
- public sector and institutions.

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

In the first half of 2016, an initiative aimed at increasing the share in the market of Polish enterprises was continued. The effects of the intense customer acquisition strategy are visible in an increased share of those enterprises in the entire Corporate Banking loan portfolio.

The Agro sector expertise of Bank BGŻ combined with the capabilities of the multinational BNP Paribas Group enables development of an attractive and innovative offering addressed to agri-food sector customers.

In order to improve international customer service quality in Corporate Banking, the Bank has dedicated teams providing services to customers from Germany, Italy, the Benelux and Asia and Pacific. The teams win new

⁹ See: Footnote p. 41



customers and tighten relations with the existing ones in their dedicated areas on the local level as well as the BNP Paribas Capital Group level.

Distribution channels

Corporate Banking services are provided by Business Centers (BCs) located in large cities across Poland, which are separate from the Bank's branch network. At present, the Bank has nine business centers, including three in Warsaw and one in Gdańsk, Katowice, Krakow, Lublin, Poznan and Wrocław each. In addition to the existing BCs, services are provided to customers locally by dedicated relationship managers in Białystok, Bydgoszcz, Łódź, Olsztyn, Rzeszów and Szczecin.

PRODUCT OFFERING

Products and services

Corporate customers may use numerous financing and transactional banking products relying on the expert support of the BNP Paribas Group. The basic products and services offered to corporate customers are:

- **cash management** – an integrated approach to a group of products related to management of the customers' domestic and cross-border cash flows, together with price competitive tools which support management of amounts due received and paid by the customer, including comprehensive cash management services, cash pooling arrangements and advanced card solutions.

The Bank has implemented an innovative customer – Bank transactional communication model, which integrates the finance and accounting system of the customer with the Bank's servers (host to host). This unique solution enables the Bank to become a transactional center through which the customer may make payments debited to accounts maintained by other banks and receive bank statements from such other banks.

In June 2016, the Bank joined the real-time payments system Express Elixir, for making online domestic payments in PLN; the system is operated by Krajowa Izba Rozliczeniowa S.A. (KIR S.A.). The service is available to Bank's customers on business days, Monday to Friday from 06:00 to 20:00 – customers in all segments can receive payments in these hours. Outgoing real-time payments are available to the users of the banking service BiznesPl@net. The maximum amount of a money transfer is PLN 100 000.

- **deposits** – from overnight to term deposits, indexed using the WIBOR rate;
- **trade finance** – the trade finance products offered to Corporate Banking customers include export and import documentary LCs, export and import documentary collection, LC discounting, receivables financing as well as nostro and loro guarantees;
- **corporate financing** – overdrafts, revolving loans and investment loans;
- **mid-cap structured finance** – financing acquisitions, high capital expenditure as well as structured bilateral or syndicated loans of PLN 20-200 million;
- **real estate financing** – financing office, retail and warehouse space for customers:
 - planning the construction or extension of commercial property with the use of a construction loan;
 - planning the purchase or refinancing of commercial property with the use of an investment loan or lease;
- **investment banking services** – provided by experts, including advisory services related to mergers and acquisitions, project finance as well as capital markets and debt securities;
- **financial market products** – including spot and forward FX transactions made by the Bank's dealers or via a price competitive FX platform (Deal on Pl@net), together with FX options, FX swaps, interest rate swaps and other derivative products offered along with the *Fixed Income* platform of Corporate and Investment Banking (CIB);
- **lease and factoring services** – offered by the Lease Department, the Factoring Unit and BGŻ BNP Paribas Faktoring Sp. z o.o., respectively;
- **public sector services** – arrangement of issues of municipal bonds, forfaiting and dedicated cash management solutions.



Internet banking

The Bank provides its corporate customers with extended access to online banking through the BiznesPI@net and Connexis platforms suited to the needs of large, medium-sized and small enterprises. *BiznesPI@net* may be used for modification of account access authorizations and it may be integrated with the company's accounting systems. In addition to the functionalities available through the *PI@net* platform, the *BiznesPI@net* system enables customers to process all their transactions online, to include LC opening and modification as well as the entry into foreign exchange transactions (via the *Deal on PI@net* platform of the Bank).

Mobile banking

Mobile BiznesPI@net is a cutting-edge mobile banking system which allows the users handling their accounts via mobile devices (smartphones, tablets) running Android and iOS. The application connects online to the BiznesPI@net and the firm's finance and accounting system via BNP Paribas Connect (Host-to-Host).

Table 33. Corporate Banking Deposits and Loans¹⁰

| PLN '000 | 30.06.2016 | 31.12.2015 | Change YoY | |
|-------------------------------|-------------------|-------------------|------------------|------------|
| | | | PLN '000 | % |
| Current accounts | 4 714 801 | 4 344 454 | 370 347 | 9% |
| Savings accounts | 13 939 | 2 744 | 11 194 | 408% |
| Term deposits | 6 687 547 | 3 800 553 | 2 886 993 | 76% |
| Overnight deposits | 2 378 636 | 1 922 407 | 456 228 | 24% |
| Accounts and deposits | 13 794 922 | 10 070 159 | 3 724 762 | 37% |
| Consumer credit | 160 | 202 | (42) | (21%) |
| Investment loans | 5 534 067 | 5 234 846 | 299 222 | 6% |
| Overdrafts | 2 672 036 | 2 229 248 | 442 788 | 20% |
| Lease receivables | 1 421 470 | 1 369 824 | 51 645 | 4% |
| Credit cards | 2 838 | 2 016 | 822 | 41% |
| Short-term loans | 1 878 491 | 2 356 685 | (478 194) | (20%) |
| Factoring | 964 354 | 668 371 | 295 983 | 44% |
| Other loans | 46 338 | 28 029 | 18 308 | 65% |
| Net loans and advances | 12 519 754 | 11 889 221 | 630 532 | 5% |

TRADE FINANCE PRODUCTS FOR CORPORATE BANKING CUSTOMERS

The trade finance products offered to Corporate Banking customers include export and import documentary LCs, export and import documentary collection, LC discounting, receivables financing as well as nostro and loro guarantees.

Bank guarantees and LCs

The Bank offers fast and comprehensive services related to guarantees and LCs, which are based on dedicated IT solutions.

In the first half of 2016, the Bank issued 1 849 bank guarantees at the request of Business Segment customers with a total value of PLN 619.2 million.

In the first half of 2016, the Bank opened 671 import LCs with a total value of PLN 271 million at the request of customers from this segment, and handled 157 export LCs with a total value of PLN 202.8 million issued by third-party banks for the benefit of those customers.

¹⁰ See: Footnote p. 38



NET BANKING INCOME – CORPORATE BANKING

In the first half of 2016, the net banking income of Corporate Banking was PLN 209.4 million, i.e. surpassed the income earned in the previous period almost twice. This was mainly due to exclusion of the corporate portfolio of BNPP Polska at the end of April 2015.

The current income represented 15.8% of the total net banking income of the Capital Group, as compared with 12.4% in the first half of 2015.

Table 34. Net banking income – Corporate Banking¹¹

| PLN '000 | 1st half 2016 | 1st half 2015 | Change YoY | |
|-------------------------------|------------------|------------------|----------------|------------|
| | | | PLN '000 | % |
| Net interest income | 114 246 | 58 639 | 55 607 | 95% |
| Net fee and commission income | 56 015 | 27 838 | 28 177 | 101% |
| Net trading income | 35 398 | 19 343 | 16 055 | 83% |
| Dividend income | 851 | 2 | 849 | 42 450% |
| Other | 2 862 | 471 | 2 391 | 508% |
| Net banking income | 209 372 | 106 293 | 103 079 | 97% |

11.8. CORPORATE AND INSTITUTIONAL BANKING (CIB)

Corporate and Institutional Banking (CIB) supports sales of products of the BNP Paribas Group dedicated to the largest Polish enterprises. Following the legal merger of Bank BGŻ and BNPP Bank Polska, CIB, comprising strategic customer service and the Financial Markets Division, was incorporated into the Bank's structure.

CIB delivers the BNP Paribas Group's comprehensive financial and risk management solutions to its customers in Poland, including:

- financing the day-to-day operations and investments carried out by enterprises;
- advisory services related to mergers and acquisitions;
- structured finance: financing acquisitions and investment projects;
- cash flow and liquidity management, working capital optimization;
- financial and commodity risk management.

CIB 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. CIB 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 as well as securing financing for cross-border acquisitions of listed companies.

In the first half of 2016, CIB focused on improving cooperation with other areas of the Bank by expanding the range of financial products offered to strategic customers, and in particular by developing the business of the Financial Markets Division.

Financial Markets Division

The Financial Markets Division focuses on four key business areas:

- transactions on the Polish and international FX and interest rate markets. This involves management of market risk in the trading book, quotations of FX market and interest rate market instruments (together with transactions on the derivatives market), setting the foreign exchange rates effective at the Bank as well as structuring and managing the risk involved in the structured products offered by the Bank;
- direct sales of financial market products enabling currency, interest rate and commodity price risk management, to customers;
- preparation of macroeconomic analyses and forecasts for purposes of the trading and treasury operations

¹¹ See: Footnote p. 41



of the Bank and for external use, cooperation with external institutions and research centers focusing on analyses;

- arrangement of debt security issues for corporate customers.

11.9. OTHER OPERATIONS

Other operations of the Bank are carried out mainly through ALM Treasury, the main objective of which is ensuring an appropriate and stable level of funding to guarantee security of the Bank's operations and compliance with the standards defined in the applicable laws, in addition to reducing sensitivity of the Bank's net interest income to changes in market interest rates.

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

Its operations are carried out through two profit centers, i.e. ALM Treasury and Corporate Center.

One of the key risk management mechanisms in place at the Bank is systemic transfer of structural risks (liquidity, banking book interest rate and currency risk) from all business lines to the ALM line, which manages those risks centrally. Risk is transferred mainly through the transfer pricing system, which reflects the business financing strategy adopted by the Bank.

ALM Treasury is mainly responsible for ensuring a balanced liquidity position in addition to optimizing the costs of financing the Bank's operations, as well as a proper structure of assets and liabilities, including sensitivity to changes in interest rates. Other functions of that line focus on management of the internal transfer pricing system, balance sheet analysis, modeling and measuring liquidity and interest rate risks in the banking book, issuing the Bank's debt securities, arranging long-term lines of credit and managing the activities of ALCO.

11.10. COOPERATION WITH FINANCIAL INSTITUTIONS

As at 30 June 2016, the Bank was a correspondent bank of ca. 1500 other banks, and held 53 nostro accounts for 21 major currencies with foreign banks.

In the analyzed period, the Bank maintained 33 loro accounts in 2 currencies for 31 foreign banks, 1 domestic bank and 1 foreign non-bank financial institution. The loro accounts in the accounting records of Bank BGŻ BNP Paribas S.A. represent an external source of cost-free working capital used in the Bank's operations. Those accounts are used mainly for purposes of customer and bank-to-bank transfers.

Additionally, the Bank provided services to the cooperative banking sector, both as regards transactional banking and treasury services.

Additionally, cooperation with other domestic and foreign financial institutions was continued, to include mainly investment funds, insurance companies, pension funds as well as brokers and banks, as a result of which a large number of treasury and deposit transactions were entered into. Moreover, cooperation of new entities was secured to enable the Bank to conclude transactions involving both the existing and new products in the future.

11.11. HUMAN RESOURCE MANAGEMENT

Headcount

At the end of June 2016, Bank BGŻ BNP Paribas had 8 268 FTEs (including employees on maternity leave, childcare leave and longer sick leave) as compared to 8 512 FTEs at the end of December 2015. The increase in employment in the Bank is mainly the effect of the merger of the Bank with Sygma Bank Polska S.A. on 31 May 2016.

The table below presents the Bank's employment structure as at 30 June 2016 and 31 December 2015 in FTEs.


Table 35. Headcount in the Bank's Group

| <i>FTEs</i> | 30.06.2016 | 31.12.2015 |
|-------------------------------------|-------------------|-------------------|
| The Bank's Capital Group | 8 268 | 8 512 |
| Total Bank, including: | 8 185 | 7 588 |
| <i>Head Office</i> | 3 741 | 3 189 |
| <i>Branches</i> | 4 297 | 4 242 |
| <i>Mobile Relationship Managers</i> | 92 | 88 |
| <i>Brokerage Office</i> | 40 | 54 |
| <i>Training Center</i> | 11 | 11 |
| <i>Trade Unions</i> | 4 | 4 |
| TFI BGŻ BNPP | 22 | 19 |
| BGŻ BNPP Faktoring | 55 | 30 |
| BFN ACTUS | 1 | 1 |
| Fortis Lease Polska | 0 | 0 |
| LaSer Services Polska | 5 | 5 |
| Syigma Bank Polska: | - | 869 |

In the first half of 2016, the value of the provision for employment restructuring was increased. The said additional amount of PLN 26 million was recognized under the latest restructuring plan (Agreement with the Trade Unions of 4 March 2015), which has been launched in connection with the merger of BGŻ and BNP Paribas Bank Polska S.A.

The additional amount of the provision was determined taking account of payments made to more than 1,000 employees and based on the estimated payments to be made at the following restructuring stages. Group dismissal is taking place in line with the restructuring plan and it will affect no more than 1,800 employees of the Bank, in line with the Agreement of 4 March 2015.

Employee compensation policy

The Bank has implemented a reasonable, balanced and controllable compensation policy and ensures its compliance with the strategy, the acceptable risk level as well as the standards and key values of the Bank. The compensation policy reflects the Bank's customer orientation in addition to the Bank's interest in the long term as well as socially acceptable compensation practices. It is in conformity with the applicable laws and regulations.

The Bank has a Board Member Compensation Policy and an Employee Compensation Policy in place, which also applies to managers exerting a considerable influence on the risk profile of the Bank. The said *Policies* were developed in accordance with the recommendations formulated in PFSA's Resolution No. 258/2011 as well as the requirements under CRD4, and they were approved by the Supervisory Board on 21 June 2012.

In the first half of 2016, the *Policies* were not amended.

The Bank has established an HR and Compensation Policy Committee, which supports the Supervisory Board in fulfilment of its supervisory duties in respect of human resource management by monitoring and overseeing the key processes, specifically: succession plans, professional development of employees and compensation policies. The Committee prepares opinions and recommendations for the Supervisory Board, with respect to the terms of employment of members of the Bank's Management Board, including the variable compensation determined and granted to such members.

Incentive schemes

The Bank has introduced incentive and bonus schemes, which are the combination of three elements: goals – in respect of the priorities defined in the Bank's strategy and financial plans, performance – i.e. the effects of the Bank's employees' work, and bonuses.

The bonus schemes are based on the MbO (Management by Objectives) formula, which means that the employee's individual bonus depends on his/her goal achievement level and quality.

MbO focuses on definition of tasks – goals, which determine the direction of development for the organization as a whole and are cascaded to each organizational unit and employee of the Bank. A combination of individual and



collective goals gives the employee a picture of his/her expected performance, considering the Bank's risk profile and actions in the interest of the customer.

The Bank has implemented:

- bonus schemes for direct sales staff, which were brought into line with the tasks assigned to each business line of the Bank, i.e. SME and Agro, Corporates and Retail Banking, in addition to
- a commission scheme for Personal Finance sales staff;
- and a separate bonus scheme in place, which lays down the rules for granting and payment of variable compensation, including bonuses, to managers exerting a considerable influence on the risk profile of the Bank.

The bonus scheme rules do not apply to the employees' share in the share capital of the Bank.

Training and development

The training activities in the first half of 2016 supported the achievement of the business objectives of the Bank through a close liaison with the business lines as regards development of the employees' skills and competencies, but mainly in relation to the merger and integration of two financial institutions with a view to preparing employees for provision of premium quality services to both external and internal customers. The total number of training participants was 68 553, out of which 58 742 completed e-learning courses.

Major training initiatives in the first half of 2016

- courses aimed at ensuring a consistent level of knowledge of the products and systems, possessed by the employees of the merged organizations;
- courses increasing leadership competencies of managers, focusing in particular on change management and salesforce management;
- training programs supporting improvement of knowledge of and competencies in mergers and acquisitions as well as change management in implementation of the business strategy of the organization;
- courses supporting development of a risk culture at the Bank as well as pro-active employee attitudes and behaviors, especially in operational risk, compliance and crisis management areas;
- courses raising the level of product knowledge, dedicated to the salesforce, including those focusing on investment funds and sales of insurance products;
- courses introducing new tools to support the processes in place at the merged Bank;
- courses supporting development of sales skills and enhancing the quality of customer service, addressed to the salesforce;
- foreign language courses;
- Implementation of a new standard for cooperation with Compliance regarding monitoring and reporting the status of compulsory training completion.

Development programs implemented in the first half of 2016

- *Prestiz* Potential Development Program – the Program is aimed at ensuring that managers have the key competencies necessary to realize the Bank's strategy today and in the future. The Program is dedicated to employees who are high achievers and have a management. Courses have been devised for three Talent groups with different levels of professional experience and competencies. The courses are tailored to address individual needs of the participants and to support realization of the Bank's strategy.
- The *Leaders for Tomorrow* initiative – a development program of the Capital Group of BNP Paribas aimed at leadership development. Participants can make the most of development sessions conducted in different companies of the group, get to know how companies operate in other countries and share best practices.
- The Bank continued the *Internal Labor Market* initiative launched in 2014 with a view to enhancing the occupational mobility of the employees inside the organization.



- The *Occupational Mobility Days* is an initiative supporting the occupational mobility of employees, who could familiarize themselves with the nature of work in specific business areas or attend meetings (in classroom and online) focusing on professional development. The *Occupational Mobility Days* included training courses and a conference on building professional career.
- *Development Center Sessions* – aimed at supporting newly-appointed managers in developing their competencies which are important for their new roles. This one-day program includes development sessions and one-to-one feedback sessions which provide the basis for creating development plans.
- HR Library – the newly-opened library offers literature on: motivation, sales, personal development, management and leadership.

Internship and traineeship programs

The Bank offers traineeship and internship programs to students and university graduates.

11.12. INFORMATION TECHNOLOGY

In the first half of 2016, the IT initiatives focused on implementation of the Bank's strategy, mainly in respect of integration, i.e. operational merger of Bank BGŻ and BNP Paribas Bank Polska, as well as integration of Bank BGŻ BNP Paribas with Sygma Bank Polska.

In the first half of 2016, 64 projects were completed (including 37 related to BGŻ and BNPP Polska integration, and 27 related to the merger with Sygma Bank). 105 projects are in progress. The major achievements on the period were the migration of the customers of BGŻOptima and exRabobank Polska to the target operating systems.

The expenditures on IT initiatives in the first half of 2016 were PLN 76 million.

Major IT initiatives

The projects related to preparation for the merger were aimed at integration of IT tools and systems. They guaranteed uninterrupted operations of the new Bank while ensuring complete operational security and minimizing the negative effect on customers.

- The key IT tasks completed in the first half of 2016 as part of the banks' full integration process:
 - Migration of BGŻOptima customers to the target architecture and infrastructure of Bank BGŻ BNP Paribas. The migration process had been prepared for 10 months and was completed in February 2016.
 - In March 2016, the corporate customers of the former Rabobank Polska were migrated to the target systems of Bank BGŻ BNP Paribas.
 - In May 2016, the first portion of changes to the target systems of Bank BGŻ BNP Paribas were made. 100 changes and functionalities were made to 45 systems in the Bank. This was the first stage of the process of preparation for the Bank's data migration and operational merger.
 - Legal merger of BGŻ BNP Paribas and Sygma Bank Polska. Two banks of the international Capital Group of BNP Paribas operating in Poland merged into one of the most universal banks on the market.
 - Infrastructural projects for the merged Bank:
 - Introduction of consistent e-mail addresses at the merged Bank;
 - Implementation of IP telephone system – the new AVAYA system and telephone sets ensure that the whole merged Bank has access to the same functionalities as the employees of former BNPP Polska;
 - New redundancy locations in Krakow and Warsaw for Critical Processes Team;
 - Replacement of network infrastructure of the Data Center;
 - WAN integration;
 - Implementation of a single file server for all employees of the Bank;
 - Preparation of Citrix infrastructure for all branches of the Bank.



- In addition to the integration work, business critical projects were implemented:
 - Mobile BiznesPI@net – the application allows the corporate customers of the Bank, who are BiznesPI@net users, using online banking services from their mobile devices.
 - SmartCash – a new system for cash and cashless transactions in branches, which replaces the currently used Cashier application, and Eurobank in the future.
 - *Rodzina 500+* - the Bank enables its customers to apply for the child benefit online.
 - Migration of debt collection processes – completion of the two first stages of the migration to the target system. Since April 2016, all new debt collection cases of retail and micro-customers have been handled by the Tallyman application.

Projects related to customer service unification

Implementation of new products in the merged Bank's offer involved introduction of a consistent customer service policy at each Branch of ex-BNPP Polska and ex-BGŻ with respect to cash and cashless transactions as well as key business products, while ensuring compliance with security policies and procedures. Project work related to the aforesaid phase included mainly:

- preparation of IT infrastructure at branches;
- granting access to the CRM application to branch employees;
- granting access to the credit process supporting application to branch employees;
- implementation of consistent principles of information, transaction, sales and collection service in the Contact Centre;

Projects in progress

Projects related to the operational merger and ensuring the Bank's compliance with the new legal requirements were launched in the second half of 2015 and they include large-scale and long-term initiatives in the following areas:

- online banking migration;
- accounting system migration;
- adjustment of credit processes and applications;
- implementation of a single card management system;
- introduction of a single archiving system;
- infrastructure migration and development;
- ensuring that business is ready for operational takeover of the customers of the former bank;
- preparation for the integration with Sygma Bank Polska.



12. OPERATIONS OF THE SUBSIDIARIES IN THE CAPITAL GROUP OF BANK BGŻ BNP PARIBAS S.A.

12.1. TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH BGŻ BNP PARIBAS S.A. (TFI BGŻ BNPP)

TFI BGŻ BNPP has been carrying out business in the financial services industry since 1992. Before, it was active on the Polish capital market as a brokerage house.

TFI BGŻ BNPP operates based on the authorization of the Polish Financial Supervision Authority regarding:

- investment fund establishment and management;
- intermediation in sale and redemption of units and shares in foreign funds;
- management of portfolios with one or more financial instruments.

In June 2015, the entity's Supervisory Board approved its development plan, which is based on the assumption of dynamic growth in the upcoming years. Therefore, the entity implemented a comprehensive reorganization project in the second half of the preceding year. Organizational changes were accompanied by extension of the range of products offered by the entity.

Currently, the following four funds are managed by the entity:

- **BNP Paribas FIO**, which entered the Polish market in 2005. It comprises three sub-funds which invest mainly in the Polish market. BNP Paribas FIO offers also an individual retirement account – *IKE BNP Paribas FIO*, and an individual pension insurance account – *IKZE BNP Paribas FIO* (as at the end of June 2016, the value of the fund's assets exceeded PLN 103.9 million);
- **BGŻ BNP Paribas FIO**, which started its operations on 31 March 2016. It comprises seven sub-funds with a diversified investment policy, which enable customers to invest both on the local and global market (as at the end of June 2016, the value of the fund's assets exceeded PLN 214.4 million);
- **BGŻ SFIO**, the management of which was taken over by the entity from Ipopema TFI on 21 January 2016, once a relevant authorization had been granted by the Office of Competition and Consumer Protection. It comprises four sub-funds (as at the end of June 2016, the value of the fund's assets exceeded PLN 127.4 million);
- **Avantage FIZ** established on 26 November 2015. It is the first solution in this group of products offered by the entity, which is dedicated mainly to affluent customers as the minimum investment amount is higher and the investment strategy complex. In February 2016, there was another issue of certificates, as a result of which the fund acquired additional assets totaling PLN 15.3 million (as at the end of June 2016, the value of the fund's assets exceeded PLN 26.2 million).

Since 2015, the entity has been gradually withdrawing the financial instrument portfolio management services offered since 1996, from its offering. The decision was driven by a change in the entity's business strategy and the process is expected to be completed in the fourth quarter of 2016.

The Bank cooperates with TFI BGŻ BNPP as an intermediary under an agreement concluded by the Brokerage Office of Bank BGŻ BNP Paribas S.A. and TFI BGŻ BNPP on 28 January 2015, and distributes units in the funds offered by the entity.

Table 2. Key financial information of TFI BGŻ BNPP

| PLN '000 | 30.06.2016 | 31.12.2015* | 31.12.2014 |
|------------------------------|------------|-------------|------------|
| Balance sheet total | 12 666 | 14 845 | 15 555 |
| Long-term investments | 4 298 | 2 618 | 3 811 |
| Equity | 11 057 | 13 673 | 14 945 |
| including: net profit (loss) | (2 264) | (245) | 1 046 |

* - audited data

The share capital of TFI BGŻ BNPP amounts to PLN 9 048 thousand and is divided into 377 000 shares with the par value of PLN 24.00 each. As at 30 June 2016, its equity totaled PLN 11.06 million and was sufficient to ensure security of the entity's day-to-day operations.



As at 30 June 2016, the AUM of TFI BGŻ BNPP exceeded PLN 472 million, which means a rise by more than three times versus the end of 2015.

Due to a rapid growth observed since mid-2015 (launch of additional products, increased scale of business operations, organizational changes), the entity reported a loss for the first half of the year. Such performance was anticipated under the entity's development plan approved by the Supervisory Board. As the value of AUM of the funds managed by the entity is increasing rapidly, it should generate profits in the subsequent years of its operations.

12.2. BGŻ BNP PARIBAS FAKTORING SP. Z O.O.

BGŻ BNP Paribas Faktoring Sp. z o.o. is part of the global factoring services structure in the BNP Paribas Group, with BGŻ BNP Paribas Bank S.A. as the sole shareholder.

BGŻ BNP Paribas Faktoring is a factoring company active on the Polish market since 2004. It supports the business operations of enterprises, including the corporate customers of the BNP Paribas Group, by offering factoring services, to include recourse factoring, non-recourse factoring and reverse factoring. BGŻ BNP Paribas Faktoring is a member of the Polish Factors Association and Factors Chain International, which is an international association of factoring companies. Its services are dedicated to small, medium-sized and large manufacturing, sales and service companies entering into deferred payment sales transactions. The entity focuses on services addressed to multinational corporations. Thus, it enables the Group to offer an extended and integrated range of financial products. BGŻ BNP Paribas Faktoring opens up the opportunity of cross-sell to corporate and SME customers of the Group.

The share capital of BGŻ BNP Paribas Faktoring amounts to PLN 10.4 million and is divided into 20 820 shares. As at 30 June 2016, BGŻ BNP Paribas Faktoring held assets totaling PLN 1 562.5 million.

As at the end of June 2016, BGŻ BNP Paribas Faktoring was the seventh largest factoring company in Poland in terms of turnover (according to the Polish Factors Association) and its market share was 7.8%.

Table 3. Key financial information of BGŻ BNPP Faktoring Sp. z o.o.

| PLN '000 | 30.06.2016 | 31.12.2015 | 31.12.2014 |
|------------------------------|------------|------------|------------|
| Balance sheet total | 1 562 490 | 1 005 936 | 446 878 |
| Amounts due from customers | 1 454 719 | 912 173 | 413 053 |
| Equity | 15 455 | 12 793 | 12 016 |
| including: net profit (loss) | 5 045 | 2 977 | 1 968 |

12.3. BANKOWY FUNDUSZ NIERUCHOMOŚCIOWY ACTUS SPÓŁKA Z O.O.

The entity was established in 1999 to carry out business including:

- purchase and sale of real property as well as limited property rights;
- construction projects on own and third-party real property;
- intermediation services related to sales of real property and lease of space;
- lease and rental of real property as well as lease of space;
- property valuation, management and advisory services (real estate agency services).

As at 30 June 2016, the entity's investment portfolio comprised undeveloped land in Wrocław-Marszowice, with the area of 46.8468 ha. In accordance with the Local Development Plan, the real property will be used for residential building purposes.

The entity focused on creation of conditions appropriate for the sale of the aforesaid real property. The Municipal Council of Wrocław is processing the entity's application for changes in the Draft Land Development Plan for Wrocław in respect of the Marszowice Malownicze area to make the real property more attractive for prospective investors through the introduction of:

- villas as one of the key elements of the functional and spatial structure of the urban residential and landscape complex;



- changes to the definition of multi-family residential buildings for urban residential units;
- changes to the parameters regarding the recommended size of green areas for multi-family buildings;
- allowing catering outlets on the ground floor of multi-family buildings and in detached buildings.

Table 4. Key financial information of BFN Actus Sp. z o.o.

| PLN '000 | 30.06.2016 | 31.12.2015* | 31.12.2015 |
|------------------------------|------------|-------------|------------|
| Balance sheet total | 54 580 | 54 703 | 55 011 |
| Long-term investments | 54 487 | 54 487 | 54 627 |
| Equity | 8 107 | 8 556 | 10 027 |
| including: net profit (loss) | (486) | (1 527) | (7 273) |

* - audited data

12.4. FORTIS LEASE POLSKA SPÓŁKA Z O.O. IN LIQUIDATION

On 15 February 2014, under an agreement between Fortis Lease Polska Sp. z o.o. (FLP, the entity) and BNP Paribas Bank Polska SA, Fortis Lease Polska was transferred onto BNPP Polska in return for redeemed shares in FLP, which accounted for 99.98% of the share capital of FLP. Thus, the leasing operations of FLP were incorporated into the structure of BNPP Polska.

Pursuant to a Resolution of the Extraordinary Shareholders' Meeting of FLP dated 30 June 2014, the liquidation procedure was opened for the entity on 1 July 2014.

In the first half of 2016, the Company did not carry out any operations but only took measures aimed to close the liquidation procedure.

As at 30 June 2016, the share capital of FLP amounted to PLN 20 thousand and was divided into 2 shares, while total assets amounted to PLN 3 863 thousand.

On 1 July 2016, the entity's Shareholders' Meeting adopted a resolution on its further existence. Consequently, the entity is no longer in liquidation and is getting ready for resumption of its operations. Additionally, the name of the entity was changed to BNP Paribas Leasing Services Sp. z o.o. The procedure of change registration in the National Court Register is underway.

12.5. LASER SERVICES POLSKA S.A.

On 1 December 2015, in line with the declaration made to the Polish Financial Supervision Authority on 28 July 2015 by BNP Paribas S.A., Bank BGŻ BNPP purchased 100% of shares in LaSer Services Polska S.A. from BNP Paribas SA Personal Finance.

The scope of the entity's business activity includes:

- **services auxiliary to insurance brokerage**, consisting in administration and performance of group insurance contracts made by the Bank;
- **financial intermediation services** consisting in:
 - provision of information regarding the terms of loan agreements to applicants,
 - supporting the Bank's customers in completion of loan applications,
 - accepting the documents required by the Bank and filed by customers, verifying them in terms of correctness and completeness and submitting them to the Bank,
 - registering such documents in the Bank's operating system,
 - informing customers of the credit decisions issued by the Bank.
- **accounting and bookkeeping services** to Laser Insurance Polska operating in the BNP Paribas Group;
- **leasing the Avaya telecom platform** used by the Bank's contact center;
- comprehensive **management of loyalty programs**, both for the Bank's related parties and for third parties.



Table 5. Key financial information of LaSer Services Polska S.A.

| PLN '000 | 30.06.2016 | 31.12.2015 | 31.12.2014 |
|------------------------------|------------|------------|------------|
| Balance sheet total | 15 180 | 14 631 | 12 238 |
| Short-term investments | 7 788 | 11 986 | 8 691 |
| Equity | 13 422 | 13 340 | 11 026 |
| including: net profit (loss) | 6 097 | 2 313 | 3 339 |

On 20 June 2016, the Ordinary General Shareholders' Meeting of LaSer Services Polska S.A., made changes to the company's Statute. Also the business name was changed to BNP Paribas Group Service Centre S.A. Registration in the National Court Register is in progress.

13. KEY RISK MANAGEMENT

The Bank identifies, measures, monitors and manages the risks involved in its business operations. In particular, the following risks are identified in the risk monitoring, control and management process:

Risks inherent in the Bank's operations:

- credit risk;
- counterparty risk;
- market risk (identified for the trading portfolio);
- interest rate risk in the banking portfolio;
- liquidity risk;
- operational risk;
- compliance risk;
- break-even risk (business risk);
- reputation risk;
- strategic risk;
- leverage risk;
- model risk.

Key risks identified at the Bank:

- **credit risk;**
- **business risk;**
- **market risk;**
- **interest rate risk in the banking portfolio;**
- **liquidity risk;**
- **operational risk;**

and, considering overlapping risk categories:

- concentration risk;
- contagion risk.

In order to ensure that the aforementioned risks have been identified, defined and are subject to appropriate control and management, the Bank has developed detailed procedures applicable to all risk categories, both at the level of the Bank as a whole and its business functions, which specify the risks and define the applicable limits. All methods and procedures are reviewed periodically in terms of their appropriateness and reliability and subject to validation tests, stress tests as well as back testing. For non-measurable risks, the procedures are analyzed and monitored within the prescribed time limits based on various qualitative methods.

The risk management system of the Bank comprises mainly the Supervisory Board, the Management Board, dedicated committees (Internal Audit Committee at the level of the Supervisory Board, ALCO, Risk Management Committee, Retail Banking Risk Committee, Personal Finance Risk Committee, Credit Committee, Distressed Loan



Committee as well as New Products, Businesses and Organization Committee), Risk Departments, Compliance and Operational Risk Division as well as Security and Continuity of Business (CoB) Department.

The key role in the risk management system at the Bank is fulfilled by the Management Board, which defines the risk policy and adopts the risk management principles in addition to the material risk limit policy and risk control procedures. The risk management principles are derived from the Risk Management Strategy defined by the Management Board and accepted by the Supervisory Board.

13.1. CREDIT RISK

Credit risk is the risk of the Bank incurring a loss due to a failure to discharge obligations within the contractual time limits due to deterioration of the customer's creditworthiness or its loss.

The Bank's credit risk management system has been defined in the *Credit Policy of Bank BGZ BNP Paribas S.A.* adopted by the Management Board. Detailed financing principles and criteria applicable to the product offering of each business line, types of available loans, objectives, financing terms and limits have been defined in the credit policies of each business line. It is the Bank's intention, in accordance with the criteria established in the credit policy, to cooperate with customers enjoying good reputation and a good economic and financial condition.

Additionally, the aforementioned credit policies lay down detailed principles applicable to risk identification, measurement and acceptance, collateral securing repayment of the loan as well as customer monitoring during the term of the loan agreement.

The organization of the credit risk management process is brought into line with the business line structure at the Bank. A central role in the credit risk management system is performed by Risk, which is an organizationally separate unit managed by a Member of the Management Board acting in the capacity of the Chief Risk Officer. Credit risk management activities are supported by the Risk Management Committee as well as the Retail Banking/Personal Finance Risk Committees.

The obligors' credit risk is assessed using rating and scoring classification systems in addition to the risk classification standards defined in IFRS.

Credit decisions are adopted in accordance with the decision-making model approved by the Management Board of the Bank and brought into line with the standards imposed by the BNP Paribas Group. The decision-making model takes into account the structure of the business lines, determines the number of decision levels, the scope of their competence as well as the principles, criteria and conditions to be satisfied in the credit decision-making process. The value thresholds for the decision-making competence depend on such criteria as the customer segment, risk profile and the tenor. At each competence level, credit decisions are taken by two employees (two-man rule), namely a representative of the business line and a representative of the organizational unit responsible for customer and transaction risk assessment performed independently of the business line. For customers whose credit risk assessment is performed in accordance with simplified risk assessment principles or models, including scoring models approved by the Risk Management Committee or the Retail Banking/Personal Finance Risk Committees, credit decisions may be taken by one representative of the business line.

Credit risk management principles adopted by the Bank:

- each credit transaction requires comprehensive credit risk assessment expressed in internal rating or scoring;
- in-depth and careful financial analysis serves as the basis for regarding the customer's financial information and collateral-related data as reliable; prudential analyses performed by the Bank always take into account a margin of safety;
- as a rule, financing is provided to the customer based on its ability to generate cash flows that ensure payment of its liabilities to the Bank;
- the credit risk assessment is additionally verified by credit risk assessment personnel, independent of the business;
- the 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 customer and the transactions made with the customer are monitored transparently from the perspective of the customer, in a manner that strengthens the relationship between the Bank and the customer.

The Bank's subsidiaries

The principles of the Bank's supervision over credit risk generated by the operations of its subsidiaries have been laid down in the *Credit Policy of Bank BGŻ BNP Paribas S.A.*

The Bank issues recommendations and opinions as well as accepts the policies, principles and methodologies used by its subsidiaries in the credit risk management process.

The Bank and the subsidiaries use in parallel credit risk management methods including:

- a rating system for Corporate, SME and Agro customers;
- a risk classification system in accordance with IFRS;
- creditworthiness assessment for the shared customers of the Bank and its subsidiaries;
- the credit decision-making model;
- a system of the Bank's internal concentration risk limits, comprising limits for the portfolios of receivables of the subsidiaries.

13.2. LIQUIDITY, CURRENCY AND INTEREST RATE RISK

Liquidity risk is defined as the risk of the Bank losing the ability to discharge its financial obligations, where liquidity is defined as the ability to:

- finance assets and discharge the Bank's obligations on a timely basis in the course of its day-to-day operations or in other conditions, without the necessity to incur a loss, whereas, as maintenance of liquidity is the Bank's top priority, optimization of liquidity costs is considered in the last place;
- secure alternative funds and funds supplementary to those held at present if they are withdrawn early and/or not renewed, so as to meet the current or potential demand for funds from the current depositors, ensure sufficient resources for purposes of lending and discharging other potential obligations related to processing derivative transactions or collateral put up by the Bank;
- generate a positive balance of cash flows over a specified time horizon, regardless of macroeconomic developments, achievement of business plans and changes in the regulatory environment.

Interest rate risk is the risk of adverse changes in the Bank's financial performance or equity, driven by one of the following factors:

- changes in the repricing dates of the Bank's assets and the liabilities used for purposes of their financing (mismatch risk);
- changes in basis rates used for purposes of determining the interest rate for items with the same repricing dates (basis risk);
- changes in market rates of interest which affect the fair value of the Bank's open positions (interest rate risk); or
- customers exercising options embedded in banking products, which may be exercised as a result of changes in the market rates of interest (option risk).

Currency risk is the risk of adverse changes in the Bank's financial performance, driven by changes in market foreign exchange rates.

Liquidity, currency and interest rate risk is monitored using a formal system of limits and reports, implemented as part of dedicated risk management policies, accepted at the level of the Bank's Management Board. The system of limits comprises the majority of liquidity, currency and interest rate risk parameters analyzed by the Bank.



The limits are defined with a view to ensuring that:

- the desirable risk profile, as defined in the strategy adopted by the Bank, is maintained;
- they do not exceed the risk level acceptable to the BNP Paribas Group;
- the Bank satisfies the applicable supervisory requirements at a secure and optimum level.

If a limit is exceeded, the unit responsible for maintaining the reported values below the limit is obliged to employ measures enabling reduction of the risk value in accordance with the procedures in place at the Bank. The information system used for purposes of risk management ensures collection of data concerning operations and transactions, along with their effect on the Bank's risk profile.

In its risk analyses, the Bank relies on scenario analyses and stress tests. The said analyses are based both on theoretical changes in market and business parameters as well as customer behavior, and actual market changes in the past.

The risk management policy of the Bank is aimed at ensuring that the employees in charge of risk management process supervision and handling have extensive practical experience and theoretical knowledge about the tasks performed, in addition to high morale. The procedures in place at the Bank enable control over correctness of task fulfilment.

The Bank's policy is based on the principle that the functions of business (direct entry into transactions), operations (transaction booking and clearing) and control functions (risk measurement and monitoring) forming part of the currency, interest rate and liquidity risk management process are fulfilled by separate, organizationally independent units. The scopes of their responsibilities are clearly defined to determine their role and accountability in the risk management process. This enabled separation of business, control, risk reporting and operational functions in order to guarantee appropriate quality of risk control and operational processes in addition to ensuring that the results of control indicating that the risk level is too high generate appropriate response of the Bank's management.

The Bank has adopted risk control and management policies that determine the measures to be employed in crisis situations. They define the principles of crisis identification, the scope of measures to be employed as well as responsibilities necessary to mitigate the related risk and to implement corrective actions.

Liquidity risk

The Bank operates in a free-market environment and is a participant in financial markets, specifically the retail, corporate and interbank markets, which offers a wide range of opportunities to control the liquidity level but makes the Bank sensitive to crises in each of such environments at the same time.

The following types of liquidity are distinguished by the Bank:

- immediate liquidity – present day;
- future liquidity – beyond the present day, broken down into:
 - current liquidity – within 7 days;
 - short-term liquidity – more than 7 days to 1 month;
 - medium- and long-term liquidity – over 1 month.

Liquidity risk is defined as the risk of the Bank losing its ability to:

- fulfil its payment obligations on a timely basis;
- secure alternative funds and funds supplementary to those held at present;
- generate a positive balance of cash flows within a defined time horizon.

The Bank's strategy focuses on:

- sustainable, organic growth of the balance sheet (an increase in the value of assets has to be linked with a corresponding rise in the level of financing with the use of stable equity and liabilities) as well as off-balance sheet transactions and liabilities;
- limitation of the Bank's dependence on changes in external conditions and ensuring that in a local, global or Bank-affecting crisis the Bank will quickly be able to discharge its obligations without reducing the range of its services or initiating changes in its core business profile. If a crisis situation continues in the longer term, the Bank's strategy focuses on maintenance of liquidity with possible changes in growth directions and introduction of costly business profile change processes;



- active limitation of the probability of adverse events which may have an effect on the Bank's liquidity. In particular, this concerns events which may affect reputation risk. In such case, the Bank will employ measures aimed at restoring confidence of both customers and financial institutions as soon as practicable;
- ensuring high quality of liquidity management standards. Actions aimed at improving the quality of liquidity management at the Bank are its top priority.

Amounts due to customers, medium- and long-term lines of credit and equity are the major sources of funding used by the Bank. Medium- and long-term lines of credit, including subordinated loans, are provided mainly by the BNP Paribas Group, the European Bank for Reconstruction and Development and the European Investment Bank.

The BNP Paribas Group guarantees stable sources of funding in foreign currencies (such as CHF and EUR) and in PLN. The policy adopted by the Bank allows it also to use other sources of funding, to include own debt securities issue or structured transactions (securitization).

Loan financing structure

The Bank's loans are financed mainly with the use of current and term deposits made by customers and it is the Bank's intention to maintain a stable relationship between these items. Funds deposited in the accounts of non-banking institutions are also used for that purpose.

Table 6. Loan portfolio financing structure

| PLN million | 30.06.2016 |
|---------------------------------|---------------|
| Net loans | 53 676 |
| Total sources of funding | 61 949 |
| Customer deposits, including: | 51 853 |
| - other financial institutions | 3 874 |
| - individual customers | 25 703 |
| - corporate | 20 869 |
| - budget entities | 1 407 |
| Long-term lines of credit | 9 702 |
| Debt securities issued | 394 |

The Bank's loans in foreign currencies are financed with the use of customer deposits and - in their absence - medium- and long-term loans from the BNP Paribas Group, which provides stable funding to address such shortages in EUR, USD and CHF. This concerns, in particular, the CHF home loan portfolio, for which a stable level of funding has been secured by the Bank. As at 30 June 2016, the structure of open long-term lines of credit was as follows:

Table 7. Structure of loans from the BNP Paribas Group

| million | 30.06.2016 |
|---------|------------|
| CHF | 1 341 |
| EUR | 188 |
| PLN | 2 589 |

**Table 8. Structure of loans from EBRD and EIB**

| million | 30.06.2016 |
|---------|------------|
| EUR | 84 |
| PLN | 451 |

Currency risk

The Bank's operations result in the occurrence of currency positions which are sensitive to changes in foreign exchange rates. At the same time, it is the Bank's intention to limit its exposure to currency risk resulting from the FX products offered to customers. The Bank's activity on the foreign exchange market is limited and carried out with a view to generating a profit on short-term arbitrage positions.

The Bank's exposure to market currency risk is reduced through a system of limits. In accordance with the Bank's policy, the level of market currency risk is managed by the Financial Markets Division, which focuses on the intraday position and the end of day position. In order to ensure effective and precise currency position management, the Bank relies on an information system which provides up-to-date information concerning:

- the currency position;
- the global currency position;
- Value at Risk (VaR);
- daily gains/losses on currency position management.

The global currency position and VaR are limited and reported at day-end by the Financial and Counterparty Risk Department.

The Bank's currency risk is measured using Value at Risk (VaR), which denotes the change in the market value of an asset or an asset portfolio with specific assumptions concerning the market parameters, at a specific time and with defined probability. For purposes of currency risk monitoring, it is assumed that VaR is determined with a 99% confidence level. VaR calculation for currency risk is based on the assumption that currency positions are held for one day. The quality of the VaR methodology is analyzed on a quarterly basis. The test involves a comparison of the forecast figures and those determined on the basis of actual changes in foreign exchange rates, assuming that the currency position is maintained (back-testing). The comparative period covers the last 250 business days. The VaR model was back-tested in 2016 and the verification did not identify the necessity to make any adjustments.

Interest rate risk in the banking portfolio

The core business of the Bank, i.e. lending and accepting customer deposits, results in the occurrence of open interest rate risk positions, which are transferred from the business lines to a portfolio managed by ALM Treasury using a transfer pricing system. The following basic types of interest rate risk analyses are defined in the policy adopted by the Bank:

- a mismatch between the repricing dates of assets and liabilities ("gapping"), collectively and by the main currencies;
- sensitivity of interest income to defined – expected and crisis – yield curve scenarios, assuming different yield curve scenarios, where EaR is the difference between the highest and the lowest result relative to the base result (determined by reference to market rates);
- One Year Equivalent (OYE) – a measure of sensitivity of the fair value of the balance sheet, expressed as the nominal value of the annual transaction (item) with the same sensitivity.

The aforesaid analyses are the major component of the system used for purposes of mitigating the interest rate risk in the banking book. The analyses are performed for the relevant portfolios on a daily, monthly or quarterly basis, depending on the type of analysis and the portfolio. Additionally, the Bank conducts sensitivity analyses for its banking portfolio, where the changes in interest rates are more considerable than those typically observed (stress tests).



The table below presents the use of the interest rate gap limit as at 30 June 2016.

Table 9. Interest rate gap (PLN million)

| Term | Interest rate gap limit | | Gap |
|------|-------------------------|---------|--------|
| | Minimum | Maximum | |
| 1M | -5 854 | 8 303 | 49 |
| 3M | -7 075 | 7 819 | 3 223 |
| 6M | -7 939 | 6 836 | 2 348 |
| 1Y | -9 733 | 5 369 | 294 |
| 2Y | -12 901 | 2 937 | -1 059 |
| 3Y | -15 513 | 800 | -1 142 |
| 5Y | -4 010 | 622 | -576 |
| 10Y | -1 055 | 482 | -671 |

13.3. COUNTERPARTY RISK

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

As at 30 June 2016, the counterparty risk was calculated for the following types of transactions contained in the trading portfolio of the Bank: foreign exchange transactions, interest rate swap transactions, FX options, interest rate options and commodity derivatives.

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

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

In the first half of 2016, the Bank's exposure to counterparty risk in the corporate segment went up by 8% while the exposure to banks decreased by 9%.

13.4. COUNTRY RISK

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

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

As at 30 June 2016, treasury transactions (including deposits and derivatives) represented 36.1%, foreign lending operations of the Bank accounted for 34.6%, international trade transactions for 29% and derivative transactions entered into with foreign corporate customers represented 0.3% of the Bank's country risk exposure.



France accounted for 42%, Belgium for 20% and the Netherlands and Germany for 11% of the exposure each. The remaining exposure was related to Senegal, UK and Switzerland.

13.5. 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 management at the Bank. Operational risk management consists in employment of measures aimed at operational risk identification, analysis, monitoring, control, reporting and mitigating in addition to implementation of corrective actions. Such measures take into account the structures, processes, resources and scopes of responsibilities for the said processes at various organizational levels within the Bank. 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 the recommendations and resolutions of the national financial supervision authorities and the standards adopted by the BNP Paribas 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 day-to-day control;
- counteracting an elevated level of operational risk, to include risk transfer;
- calculation of the capital requirement related to 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 day-to-day 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 (CoB) Department focuses on management of continuity of business.

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 operations, in addition to court and administrative proceedings which affect the Bank. The Compliance Department is responsible for day-to-day compliance risk analysis as well as development of appropriate risk control techniques and their improvement.

Considering the elevated level of external and internal risks related to fraud and offence 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 the responsibility of the Fraud Management Department.



Risk identification and assessment. 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 Policy*, operational risk analysis is aimed at acquiring an understanding of the interdependence between the risk generating factors and operational event types, and it is performed primarily with the objective to define the operational risk profile.

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

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

Internal control system. The internal control system principles have been formulated in the *Internal Control Policy of the Bank*, which was approved by the Management Board of the Bank and accepted by the Supervisory Board. The said document lays down the key principles, defines the organizational framework and establishes the standards of the Bank's internal control environment. The Bank's internal control objectives are, in particular, improvement of efficiency of controls as part of a uniform, effective internal control system based on three control levels, as well as improvement of the process of the Bank responding to identified internal control inefficiencies and raising the risk awareness in the organization. The Bank's management is involved in the process of ensuring and confirming the efficiency of the key processes and controls.

Functional control is exercised in accordance with the Functional Control Rules.

Control and monitoring. The Bank monitors periodically 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.

Reporting and transparency of operations. The capital requirement necessary to cover the Bank's operational risk is calculated using the standardized approach (STA) for the Bank and the basic indicator approach (BIA) for the subsidiaries.

The Bank's subsidiaries

In accordance with supervisory regulations, the Bank oversees the operational risk involved in the business activity of its subsidiaries. Oversight is exercised through:

- the Bank's involvement in development and modification of the operational risk management principles adopted by its subsidiaries;
- the Bank's provision of subject-matter support related to operational risk management methods;
- the Bank's representatives' involvement in selected initiatives related to operational risk management at the subsidiaries;
- verification of compliance of the subsidiaries' operational risk management with the strategy and policy of both the Bank and the BNP Paribas Group.

In pursuit of the strategy and operational risk policy, the subsidiaries cooperate with the Operational Risk Department, which ensures that supervision measures applicable to operational risk management in the Group are employed.

**13.6. LEGAL RISK**

As at 30 June 2016, no proceedings had been instituted before courts, arbitration or public administration bodies with respect to the Bank's receivables or liabilities, the value of which would exceed 10% of the Bank's equity.

As at 30 June 2016, the total value of the litigation initiated against the Bank (except adverse claims) was PLN 114 033 131.84. The total value of the litigation initiated by the Bank was PLN 302 916 586.83.

Court decision regarding calculation of 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.

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

As at 30 June 2016, the Bank was a defendant in eight court cases brought by 86 individuals in total for acknowledgment of invalidity of CHF denominated mortgage loan agreements on the grounds that the loan granted by the Bank was in PLN without denomination in a foreign currency or for damages on grounds of the Bank's abuse of the subjective right, including the rules of social co-existence and misinforming the customer. According to the aforesaid individuals, they were not informed of currency risk by the Bank's representatives prior to their entry into CHF loan agreements.

The total value of the claims is PLN 27.8 million. It should also be emphasized that in two similar cases against the Bank, which have recently been closed, the petitions filed by the customers have been dismissed by courts with the force of law.



14. GROWTH PROSPECTS OF THE CAPITAL GROUP OF BANK BGŻ BNP PARIBAS S.A.

In accordance with the growth strategy of the BNP Paribas Group, with a view to ensuring full integration of the services provided on the Polish market, during the past two years three banks were merged, namely Bank BGŻ - a leader in the agri-food sector, with a tradition of almost a century on the Polish market, BNP Paribas Bank Polska - with extensive experience in serving large enterprises and multinational corporations, and Sygma Bank Polska - one of the leading institutions on the consumer credit market, specializing in supporting retail chains by provision of financial services, credit cards, installment loans and cash advances.

The process of consolidation of the aforesaid banks also entails fulfillment of investor obligations to the Polish Financial Supervision Authority, assumed by the BNP Paribas S.A. Group upon the purchase of shares in BGŻ S.A.

The merger of three complementary organizations enabled the establishment of a financial institution willing to become the leading integrated universal bank in Poland, which combines top-quality service with operational efficiency and profitability of operations. The Bank's share in the loan market reached the level of 5% and in the deposit market it exceeds 4%, which makes the Bank the seventh largest bank in Poland in terms of the asset value.

Completion of the operational integration of the banks will serve as the basis for effective implementation of the Strategy. Services to customers are provided under a single brand - BGŻ BNP Paribas. However, achievement of the strategic objectives of the Bank will only be possible after completion of the operational merger, including migration of all customers to one IT system (the customers of BGŻ and BNPP Polska by the end of 2016, while the customers of Sygma Bank Polska in the first half of 2017) and standardization of the expanded product offering, which will close the integration process.

In April 2016, the Management Board of the Bank adopted the Bank's revised Growth Strategy for 2016-2018.

The following objectives should be achieved by 2018 on the assumption of stable economic growth:

- over 5% share in the loan and deposit market;
- efficiency improvement, both as a result of cost synergies related to the integration of the banks and increased revenue;
- a 14% increase in the net banking income measured by the compound average growth rate between 2015 and 2018, resulting from implementation of new initiatives in all business lines;
- a reduction of the cost/income ratio from 74% in 2015 (less integration costs) to ca. 55% in 2018;
- an increase in ROE to ca. 10%.

The Bank is planning to base its growth on four pillars:

- a focus on the customer – being close to customers thanks to a branch network, mainly in small and medium-sized towns. A focus on selected retail customer groups as well as selected sectors and industries in corporate banking and SME. Strengthening the leading position in the agri-food sector;
- supporting corporate customers in their expansion abroad with the use of the potential of the BNP Paribas Group present in 74 countries worldwide;
- transformation of a universal bank into an integrated bank to increase cross-sell, offer services related to any aspect of operations, both for selected customers and industries;
- development of electronic and mobile banking to compete with the best players on the market.

Integration of Sygma Bank Polska with the structure of Bank BGŻ BNP Paribas is an important step in Strategy implementation. The merger enabled the Bank to expand the range of its consumer finance products. The integrated consumer finance products (installment loans, cash advances, car loans, credit cards as well as partner and loyalty programs) ensure comprehensiveness of the Bank's offering in this area, in addition to increasing the scale of its operations and improving its competitive advantage. The share of Bank BGŻ BNP Paribas in the market of credit cards went up to 13% as a consequence of the merger (the second position on the market).



The customers of the former Sygma Bank Polska have gained access to a wider range of banking products and the distribution network of Bank BGŻ BNP Paribas. On the other hand, the Bank has been able to incorporate 140 Customer Service Points of the former Sygma Bank Polska into its sales network.

The effects of synergies of the merger of BGŻ with BNPP Polska should reach PLN 350 million in 2017 (including PLN 258 million of cost synergies) as compared to total restructuring costs of ca. PLN 440 million over a 3-year period. Additionally, the Bank expects that the synergies related to the merger of BGŻ BNPP with Sygma Bank Polska will reach the level of PLN 86 million in 2018 (including cost synergies of PLN 31 million).

Considering the challenges facing the financial sector, in response to the external conditions and new regulatory requirements, one of the strategic priorities defined by the Bank is pro-active capital management with a view to ensuring sustainable and profitable growth in addition to maintaining a prudential risk profile.

In accordance with the Strategy, the Bank intends to further strengthen its presence and increase its market share in all major areas of its operations. Reinforcing the current leading position in the agri-food sector, using the leader's position in consumer credit and establishing model banking solutions dedicated to large enterprises and multinational corporations in Poland while drawing on the global experience of the BNP Paribas Group are the key areas of the business expansion of Bank BGŻ BNP Paribas in the near future. Identification of the sources of competitive advantage, optimization of the range of products offered and elimination of redundant distribution chain links will contribute to an increase in profitability and enable the Bank to expand its operations onto new areas and new customers, thus ensuring sustainable growth. This will be supported by quick adaptation to the competitive environment, efficient knowledge management as well as effective use of the synergies and diversity brought by the employees of the BNP Paribas Group.

As a result of the merger, once the expected synergies have been achieved from complementarity, increased scale of operations and process improvement, the Bank expects that its key operating ratios and financial efficiency will improve. Those benefits will depend on the effectiveness of the merger of the institutions and the ability to achieve the desired effects of the banks' operational integration.



15. MAJOR EVENTS AFTER THE END OF THE REPORTING PERIOD

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- 14.07.2016** Registration of amendments to the Statute of Bank BGŻ BNP Paribas S.A., adopted by the General Shareholders' Meeting on 9 June 2016 in the National Court Register.
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- 09.08.2016** Position of the Polish Financial Supervision Authority dated August 8, 2016 on the amount of the additional requirement concerning the equity of Bank BGŻ BNP Paribas in relation to a buffer of another institution of systemic importance – received by the Bank on August 8, 2016.
-
- 18.08.2016** Decision of the Financial Stability Committee dated August 10, 2016 on issuance of a positive opinion on identification of Bank BGŻ BNP Paribas S.A. by the Polish Financial Supervision Authority as other systemically-important institution and on imposing a buffer of other systemically-important institution on Bank BGŻ BNP Paribas S.A. – received by the Bank on August 17, 2016.
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16. REPRESENTATIONS OF THE MANAGEMENT BOARD OF BANK BGŻ BNP PARIBAS S.A.

Fairness and reliability of the presented financial statements

The Management Board of Bank BGŻ BNP Paribas S.A. hereby represents that to the best of its knowledge:

- the Consolidated Interim Report of the Capital Group of Bank BGŻ BNP Paribas S.A. for the period of 6 months ended 30 June 2016 and the comparative data have been prepared in conformity with the applicable accounting principles and they reflect, truly, fairly and clearly, the economic and financial position of the Capital Group of the Bank as well as its financial performance in all material respects.
- the Management Board's Report on the Activities of the Capital Group of Bank BGŻ BNP Paribas S.A. in the first half of 2016 gives a true view of the development and achievements as well as the position of the Capital Group of the Bank, including a description of the key risks and threats.

Appointment of the entity authorized to audit financial statements

The Management Board of Bank BGŻ BNP Paribas S.A. hereby represents that Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Warsaw, an entity authorized to audit financial statements, was appointed under Section 20.1.1g) of the Statute of Bank BGŻ BNP Paribas S.A. by the Supervisory Board of the Bank (Resolution of the Supervisory Board No. 79/2015 of 11 June 2015) in accordance with the laws in force, as the entity responsible for reviewing the consolidated financial statements of the Capital Group of Bank BGŻ BNP Paribas S.A. for the period of 6 months of 2016; and that the said entity and the certified auditors conducting the review satisfy the conditions to issue an unbiased and independent report on the review, in accordance with the applicable Polish laws.

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

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|------------|---|--------------------|
| 29.08.2016 | Tomasz Bogus <i>President of the Management Board</i> | signature |
| 29.08.2016 | Daniel Astraud <i>Vice-President of the Management Board</i> | signature |
| 29.08.2016 | François Benaroya <i>Vice-President of the Management Board</i> | signature |
| 29.08.2016 | Philippe Paul Bézieau <i>Vice-President of the Management Board</i> | signature |
| 29.08.2016 | Blagoy Bochev <i>Vice-President of the Management Board</i> | signature |
| 29.08.2016 | Jan Bujak <i>Vice-President of the Management Board</i> | signature |
| 29.08.2016 | Wojciech Kembłowski <i>Vice-President of the Management Board</i> | signature |
| 29.08.2016 | Magdalena Legęć <i>Vice-President of the Management Board</i> | signature |
| 29.08.2016 | Jaromir Pelczarski <i>Vice-President of the Management Board</i> | signature |
| 29.08.2016 | Jerzy Śledziewski <i>Vice-President of the Management Board</i> | signature |
| 29.08.2016 | Bartosz Urbaniak <i>Member of the Management Board</i> | signature |