



**MANAGEMENT REPORT
ON THE ACTIVITIES
OF BANK BGŻ BNP PARIBAS S.A.
IN 2015**



BGŻ BNP PARIBAS

Bank zmieniającego się świata



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1. BANK BKG BNP PARIBAS S.A.

Bank BKG BNP Paribas S.A. (hereinafter referred to as the “Bank”, “BKG BNPP”) operates within **BNP Paribas**, a leading multi-national financial group present in **75 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, the BNP Paribas Group operates on four domestic markets (Belgium, France, Italy and Luxembourg) and is a leader in consumer lending (BNP Paribas Personal Finance). BNP Paribas Group is rolling out its integrated retail-banking model in Mediterranean countries, in Turkey, in Eastern Europe and a large network in the western part of the United States. In its Corporate & Institutional Banking and International Financial Services activities, BNP Paribas also enjoys top positions in Europe, a strong presence in the Americas as well as a solid and fast-growing business in Asia-Pacific region.

Mission of Bank BKG BNP Paribas S.A.

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

Vision of Bank BKG BNP Paribas S.A.

Bank BKG BNP Paribas S.A. is universal bank with a full product offer intended for international and domestic corporations, SME, farmers and individual clients, present in local communities. The Bank’s goal is to reach over 5% market share as well as profitability and efficiency as top five banks.

Objectives of Bank BKG BNP Paribas S.A.

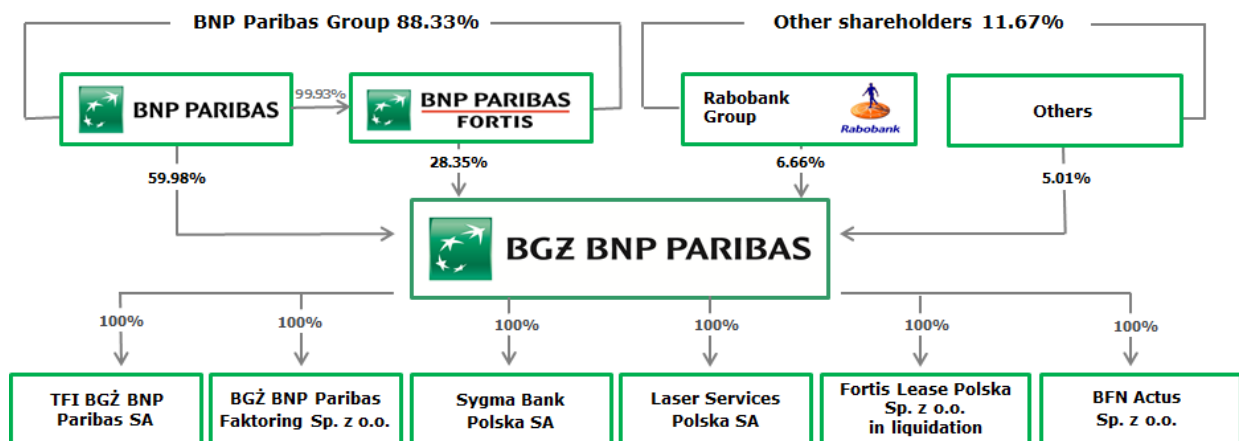
- further growth on Polish market as well as being No. 1 in the food and agricultural segment, being a leader in the consumer loan segment and a strong player in the large companies and international corporate sector;
- close and long term relationships with our clients;
- building a versatile bank for international and local corporations, SME, food and agricultural sector and individual customers;
- the branch network allowing for close contact with the client, with a focus on small and medium-sized cities, offering cutting-edge solutions and banking products;
- strong local bank with international reach supporting further growth of Polish economy;
- want to become one of the five largest banks in Poland managed mainly by Polish staff.

**1.1. THE CAPITAL GROUP OF BANK BGŻ BNP PARIBAS S.A.**

Composition of the Group as at 31 December 2015:

Bank BGŻ BNP PARIBAS S.A. (henceforth: the “Bank”, “BGŻ BNPP”) – the parent, and six 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
Syigma Bank Polska S.A. (“Syigma”)	originating consumer loans	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 legal merger of Bank Gospodarki Żywnościowej S.A. (“Bank BGŻ”) and BNP Paribas Bank Polska S.A. (“BNPP Polska”) was completed. The legal merger was preceded by decisions of the supervision authorities.

- On 9 April 2015, the Polish Financial Supervision Authority (PFSA):
 - issued a consent for the merger of Bank BGŻ (as the acquirer) and BNPP Polska (as the acquiree) through the transfer of all assets, equity and liabilities of BNPP Polska onto Bank BGŻ (merger); and
 - decided that there were no grounds for voicing an objection against the intention of Bank BGŻ to purchase directly the shares in TFI BNP Paribas Polska S.A., the number of which is sufficient to exceed the threshold of 50% of votes at the General Meeting.
- On 10 April 2015, BNP Paribas Fortis SA/NV obtained the decision of the European Central Bank, issued as part of the Single Supervisory Mechanism, whereby a consent for the planned merger of Bank BGŻ and BNPP Polska was granted.
- On 23 April 2015, the Polish Financial Supervision Authority granted its consent for amendments to the Statute of Bank BGŻ made in relation to the merger.



- 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.

- On 6 May 2015, the Management Board of the National Depository for Securities adopted a resolution concerning conditional registration of 28,099,554 I series ordinary bearer shares in the merged Bank, with the par value of PLN 1.00 each, with the securities depository. The Management Board of the National Depository for Securities set 7 May 2015 as the reference date, i.e. the date when the title to the shares in BNPP Polska to be converted in connection with the banks' merger was confirmed. Additionally, the Management Board of the National Depository for Securities decided to assign ISIN code PLBGZ0000010 to the merger shares upon their registration. The merger shares were registered with the depository on 18 May 2015, after the Management Board of the Warsaw Stock Exchange (WSE) had adopted a decision on their introduction to trading on the regulated market.
- On 12 May 2015, the Management Board of WSE adopted a resolution concerning admission of I series, ordinary bearer shares in BGŻ BNP Paribas S.A. and their introduction to trading on the Main Market of WSE and to reintroduce the shares in the merged Bank to trading as of 18 May 2015, as well as exclusion of the shares in BNPP Polska from trading on the Main Market of WSE.

Purchase of shares in Sygma Bank Polska S.A. and LaSer Services Polska S.A. (LSP), the planned merger of the Bank with Sygma Bank Polska

Following the BNP Paribas Group (BNP Paribas Personal Finance Group) taking full control of LaSer Group, the BNP Paribas Group commenced reorganization of LaSer operations in individual countries, in line with the development strategy adopted by 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, and
- 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.

Sygma Bank Polska and LSP joining the Bank's Capital Group has contributed to the extension of the range of products offered by the Bank on the Polish consumer finance market.

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”). The Merger shall be carried out pursuant to Article 492.1.1 of the Code of Commercial Companies through the transfer of all assets, equity and liabilities of Sygma Bank Polska as the acquiree onto the Bank as the acquirer.

As a result of the Merger, the Bank will assume all the rights and obligations of Sygma Bank Polska, which will be wound up without a liquidation procedure as of the date of entering the Merger into the register kept by the court competent for the registered office of the Bank. Following the Merger, the Bank will operate under the name “Bank BGŻ BNP Paribas Spółka Akcyjna”. The planned legal Merger shall follow the obtaining of required permits, to include consents for the Merger issued by supervisory bodies, while the full operational integration is planned for the first half of 2017.

The key objective of the planned merger of the Bank with Sygma Bank Polska is to create a larger and more versatile bank, offering its customers with a wider range of consumer finance products. The merger of the Bank with Sygma Bank Polska is expected to bring benefits to both banks, their clients and shareholders (including minority shareholders of the Bank). Further, the banks will achieve the following objectives:

- enhance their competitive position on the retail banking market;
- extend their product offer;
- extend the sales network;
- increase capital;
- benefit from the synergy effects.

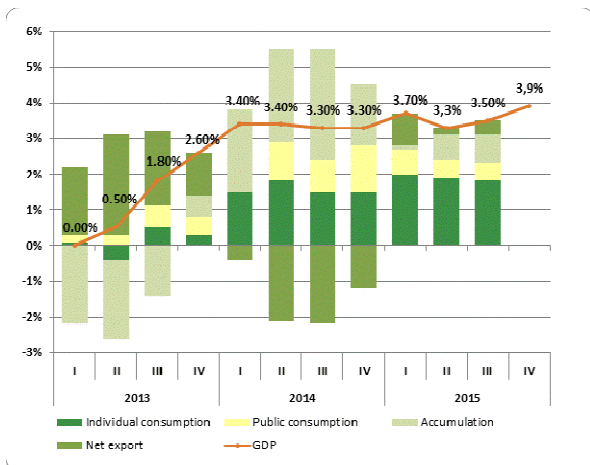
2. EXTERNAL FACTORS AFFECTING THE BANK’S OPERATIONS IN 2015

2.1. MACROECONOMIC CONDITIONS

In 2015 economic growth accelerated to 3.6% YoY vs. 3.3% YoY a year before. According to preliminary estimates of GDP growth for Q4, it might have reached even 3.9%. This has been the fastest growing rate since 2011. Domestic demand remained the key factor contributing to the growth rate. In the first three quarters of the year, its contribution to the overall growth rate reached 3.0 p.p., which meant a decrease vs. 4.8 p.p. achieved in the previous year. At the same time, foreign trade contribution increased to 0.5 p.p. vs. -1.5 p.p. in 2014, mainly due to gradual upturn in the eurozone, among others related to the Quantity Easing (QE) Program introduced by ECB in March 2015 and devaluation of PLN observed since Q2 2015.

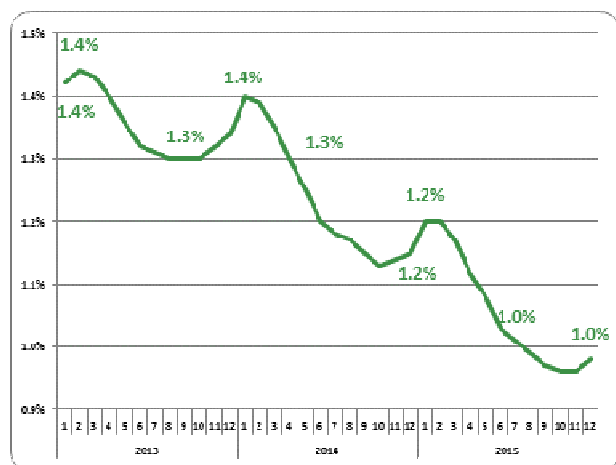
The good standing of the domestic demand resulted mostly from a strong labor market, where employment in the enterprise sector increased by 1.3% to 5.68 million people. At the same time, remuneration growth in this sector reached 3.5%, which was a particularly good result compared to the negative growth in prices in the same period. A substantial decrease in registered unemployment rate was another illustration of the labor market improvement. In the period from December 2014 to December 2015 it decreased by 1.7 p.p. to 9.8%.

Chart 1. GDP growth YoY



Source: Central Statistical Office

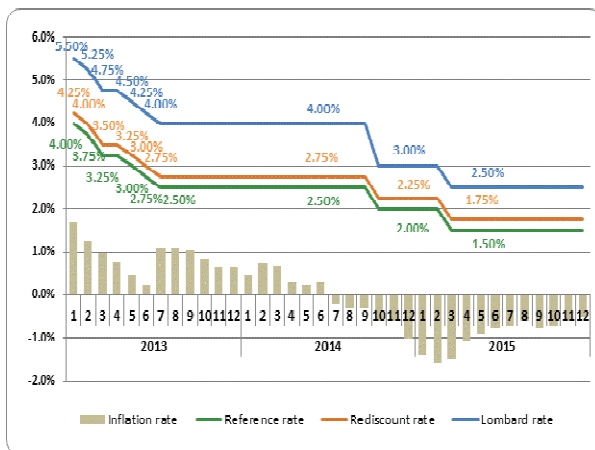
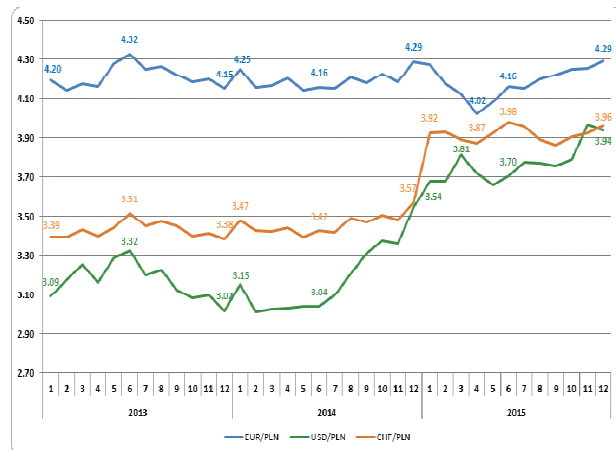
Chart 2. Registered unemployment rate





The accelerated GDP growth was not accompanied with a reverse trend concerning prices. The average annual CPI growth index decreased during the year even to -0.9% YoY from 0.0% in 2014. Deflation pressure (-1.5% YoY) accumulated in Q1 2015 with the decrease in prices gradually slowing down in subsequent quarters. Dropping prices of fuel, food and beverages have remained a factor contributing to the deflation pressure. Due to draught and PLN devaluation the drops in food prices visibly slowed down during the year, and in Q4 even a slight YoY price increase was observed (by 0.1%).

A growth in the deflation pressure in the beginning of 2015 made the Monetary Policy Council to decrease interest rates by 50 b.p. to the level of 1.5% in March 2015. Good economic performance and the base inflation remaining positive made the Monetary Policy Council refrain from further adjustments to cost of money, which was supported by the expected reversal of the deflation trends within the monetary policy activity horizon.

Chart 3. Inflation and interest rates**Chart 4. PLN exchange rate**

Source: Central Statistical Office and National Bank of Poland

The resignation from further reduction of interest rates and gradual deflation slowdown beginning from Q2 2015 resulted in further devaluation of Polish treasury bonds. Having achieved the minimum of nearly 2% in the beginning of the year, the yield curve of ten-year domestic debt securities increased to nearly 3% at the end of December 2015, partly due to the expected first increase in interest rate by FED, which actually took place in December 2015, and small impact of the European QE on the prices of Polish debt securities. Further, a general uncertainty growth regarding international economic standing, in particular on the emerging markets, negatively affected the debt market. Such factors as growing uncertainty regarding the Chinese economy, the migration crisis in Europe and the escalating war against the Islamic State enhanced the impact. An increase in the risk premium resulting from uncertainty regarding the economic policy after the parliamentary elections in Poland additionally contributed to the yield increase.

The growing uncertainty on financial markets translated into frequent fluctuations in forex rates. On 15 January 2015, the PLN exchange rate plummeted following the decision to resign from maintaining the minimum CHF/EUR exchange rate announced by the National Bank of Switzerland. PLN/USD rate was decreasing continuously throughout the year due to the expected increase in interest rates. PLN/EUR exchange rate increased in the beginning of the year due to the expected increase in the prices of treasury bonds resulting from the QE program. At the end of April 2015, the decreasing trend in EUR/PLN rate was stopped by concerns regarding Grexit. These concerns resulted in capital outflow from the bonds market and a regular decrease in the PLN exchange rate. The trend lasted until the end of 2015, albeit with some breaks. In December 2015, though, the average monthly PLN/EUR exchange rate increased by mere 1.6% vs. December 2014. The annual rate of depreciation of PLN towards USD amounted to 15.0% (the average December-to-December interest rate), while in relation to CHF it reached 12.8%.

2.2. PERFORMANCE OF THE BANKING SECTOR

According to preliminary data published by the Polish Financial Supervision Authority, in 2015 the net profit of the Polish banking sector dropped by 27.6% YoY to the level of PLN 11.5 billion (as compared to PLN 15.9 billion in 2014). The deterioration resulted from an increase in general administration expenses (by PLN 3.0 billion, i.e.



24.8% YoY) accompanied by substantial deterioration in the net banking income (by PLN 1.7 billion, i.e. 3.0% YoY).

An increase in general administrative expenses resulted mostly from additional payments made by banks to the Bank Guarantee Fund to be used for payment of guaranteed funds, whose total exceeded PLN 2 billion, and was related to bankruptcy of a cooperative bank. This one-off factor co-occurred with a strong (exceeding PLN 1 billion) YoY increase in annual and prudential fees payable to BGF, mainly due to restructuring of SKOK (credit unions). Negative effects of these two factors were further enhanced by the necessity to recognize a provision for Borrower Support Fund of PLN 600 million, which substantially increased the cost base.

Table 1. Selected income statement items of the banking sector

PLN'000,000	31.12.2015	31.12.2014	Change YoY	
			PLN'000,000	%
Net interest income	35 362	37 157	(1 795)	(4.8%)
Net fee and commission income	13 332	13 789	(456)	(3.3%)
Dividend income	1 363	1 169	194	16.6%
Other items	5 895	5 573	322	5.8%
Net banking income	55 952	57 688	(1 736)	(3.0%)
Net profit on other operations	1 001	1 056	(55)	(5.2%)
Operating expenses, personnel expenses	(15 216)	(15 041)	(176)	1.2%
General administrative expenses	(15 168)	(12 157)	(3 010)	24.8%
Depreciation and amortization	(2 854)	(2 727)	(127)	4.7%
Total expenses	(33 238)	(29 925)	(3 313)	11.1%
Impairment losses on assets and other provisions	(9 216)	(8 787)	(429)	4.9%
Profit before income tax for the period	14 554	19 844	(5 290)	(26.7%)
Income taxes and other statutory reductions in profit	(3 057)	(3 968)	911	(23.0%)
Net profit for the period	11 497	15 877	(4 380)	(27.6%)

Source: PFSA

Note: As the figures have been rounded, the totals in the table may be different.

A decrease in net interest income (by PLN 1.8 billion, i.e. 4.8% YoY) had a decisive impact on deterioration of the net banking income; the decrease was mainly the effect of the Monetary Policy Council's two cuts of the interest rates of the National Bank of Poland, one in October 2014 and another in March 2015. An asymmetric reduction of the lombard rate by the National Bank of Poland in October was of major importance, as it led to a sharp decrease in the maximum interest, which limited, among other things, the permissible rates of interest applicable to consumer credit. Additionally, a sharp drop in net fee income (by PLN 0.5 billion, i.e. 3.3% YoY), related mainly to a reduction of the interchange fee, contributed negatively to the annual change in net banking income. The YoY drop would be bigger if not for an increase in dividend income in this sector (by PLN 0.2 billion, i.e. 16.6% YoY) and so-called other components (by PLN 0.3 billion, i.e. 5.8% YoY).

A rise in the negative balance of impairment allowances and other provisions (by PLN 0.4 billion, i.e. by 4.9% YoY) had a negative albeit minor effect on the annual change in the sector's profit. The rise was related mostly to the rapid growth in impairment of loans in the cooperative bank mentioned above. The balance of write-offs and provisions in the group of domestic commercial banks has dropped significantly (by PLN 1.1 billion, i.e. 13.5% YoY).

In 2015, credit activity of the banking sector measured with the nominal growth rate in the volume of loans granted to non-banking customers remained moderate. At the end of December 2015, the total balance of loans increased by 6.9% YoY, vs. 6.8% YoY at the end of December 2014. The nominal growth would be lower without a significant drop in the exchange rate of PLN to selected base market currencies (CHF and USD). On the other hand, a slowdown was observed in the growth rate of deposits from non-banking customers (to 7.4% YoY at the end of December 2015 from 9.3% YoY at the end of December 2014).

Private debt went up as at the end of December 2015 by 7.0% YoY vs. a rise of 5.5% YoY as at the end of December 2014, among others due to a significant drop in PLN/CHF rate related to the decision of the Swiss National Bank (SNB) to resign from controlling the CHF/EUR exchange rate, which translated into an increase in the level of private debt in 2015 (unlike in 2014) arising from foreign currency housing loans, despite a very small number of new loans and gradual repayment of principal of loans taken out before. Consumer loans contributed



significantly (and more than a year before) to the increase in the credit action in the private debt sector due to the continued pressure of banks on selling cash loans as high-income products in attempt to maintain good financial performance. In effect, at the end of December 2015, private debt related to consumer credit went up by 6.8% YoY, to the highest level on record.

A slight slowdown compared to previous years was recorded in the segment of housing loans in PLN, though. The demand for housing loans in 2015 was moderate despite the lowest level of the interest rates of the National Bank of Poland on record, further gradual upturn on the labor market and the continued favorable conditions on the real estate market, in particular due to the fact that, in the context of the record low interest rates, majority of investors paid for apartments in cash (in whole or in part). Further, availability and sales of housing loans in the Polish currency could be reduced by banks' implementation of more demanding down-payment requirements as from the beginning of 2015 (a rise by further 5.5 p.p., to 10%, in accordance with the amended Recommendation S). Please note that the standing of the housing loan market slowly changed in 2015. According to data published by Polish Bank Association, a slight YoY increase in the sales of PLN housing loans was observed as early as in Q2 2015. A higher growth in sales (so far not reflected in the data published by the National Bank of Poland) was observed at year end, on the one hand related to the amended Mieszkanie dla Młodych program, allowing subsidies to the purchase of flats on the secondary market, and on the other, supported by more demanding down-payment requirements (up to 15%) expected at the beginning of 2016 and concerns of potential customers regarding an increase in markups on loans.

In 2015, a slight acceleration of the credit activity in the enterprise segment was observed. The increase could be supported in particular by: the continuing economic growth, continuing of the de minimis SME guarantee program and low costs of financing caused by the record low interest rates. Please note that the loan volume growth was more significant in the large enterprises sector compared to SME.

Table 2. Banking sector loans by value

PLN billion	31.12.2015	31.12.2014	31.12.2013	Change YoY	
				2015 vs 2014	2014 vs 2013
Loans to private customers	526.8	492.3	466.8	7.0%	5.5%
- housing loans	377.9	353.7	334.2	6.8%	5.8%
- in PLN	212.0	191.0	168.2	11.0%	13.5%
- in foreign currencies	165.9	162.7	166.0	2.0%	(2.0%)
- consumer credit	146.8	137.4	131.4	6.8%	4.5%
Loans to institutional customers	538.7	504.2	466.4	6.8%	8.1%
- non-bank financial institutions	56.0	51.5	39.9	8.7%	29.0%
- business entities	402.0	373.5	347.9	7.6%	7.3%
corporate	298.0	275.8	259.0	8.1%	6.5%
individual entrepreneurs	66.2	62.8	57.4	5.4%	9.3%
farmers	31.8	29.3	26.2	8.6%	11.8%
- non-commercial institutions	6.1	5.7	5.3	6.8%	7.1%
- public sector	80.7	79.2	78.5	1.9%	0.9%
Total loans to non-bank customers	1 065.5	996.5	933.1	6.9%	6.8%

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, the totals in the table may be different.

Private customers' savings remained the key source of a rise in banking sector deposits. Despite the lowest interest rates of the National Bank of Poland on record, the annual growth rate of private deposits in 2015 did not change significantly compared to 2014, remaining at the level of almost 10% at the end of December 2015. This could be attributable to the aforementioned further, gradual improvement in labor market conditions as well as instability and deterioration on the Warsaw Stock Exchange (WSE) observed since Q2 2015.

In 2015, deposit activity of enterprises was relatively high. Over 10% increase in their deposit volume YoY occurred despite considerable YoY increase in capital expenditure in the economy as a whole, observed in Q1-Q3 2015. On the one hand, it could have been supported by a rise in sales income generated by enterprises on the Polish market, which was reflected in at least a moderate annual increase in real retail sales. On the other hand, it could be positively affected by exports, which were growing despite the continuing Russian embargo on certain food products.



Further, a sharp drop in public sector deposits (in particular, currency ones) was observed YoY. It had a decisive impact on the slowdown observed in deposits of institutional customers in 2015.

Table 3. Banking sector deposits by value

PLN billion	31.12.2015	31.12.2014	31.12.2013	Change YoY	
				2015 vs 2014	2014 vs 2013
Private deposits	602.9	549.3	498.8	9.7%	10.1%
- current	295.6	260.6	242.9	13.4%	7.3%
- term	307.3	288.8	255.9	6.4%	12.8%
Institutional deposits	424.8	407.0	376.5	4.4%	8.1%
- non-bank financial institutions	55.8	57.5	56.9	(3.0%)	1.1%
- business entities	317.6	288.0	263.0	10.3%	9.5%
corporate	250.1	226.7	208.0	10.3%	9,0%
individual entrepreneurs	37.0	33.2	28.3	11.6%	17,3%
farmers	10.9	9.9	9.4	9.6%	6,1%
non-commercial institutions	19.6	18.2	17.4	7.9%	4,7%
- public sector	51.4	61.6	56.6	(16.6%)	8.7%
Total non-bank deposits	1 027.6	956.4	875.3	7.4%	9.3%

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, the totals in the table may be different.

2.3. STOCK MARKET AND INVESTMENT

The year 2015 saw a negative change in the WIG stock market index, which represents all companies listed on the Warsaw Stock Exchange (WSE) and decreased by 9.6%. 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 19.7% in 2015; mWIG40, which comprises medium enterprises, rose by 2.4% and sWIG80 by 9.1%. The major factor responsible for the relative weakness of WIG20 was political risk, which affected mainly entities operating in the financial and power industries, which represent the major part of this index.

Table 4. Major WSE indices

Index	31.12.2015	31.12.2014	31.12.2013	Change in 2015	Change in 2014
WIG	46 467	51 416	51 284	(9.6%)	2.7%
WIG20	1 859	2 316	2 401	(19.7%)	(3.5%)
mWIG40	3 567	3 483	3 345	2.4%	4.1%
sWIG80	13 211	12 108	14 337	9.1%	(15.5%)

Source: WSE

The following factors determined the situation on the Warsaw Stock Exchange in 2015: (i) the continued armed conflict between Russia and Ukraine, which translated into a rise in the risk premium expected by investors for equity investments in our region; (ii) the ECB launching the eurozone treasury bond buy-back program aimed at preventing deflation and stimulating the eurozone economies; (iii) financial difficulties faced by Greece, which involved a probability of its going bankrupt and exit from the eurozone; (iv) political risk resulting from the change of the ruling party; (v) reappearing concerns regarding the economic slowdown in China, which contributed to revaluation on the commodity market (to include crude oil and copper) and (vi) dissatisfaction caused by the restrictive monetary policy implemented by the U.S.

As regards Polish treasury bonds, the first half of 2015 brought a move away from the bull market which continued throughout 2014. In the second half of 2015, a gradual growth in bond prices was observed again. Consequently, the yield on 10-year bonds rose from ca. 2.5% at the end of 2014 to 2.9% at the end of 2015.

In 2015, 30 new companies were listed on WSE, 13 of which as a result of transfer of quotations from the New Connect market. The number of WSE listed companies increased from 471 at the end of 2014 to 487 a year later. Nineteen new issuers entered the New Connect market in 2015 (as compared to 22 in 2014).

Finally, there were 533 bond issues on the Catalyst market and their value exceeded PLN 615 billion.

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

	31.12.2015	31.12.2014	31.12.2013	Change in 2015	Change in 2014
Number of companies	487	471	450	3.4%	0.3%
Cap of domestic companies (PLN'000,000)	516 785	591 165	593 464	(12.6%)	(0.4%)
Share trading volume (PLN'000,000)	225 287	232 864	256 147	(3.3%)	(9.1%)
Futures trading volume ('000)	7 767	9 002	11 807	(13.7%)	(23.8%)

Source: WSE

3. MAJOR EVENTS IN BANK BGŻ BNP PARIBAS S.A. IN 2015

16.02.2015	The Polish Financial Supervision Authority approved the Information Memorandum of Bank Gospodarki Żywnościowej S.A. prepared in connection with the merger of Bank BGŻ and BNP Paribas Bank Polska S.A.
25.02.2015	The Extraordinary Shareholders' Meetings of Bank BGŻ and BNPP Polska adopted resolutions on the banks' merger , increase in the share capital of Bank BGŻ through the issue of 28,099,554 I series shares and consent for the proposed amendments to the Statute of Bank BGŻ. The post-merger consolidated text of the Bank's Statute was adopted by the Extraordinary Shareholders' Meeting of Bank BGŻ.
5.03.2015	An agreement with the trade unions active at Bank BGŻ and one of the two trade unions active at BNPP Polska was made, whereby the procedures related to the group dismissal process were defined.
9.04.2015	The Polish Financial Supervision Authority granted its consent for the merger of Bank Gospodarki Żywnościowej S.A. and BNP Paribas Bank Polska S.A.: <ul style="list-style-type: none"> the PFSA granted its consent for the merger of Bank BGŻ (as the acquirer) and BNPP Polska (as the acquiree) through the transfer of all assets, equity and liabilities of BNPP Polska onto Bank BGŻ; and the PFSA adopted a decision that there are no grounds for voicing an objection against the intention of Bank BGŻ to purchase directly the shares in TFI BNP Paribas Polska S.A., the number of which is sufficient to exceed the threshold of 50% of votes at the General Meeting.
10.04.2015	BNP Paribas Fortis SA/NV obtained a decision of the European Central Bank issued as part of the Single Supervisory Mechanism, whereby a consent for the planned merger of the banks was granted.
23.04.2015	The Polish Financial Supervision Authority granted its consent for amendments to the Statute of Bank Gospodarki Żywnościowej S.A. made in relation to the banks' merger.
30.04.2015	Legal merger of Bank BGŻ and BNP Paribas Bank Polska The District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, recorded the banks' merger, an increase in the share capital and amendments to the Statute 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. 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). In exchange for six shares in BNPP Polska, its shareholders received five Merger Shares. 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.
6.05.2015	Notification was issued by BNP Paribas SA and BNP Paribas Fortis SA/NV of their shareholding in the merged Bank BGŻ BNP Paribas S.A. as a result of acquisition of I series merger shares issued. Detailed information concerning the issue has been presented in Section 7.2 of this Report.



18.05.2015	The new I series merger shares were registered with the National Depository for Securities under code ISIN PLBGZ0000010 and introduced to trading on the Main Market of the Warsaw Stock Exchange. The shares in BGŻ BNP Paribas were reintroduced to trading on the Main Market of the Warsaw Stock Exchange.
19.06.2015	General Meeting of BGŻ BNP Paribas S.A.
13.07.2015	Following registration of changes in the National Court Register, Towarzystwo Funduszy Inwestycyjnych BNP Paribas Polska S.A. changed its business name to Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A.
28.07.2015	Bank BGŻ BNP Paribas S.A. signed the following agreements with Sygma Banque SA with its registered office in Paris (Sygma Banque): <ul style="list-style-type: none">• a preliminary share purchase agreement, whereby the Bank and Sygma Banque are obliged to enter into a final agreement to purchase 1,000 registered shares in Sygma Bank Polska S.A. with the registered office in Warsaw, constituting 100% of shares and representing 100% of votes at the General Shareholders' Meeting for the total price of PLN 200 million. The final agreement for the purchase of shares in Sygma Bank Polska was to be signed after the following conditions precedent had been satisfied:<ul style="list-style-type: none">- Registration of Sygma Bank Polska in the Register of Entrepreneurs of the National Court Register, which took place on 3 August 2015;- PFSA granting permits and decisions required by the Banking Law, which took place on 18 November 2015;- and resolution of the Supervisory Board of the Bank regarding the consent to purchase shares in Sygma Bank Polska by the Bank coming into effect, which took place on 7 October 2015;• a preliminary share purchase agreement, whereby the Bank and Sygma Banque are obliged to enter into a final share purchase agreement under which the Bank was to acquire 100% of the shares in LaSer Services Polska Spółka Akcyjna with its registered office in Warsaw ("LSP") at the total price of PLN 11 million from Sygma Banque. The final agreement on the purchase of LSP shares was to be concluded once the following conditions precedent had been fulfilled: the Bank acquiring 100% of shares in Sygma Bank Polska, which took place on 1 December 2015 and the resolution of the Bank's Supervisory Board regarding the consent for the Bank to acquire the shares in LSP coming into force, which took place on 7 October 2015.
01.09.2015	The Extraordinary Shareholders' Meeting of Bank BGŻ BNP Paribas S.A. regarding amendments to the Statute of the Bank and organization of the Supervisory Board.
23.10.2015	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. Therefore, the Bank's minimum capital ratios taking into account the additional capital requirement recommended by PFSA should have been as follows by the end of 2015: Tier 1=9.53% and TCR=12.71%. As at 31 December 2015 the actual ratios were as follows: Tier 1=12.12% and TCR=13.78%.
04.11.2015	The Bank recognized a provision of PLN 30 million for the contribution to the Borrower Support Fund following the completion of the legislation procedure regarding the <i>Act of 9 October 2015 on supporting CHF home loan borrowers in a difficult financial condition</i> . The actual contribution amounted to PLN 38.2 million.
12.11.2015	Bank Security and BGŻ BNP Paribas S.A. Bond Issue Program – the Supervisory Board of the Bank granted its consent for the issue of securities as part of the bank security and bond issue program in the total amount of PLN 3,500,000,000.00 (the "Program"). The Supervisory Board and the Management Board of the Bank agreed that the Bank may repeatedly assume obligations to each of the future purchasers of the securities issued under the Program where the total par value of such securities with respect to one purchaser exceeds 10% and 5% of the Bank's equity, respectively.



18.11.2015 Polish Financial Supervision Authority issued permits for BNP Paribas Personal Finance Société Anonyme with the registered office in Paris, France (the legal successor of Sygma Banque SA) to sell shares in Sygma Bank Polska S.A. to the Bank pursuant to Article 28.1 of the *Banking Law of 29 August 1997*.

Thus, the last condition precedent necessary for conclusion of the final agreement for the purchase of 100% of shares in Sygma Bank Polska S.A. by the Bank was satisfied.

18.11.2015 Announcement of the planned merger of Bank BGŻ BNP Paribas S.A. with Sygma Bank Polska S.A. – the Management Board of the Bank decided to initiate a procedure aimed to effect the merger of the Bank (*as the acquirer*) and Sygma Bank Polska S.A. (*as the acquiree*) under Article 492.1.1 of the *Code of Commercial Companies* (merger by acquisition).

26.11.2015 Statutory contribution to the Bank Guarantee Fund (BGF) of PLN 90.2 million to be used for payment of guaranteed funds for depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie, with regard to PFSA's motion for declaring the bank bankrupt. The aforesaid contribution reduced the Bank's net profit in the fourth quarter of 2015 by ca. PLN 73.1 million.

1.12.2015 Purchase of shares in Sygma Bank Polska S.A. and LaSer Services Polska S.A. (LSP) by Bank BGŻ BNP Paribas S.A. - the final agreement for the purchase of 100% of shares in SBP was signed by the Bank and BNP Paribas Personal Finance Société Anonyme with its registered office in Paris, France ("BNP Paribas PF"), the legal successor of Sygma Banque Société Anonyme, at a price of PLN 200 million.

Following the Bank's purchase of 100% of the shares in SBP, the last condition precedent necessary for conclusion of the final agreement for the purchase of 100% of shares in LSP by the Bank was satisfied. The Bank purchased 100% of the shares in LSP from BNP Paribas PF on 1 December 2015 at a price of PLN 11 million.

10.12.2015 Announcement of the draft terms of merger of Bank BGŻ BNP Paribas S.A. with Sygma Bank Polska S.A. – the Management Board of the Bank and the Management Board of Sygma Bank Polska agreed and signed the draft terms of merger of the Bank with Sygma Bank Polska S.A., prepared under Articles 498 and 499 of the *Code of Commercial Companies*.

15.12.2015 The Extraordinary Shareholders' Meeting of Bank BGŻ BNP Paribas S.A. regarding amendments to the Statute of Bank BGŻ BNP Paribas S.A.

29.12.2015 The potential participation of the Bank in the settlement of the transaction of acquiring Visa Europe Limited ("Visa Europe") by Visa Inc. (the "Transaction") and possible effect of approx. EUR 8.7 million of the Transaction on the Bank's performance, to include:

- EUR 6.5 million in cash – the equivalent of PLN 27.6 million (at the average exchange rate of the National Bank of Poland of 28 December 2015);
- EUR 2.2 million in shares – the equivalent of PLN 9.3 million (at the average exchange rate of the National Bank of Poland of 28 December 2015).

The aforesaid amounts may be adjusted by the Transaction costs and as a result of accepted requests for adjustment of awarded amounts, which may be filed by members of Visa Europe. The final allocation decision shall be taken on 1 March 2016.

The Transaction will depend on the receipt of the required regulatory authorizations and it is expected to be closed in the second quarter 2016.

Additionally, a deferred earn-out payment is expected in connection with the Transaction, to be made in cash following the expiry of 16 quarters of the Transaction settlement date.

29.12.2015 The Bank entered into two agreements with BNP Paribas S.A. with its registered office in Paris, whereby it would obtain non-revolving subordinated loans, one of PLN 440 million and the other of EUR 40 million (the equivalent of PLN 169.76 million at the average exchange rate of the National Bank of Poland of 29 December 2015). Classification of the funds obtained under the aforesaid loan agreements as the Bank's equity (Tier 2 capital) required the consent of the Polish Financial Supervision Authority, which was obtained on 29 January 2016 (after the end of the reporting period).



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

4.1. COMPOSITION OF THE SUPERVISORY BOARD OF BGŻ BNP PARIBAS S.A. IN 2015

Composition of the Supervisory Board of the Bank as at 1 January 2015:

Full name	Office held in the Supervisory Board of the Bank
Jean-Paul Sabet	Chairman of the Supervisory Board
Jean Lemierre	Vice-Chairman of the Supervisory Board
Jarosław Bauc	Member of the Supervisory Board
Dariusz Filar	Member of the Supervisory Board
Michel Vial	Member of the Supervisory Board
Mariusz Warych	Member of the Supervisory Board

Changes in the composition of the Supervisory Board of the Bank in 2015:

- On 23 April 2015, Mr. Dariusz Filar submitted a resignation from the office of Member of the Supervisory Board of the Bank as of the end of the Supervisory Board Meeting on 30 April 2015.
- On 15 June 2015, Mr. Jean Lemierre submitted a statement of resignation from the office of Member of the Supervisory Board and Vice-Chairman of the Supervisory Board of the Bank as of 19 June 2015.
- On 19 June 2015, the General Meeting of the Bank appointed Mr. Jacques d'Estais, a representative of the BNP Paribas Group, and Ms. Monika Nachyła, a representative of the Rabobank Group, to the Supervisory Board of the Bank.
- Mr. Michel Vial submitted a resignation from the office of Member of the Supervisory Board of the Bank as of 31 August 2015.
- On 1 September 2015, Extraordinary Shareholders' Meeting of the Bank appointed the following individuals members of the Supervisory Board: Stefaan Decraene, Alain Van Groenendael, Thomas Mennicken, Piotr Mietkowski and Józef Wancer, until the end of the current three-year office term ending as at the date of the Ordinary Shareholders' meeting approving the financial statements for 2015. Consequently, the Supervisory Board appointed Józef Wancer as Chairman.
- On 1 December 2015 the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, registered the amendment to the Bank's Statute, as adopted by the Extraordinary Shareholders' Meeting of the Bank on 1 September 2015. Article 16.2 of the Bank's Statute was modified as follows: „16.2. The Supervisory Board shall elect a Chairperson and Deputy Chairpersons out of its members.” Thus, the condition precedent related to the conditional resolution of the Supervisory Board of 1 September 2015 regarding appointing Jean-Paul Sabet the Vice-Chairman of the Supervisory Board of the Bank was fulfilled.

Composition of the Supervisory Board of the Bank as at 31 December 2015:

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



4.2. COMPOSITION OF THE MANAGEMENT BOARD OF BGŻ BNP PARIBAS S.A. IN 2015

Composition of the Management Board of the Bank as at 1 January 2015:

Full name	Office held in the Management Board of the Bank
Józef Wancer	President of the Management Board
Gerardus Cornelis Embrechts	First Vice-President of the Management Board
Magdalena Legeć	Vice-President of the Management Board
Monika Nachyła	Vice-President of the Management Board
Dariusz Odzioba	Vice-President of the Management Board
Witold Okarma	Vice-President of the Management Board
Wojciech Sass	Vice-President of the Management Board
Andrzej Sieradz	Vice-President of the Management Board

Changes in the composition of the Management Board of the Bank in 2015:

- On 29 January 2015, the Supervisory Board appointed Mr. Wojciech Kembłowski as Vice-President of the Management Board of Bank BGŻ S.A., CRO, as of the date of satisfaction of the last of the following conditions:
 - obtaining a consent for the appointment from the Polish Financial Supervision Authority (granted on 28 April 2015);
 - merger of Bank BGŻ S.A. and BNP Paribas Bank Polska S.A. (completed on 30 April 2015).
- On 20 March 2015, the Supervisory Board adopted a resolution on appointment of Mr. Bartosz Urbaniak to the position of Member of the Management Board of the Bank as of 1 April 2015;
- On 20 March 2015, statements of resignation were submitted by:
 - Ms. Monika Nachyła, Vice-President of the Management Board, as of 30 April 2015;
 - Mr. Gerardus Embrechts, First Vice-President of the Management Board, as of 31 March 2015;
 - Mr. Dariusz Odzioba, Vice-President of the Management Board, as of 31 March 2015;
 - Mr. Witold Okarma, Vice-President of the Management Board, as of the date of the merger of Bank BGŻ S.A. and BNPP Polska, i.e. 30 April 2015;
 - Mr. Andrzej Sieradz, Vice-President of the Management Board, as of 31 March 2015.
- On 30 April 2015, Mr. Józef Wancer, President of the Management Board, submitted a statement of resignation effective as of 17 September 2015 or as of the date of obtaining PFSA's consent to appoint a new President of the Management Board.
- Additionally, on 30 April 2015, the Supervisory Board appointed Mr. Tomasz Bogus to the position of President of the Management Board. The aforesaid resolution was to enter into force as at the date of the consent of the PFSA, under Article 22b of the Banking Law, for appointment of Mr. Tomasz Bogus to the position of President of the Management Board, not earlier, though, than on 17 September 2015.
- Additionally, on 30 April 2015 the Supervisory Board appointed seven new Vice-Presidents of the Management Board as of 1 May 2015, including: Daniel Astraud, Francois Benaroya, Blagoy Bochev, Jan Bujak, Jaromir Pelczarski, Jean-Philippe Stephane Rodes and Michel Thebault;
- On 18 June 2015, the Supervisory Board of the Bank appointed the Bank's Management Board for a new, three-year term of office, without changing its composition.
- On 27 July 2015 Mr. Wojciech Sass submitted a statement of resignation from the position of Vice-President of the Management Board of the Bank as of 31 August 2015.
- On 30 July 2015 Mr. Józef Wancer submitted a representation, whereby the effective date of his resignation from the position of President of the Management Board of the Bank was changed. In accordance with the aforesaid representation, Mr. Wancer held the office of President of the Management Board until 31 August 2015.
- On 30 July 2015, the Supervisory Board of the Bank adopted a resolution amending the resolution on conditional appointment of the President of the Management Board of BGŻ BNP Paribas S.A. The aforesaid change concerned the date of appointment of Mr. Tomasz Bogus to the position of President of



the Management Board of BGŻ BNP Paribas S.A. The aforesaid resolution on appointment was to enter into force as of the date of the consent of the Polish Financial Supervision Authority for the appointment, under Article 22b of the Banking Law, not earlier, though, than on 1 September 2015.

- On 25 August 2015, pursuant to Article 22b of the Banking Law, the Polish Financial Supervision Authority granted its consent for the appointment of Mr. Tomasz Bogus to the position of the President of the Management Board. Mr. Tomasz Bogus assumed the position of the Management Board President of Bank BGŻ BNP Paribas S.A. as of 1 September 2015.

Composition of the Management Board of the Bank as at 31 December 2015:

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

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 at the A3(cr)/P-2 (cr) level.

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.

Report on the second review of the rating carried out as at the end of Q2 2015, published by the Agency on 26 November 2015, maintained the previous assessments.

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 2015, the Bank received the following rewards and accolades:

February 2015	BNP Paribas Bank Polska S.A. was named Top Employer Polska 2015 for the second time, for its HR policy developed in line with best market practices, by Top Employers Institute.
May 2015	Bank BGŻ received the Srebrny Listek CSR Polityki award bestowed by the Polityka weekly to socially responsible companies.
June 2015	BGŻ BNP Paribas received the Portfel Wprost award in the mortgage loans category.
September 2015	Bank BGŻ BNP Paribas received awards in <i>Ranking Newsweeka 2015</i> and won the 2 nd place in the main category: Friendly Bank – traditional banking and the 3 rd place in the category Friendly Bank – Internet banking .
September 2015	BGŻ BNP Paribas received the Złoty Laur Super Biznesu 2015 award in the "Finance and Banking" category. The competition is organized by editors of the economic section in Super Express daily.

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

7.1. SHAREHOLDER STRUCTURE

As at 31 December 2015 and the date of submission of the report for 2015, i.e. 15 March 2016, the structure of the shareholders of BGŻ BNP Paribas S.A., including those holding at least 5% of the total number of votes at the General 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 Meeting
BNP Paribas, total:	74 409 864	88.33%	74 409 864	88.33%
<i>BNP Paribas directly</i>	50 524 889	59.98%	50 524 889	59.98%
<i>BNP Paribas Fortis SA/NV directly</i>	23 884 975	28.35%	23 884 975	28.35%
Rabobank International Holding B.V.	5 613 875	6.66%	5 613 875	6.66%
Other shareholders	4 214 579	5.01%	4 214 579	5.01%
Total	84 238 318	100.00%	84 238 318	100.00%

As at 31 December 2015, the Bank's share capital amounted to PLN 84,238 thousand. Following the registration of the merger of Bank BGŻ and BNPP Polska on 30 April 2015, the share capital of Bank BGŻ was increased from PLN 56,138,764.00 to PLN 84,238,318.00 through the issue of 28,099,554 I series shares

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 31 December 2015, there were 13,024,915 registered shares, including 4 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 31 December 2015 and the date of submission of the report for 2015, i.e. 15 March 2016, no shares issued by the Bank were held by members of the Management Board, Supervisory Board or the key executives.

As declared by BNP Paribas SA to the Polish Financial Supervision Authority, the number of the Bank's shares that are traded freely should be 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, in accordance with the specific conditions laid down in the aforesaid declarations.

7.2. CHANGES IN THE SHAREHOLDER STRUCTURE IN 2015

As at 31 December 2014, the structure of the shareholders of Bank BGŻ S.A., including those holding at least 5% of the total number of votes at the General Shareholders' Meeting, was as follows:

Shareholders	Number of shares	% interest in share capital	Number of votes at the General Shareholders' Meeting	% interest in the total number of votes at the General Meeting
BNP Paribas	49 952 737	88.98%	49 952 737	88.98%
Rabobank International Holding B.V.*	5 613 875	9.99%	5 613 875	9.99%
Other shareholders	572 152	1.03%	572 152	1.03%
Total	56 138 764	100.00%	56 138 764	100.00%

*Rabobank Group

Squeeze-out

On 3 December 2014, BNP Paribas SA and Rabobank International Holding B.V. entered into an agreement, as referred to in Article 87.1.5 of the Act on Public Offering, concerning the purchase of the Bank's shares by demanding that all remaining shareholders sell all the Bank's shares which they hold in accordance with Article 82 of the Act on Public Offering ("squeeze-out").

On 13 January 2015, Bank BGŻ was notified that BNP Paribas and Rabobank, acting in agreement concerning the purchase of the shares in Bank BGŻ through squeeze-out, hold 56,129,200 shares in the Bank in total, which represent 56,129,200 votes at the Bank's General Shareholders' Meeting, thus ca. 99.98% interest in the share capital as well as ca. 99.98% of the total number of votes at the General Shareholders' Meeting.

On 19 January 2015, the squeeze-out procedure was closed by BNP Paribas. At the same time, the agreement of 3 December 2014 made by BNP Paribas and Rabobank with respect to the purchase of shares in Bank BGŻ through squeeze-out expired.

Consequently, on 23 January 2015, the Bank was notified that following the squeeze-out BNP Paribas SA with its registered office in Paris holds 50,524,889 shares in the Bank, which represent 50,524,889 votes at the Bank's General Shareholders' Meeting, thus ca. 90.0000025% interest in the share capital as well as ca. 90.0000025% of the total number of votes at the General Shareholders' Meeting. The shareholding of Rabobank International Holding B.V. remained unchanged, i.e. 5,613,875 shares representing 9.9999975% of the total number of shares.

Issue of I series merger shares

Pursuant to a resolution of the Extraordinary Shareholders' Meeting of 25 February 2015, the Bank issued a public offering of 28,099,554 I series merger shares.

Following the registration of an increase in the share capital from PLN 56,138,764.00 to PLN 84,238,318.00 through the issue of 28,099,554 I series merger shares, on 30 April 2015, the merger shares were acquired by the existing shareholders of BNPP Polska. The shareholders of BNPP Polska received 5 Merger Shares in exchange for 6 shares in BNPP Polska. The fractional shares, i.e. those which were not handed over to the shareholders of BNPP Polska as a result of approximation, were acquired by BNPP Fortis.



As a result, the percentage share of the existing shareholders of Bank BGŻ in the total number of votes at the General Shareholders' Meeting of the Bank changed. The share of BNP Paribas in the total number of votes at the General Shareholders' Meeting of the Bank decreased below the threshold of 90%. At the same time, BNP Paribas Fortis SA/NV (BNPP Fortis), which did not hold any shares in Bank BGŻ before the merger, exceeded the threshold of 25% of the total number of votes.

Following the merger and acquisition of the fractional shares by BNPP Fortis, the BNP Paribas Group holds the total of 74,409,864 shares in the Bank representing 88.33% of the share capital, which corresponds to 74,409,864 votes and 88.33% of the total number of votes, where:

- 50,524,889 shares in the Bank representing 59.98% of the share capital as well as 50,524,889 votes and 59.98% of the total number of votes are held by BNP Paribas directly; and
- 23,884,975 shares in the Bank representing 28.35% of the share capital as well as 23,884,975 votes and 28.35% of the total number of votes are held by BNP Paribas indirectly through BNPP Fortis, a subsidiary.

The share of the Rabobank Group decreased from 9.99% to 6.66%. Rabobank International Holding B.V. holds the total of 5,613,875 shares in the Bank representing 6.66% of the share capital as well as 5,613,875 votes and 6.66% of the total number of votes at the Bank.

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

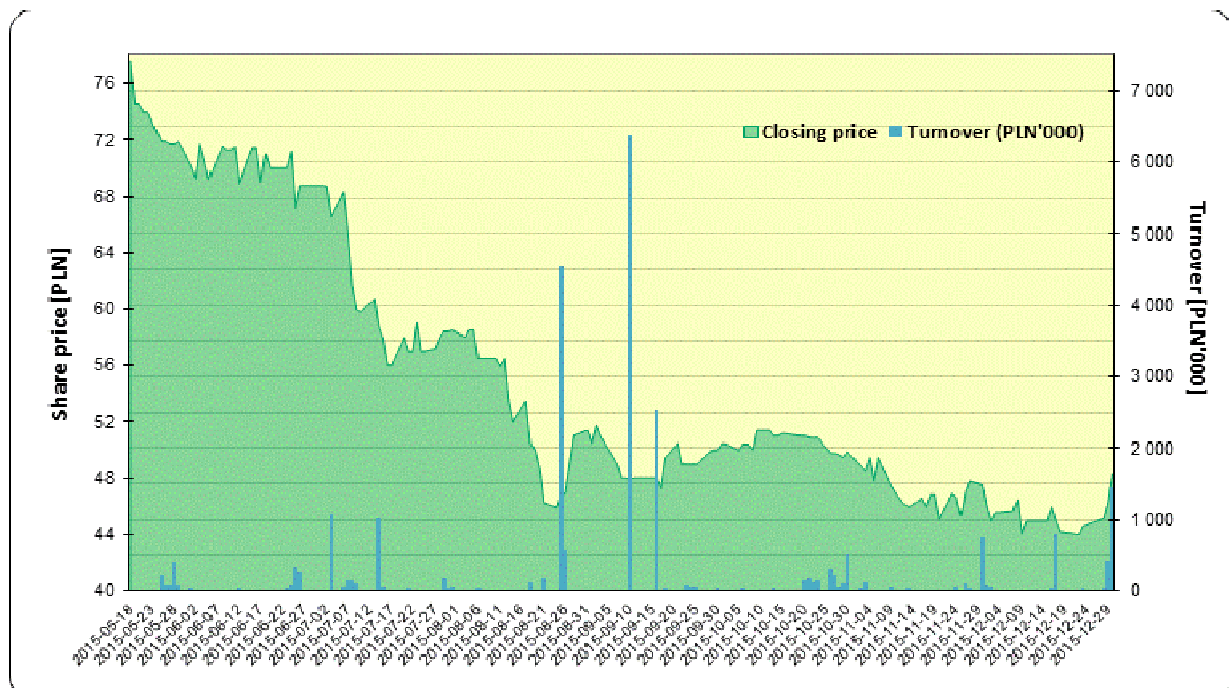
The Bank's shares, to which ISIN code PLBGZ0000010 has been assigned, are listed on the Main Market of the Warsaw Stock Exchange (WSE).

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 48.30 as at 30 December 2015. The average price of the Bank's shares in the period was PLN 54.96. The average trading volume exceeded 3,286 shares per session, while the average value of the Bank's shares traded per session was PLN 163 thousand.

Chart 5. The Bank's share price between 18 May 2015 and 31 December 2015





9. FINANCIAL STANDING OF BANK BGŻ BNP PARIBAS S.A.

On 30 April 2015, a legal merger of Bank BGŻ and BNP Paribas Bank Polska S.A. was completed through the transfer of the total assets, equity and liabilities of BNPP Polska, as the acquiree, onto Bank BGŻ, as the acquirer.

The business combination transaction was accounted for using the book value method. Bank BGŻ recognized the assets, equity and liabilities of BNPP Polska at their book value measured as at the merger date, i.e. 30 April 2015, which were adjusted only in order to ensure consistency of the accounting principles adopted by Bank BGŻ. As the book value method was used, no goodwill or surplus of the fair value of the net assets over the business combination cost was recognized in relation to the transaction. The difference between the carrying amount of the net assets of BNPP Polska, which were transferred, and the par value of the shares issued of PLN 28,099 thousand, totaling PLN 2,033,941 thousand, was recognized in the Bank's equity. The results of the operations of BNPP Polska were recognized in the separate financial statements of the Capital Group of BGŻ BNP Paribas prospectively, i.e. as from 30 April 2015.

As at 30 April 2015, the book value of the assets held by BNPP Polska was PLN 23,349,411 thousand, which accounted for more than 37% of the balance sheet total of the merged Bank as at 30 June 2015. Additionally, the loans of PLN 18,138,127 thousand and deposits of PLN 12,392,905 thousand transferred as at 30 April 2015 represented almost 37% and 28% of the loans and deposits of the merged Bank as at the end of June 2015, respectively.

In relation to the above transaction, the Group's comparative data for the periods preceding the merger of the banks have not been restated and the analysis presented further in this section has been performed for the figures reported by the Capital Group of Bank BGŻ, which has an effect on the amounts of comparative data and the ratios.

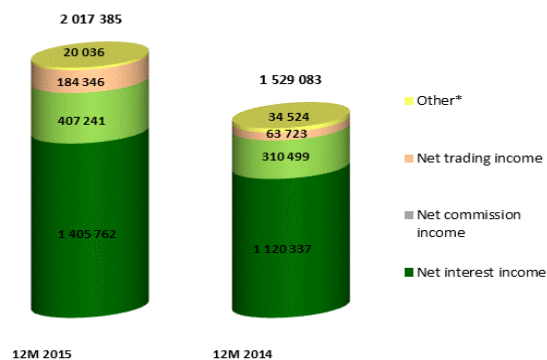
9.1. SEPARATE STATEMENT OF PROFIT OR LOSS

In 2015, the Bank BGŻ BNP Paribas generated a net profit of PLN 8,263 thousand, i.e. lower by PLN 129,467 thousand (94.0%) year-on-year.

The key factors determining the profit amount included one-off events, mostly the post-merger integration costs incurred of PLN 206.4 million, as well as additional charges, i.e. the statutory payment to the Bank Guarantee Fund (BGF) of PLN 90.2 million to be used for payment of guaranteed funds for depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie, recognizing a provision for the payment to the Borrower Support Fund (BSF) of PLN 38.2 million, as well as a fine of PLN 10.6 million imposed by Office for Competition and Consumer Protection related to calculation of interchange fees on transactions concluded with Visa and MasterCard cards in Poland. The aforementioned negative factors were partially offset by a higher net banking income.

Following elimination of the integration costs, the net profit for 2015 would reach PLN 175,410 thousand and would be 5.5% higher year-on-year. However, after the elimination of all additional regulatory burdens in 4Q (SK Bank in Wolomin and BSF) profit for the year would amount to PLN 279,399 thousand (+68,0% YoY)

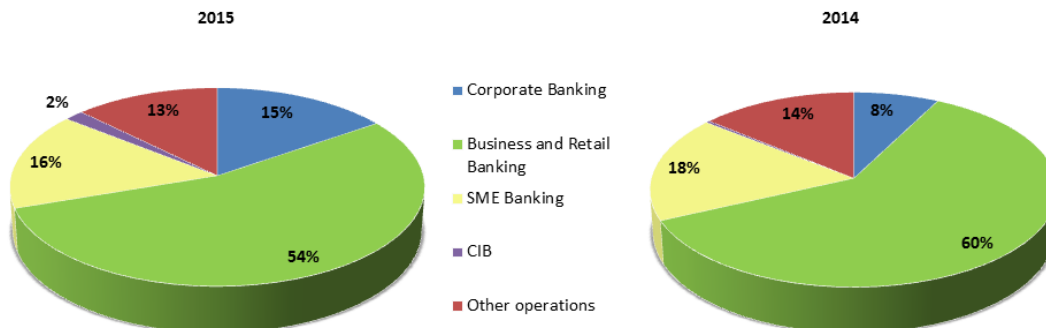
Chart 6. Net banking income in PLN '000



* 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	31.12.2015	31.12.2014	Change YoY	
			PLN '000	%
Net interest income	1 405 762	1 120 337	285 425	25.5%
Net fee and commission income	407 241	310 499	96 742	31.2%
Dividend income	6 837	3 303	3 534	107.0%
Net trading income	184 346	63 723	120 623	189.3%
Result on investment activities	47 390	24 465	22 925	93.7%
Result on hedge accounting	-	(156)	156	(100.0%)
Other operating income and expenses	(34 191)	6 912	(41 103)	(594.7%)
Net banking income	2 017 385	1 529 083	488 302	31.9%
Net impairment losses on financial assets and contingent liabilities	(304 220)	(318 503)	14 283	(4.5%)
General administrative expenses	(1 540 803)	(930 209)	(610 594)	65.6%
Depreciation and amortization	(147 086)	(100 995)	(46 091)	45.6%
Operating result	25 276	179 376	(154 100)	(85.9%)
Profit before income tax	25 276	179 376	(154 100)	(85.9%)
Income tax expense	(17 013)	(41 646)	24 633	(59.1%)
Net profit for the period	8 263	137 730	(129 467)	(94.0%)
<i>Integration costs</i>	<i>(206 354)</i>	<i>(35 258)</i>	<i>(171 095)</i>	<i>485.3%</i>
Net profit for the period except for integration costs	175 410	166 289	9 121	5.5%

Chart 7. Net banking income by segments**Net interest income**

In 2015, the net interest income, which represents the major source of the Bank's income, went up by PLN 285,425 thousand, i.e. 25.5%, which was driven by a rise in interest income by PLN 247,118 thousand, i.e. 13.8% YoY, accompanied by a reduction in interest expense by PLN 38,307 thousand, i.e. 5.7% YoY. The level of interest income and expense in 2015 was affected both by external factors and the growth rate of commercial volumes as well as the merger of Bank BGŻ with BNPP Polska.

The main external factors include the policy adopted by the National Bank of Poland with respect to the basic interest rates and their current lowest level on record (in December 2015, the reference rate was 1.5% vs. 2.0% a year before).

Interest income on loans and advances to customers, the value of which increased by PLN 265,070 thousand (i.e. 22.1%) YoY, is the major item in the structure of the Bank's interest income (over 71%). In addition to interest on loans and advances, a rise was observed in interest on overdrafts to customers (by PLN 40,963 thousand, i.e. 14.4% YoY). The aforesaid increases were observed mainly in the Corporate Banking and Retail and Business Banking segments owing to a higher volume of loans as a result of the merger with BNPP Polska.

The volume of (gross) loans in the Bank increased by 69.0% YoY.



A decrease in interest income on reverse repurchase agreements by PLN 48,238 thousand results from limited scale of this activity following the merger.

Table 8. Net interest income

PLN '000	31.12.2015	31.12.2014	Change YoY	
			PLN '000	%
Loans and advances to banks	24 543	28 790	(4 247)	(14.8%)
Loans and advances to customers in current accounts	326 144	285 181	40 963	14.4%
Loans and advances to customers	1 462 022	1 196 952	265 070	22.1%
Hedging instruments and hedged items	15 197	9 024	6 173	68.4%
Reverse repo transactions	7 559	55 797	(48 238)	(86.5%)
Debt securities	208 645	221 248	(12 603)	(5.7%)
Interest income	2 044 110	1 796 992	247 118	13.8%
Amounts due to banks	(57 187)	(59 251)	2 064	(3.5%)
Debt securities issued	(16 938)	(32 269)	15 331	(47.5%)
Amounts due to customers	(544 324)	(529 140)	(15 184)	2.9%
Hedging instruments and hedged items	(12 206)	-	(12 206)	-
Repo transactions	(7 693)	(55 995)	48 302	(86.3%)
Interest expense	(638 348)	(676 655)	38 307	(5.7%)
Net interest income	1 405 762	1 120 337	285 425	25.5%

A drop in interest expense arose mostly from reduced costs of repo transactions and of issue of debt securities (mainly as a result of the limited use of this form of financing due to optimization of the structure and costs of funding sources). This, despite low interest rates of the National Bank of Poland, was sufficient to offset an increase in interest on amounts due to customers, which went up by PLN 15,184 thousand, i.e. 2.9% YoY, as a result of an increase of the deposit base of the Bank by 42.1% YoY, also due to the merger with BNPP Polska.

A decrease in net interest income on hedge relationships (the total of interest income on hedging instruments and interest expense on hedged items) by PLN 6,033 thousand results from differences in the value of base currency and distribution of hedge accounting items in 2014 and 2015.

Net fee and commission income

Between 1 January 2015 and 31 December 2015, net fee and commission income went up by PLN 96,742 thousand, i.e. 31.2% YoY, which was driven by a rise in fee and commission income by PLN 116,589 thousand, i.e. 32.6% YoY, accompanied by an increase in fee and commission expense by mere PLN 19,847 thousand, i.e. 42.5%.

An increase in fee and commission income, mainly as a consequence of acquisition of the customer base of BNPP Polska, was recorded in almost all fee categories (except fees on payment cards), specifically on:

- account administration and clearing transactions (the total of PLN 36,448 thousand, i.e. 29.7%), which was attributable to an increase in the number of accounts as well as changes introduced to the Rates and Charges Information;
- loans and advances – by PLN 37,574 thousand, i.e. 36.2%;
- insurance products sold – by PLN 14,559 thousand, i.e. 125.5%;
- broker transactions by PLN 1,609 thousand, i.e. by 6.9% thanks to good performance of Brokerage Office.

A drop in fee income on payment cards by PLN 9,866 thousand i.e. 12.3% YoY was mainly due to a reduction in interchange fees (in July 2014 and another one in January 2015).

**Table 9. Net fee and commission income**

PLN '000	31.12.2015	31.12.2014	Change YoY	
			PLN '000	%
Fee and commission income				
– loans and advances	141 513	103 939	37 574	36.2%
– settlements	47 059	16 921	30 138	178.1%
– account maintenance	112 100	105 790	6 310	6.0%
– guarantee commitments	21 876	7 914	13 962	176.4%
– brokerage operations	24 992	23 383	1 609	6.9%
– payment cards	70 127	79 993	(9 866)	(12.3%)
– insurance activity	26 159	11 600	14 559	125.5%
– asset management	260	-	260	-
– other	29 747	7 704	22 043	286.1%
Fee and commission income	473 833	357 244	116 589	32.6%
Fee and commission expense				
– loans and advances	(3 443)	(4 383)	940	(21.4%)
– payment cards	(46 294)	(33 944)	(12 350)	36.4%
– insurance activity	(1 593)	(269)	(1 324)	492.2%
– related to partners' network	(5 054)	-	(5 054)	-
– other	(10 208)	(8 149)	(2 059)	25.3%
Fee and commission expense	(66 592)	(46 745)	(19 847)	42.5%
Net fee and commission income	407 241	310 499	96 742	31.2%

An increase in fee and commission expense was mainly driven by higher fee expense on payment cards, paid to card operators due to a higher number of transactions carried out by the Bank's customers, and costs of the partners' network incurred in 2015.

Dividend income

In 2015 dividend income was derived from 2014 profit generated by companies, in which the Bank holds minority interests, i.e. Krajowa Izba Rozliczeniowa S.A. (KIR,), Biuro Informacji Kredytowej S.A. (BIK,), and subsidiaries: TFI BGŻ BNPP Polska (PLN 837 thousand) and BGŻ BNP Paribas Faktoring (PLN 1,606 thousand).

Net trading income and net investment income

The net trading income for the twelve months of 2015 increased by PLN 120,623 thousand, i.e. 189.3% YoY. The level of and changes in net trading income are affected mainly by measurement of the Bank's IRS positions used as interest rate hedges as well as trading in debt securities.

The net investment income in 2015 went up by PLN 22,925 thousand year-on-year and included realized gains on sale of the available for sale securities portfolio in Q1, Q2 and Q4 2015 in the total amount of PLN 47,390 thousand. In December 2015, the Bank realized capital profit on shares and convertible bonds of PLN 13.8 million, which had a significant effect on the item.

Other operating income

Other operating income for 2015 increased by 20,460 thousand, i.e. 56.2% YoY. In the analyzed period, a drop was recorded in income from sales of goods and services, property, plant and equipment and intangible assets, which was fully offset among others by income from leasing operations included in the operating structure of the Bank.

**Table 10. Other operating income**

PLN '000	31.12.2015	31.12.2014	Change YoY	
			PLN '000	%
Sale or liquidation of property, plant and equipment and intangible assets	1 952	3 060	(1 108)	(36.2%)
Gain on sale of goods and services	5 389	8 163	(2 774)	(34.0%)
Release of provisions for litigation and claims and other liabilities	2 949	5 669	(2 720)	(48.0%)
Recovery of debt collection costs	4 921	2 624	2 297	87.5%
Recovery of overdue debts, redeemed receivables, non-collectible debts and payment of receivables that were excluded from the separate statement of financial position	9 742	5 502	4 240	77.1%
Income from leasing operations	13 452	-	13 452	-
Other	18 457	11 384	7 073	62.1%
Total other operating income	56 862	36 402	20 460	56.2%

Other operating expenses

In 2015, other operating expenses totaled PLN 91,053 thousand, which denotes a substantial increase (by PLN 61,563 thousand) YoY, mainly as a result of:

- integration costs incurred, including:
 - write-off of IT investment projects in progress, related to applications which will not be used in the target architecture of the Bank, totaling PLN 13.1 million;
 - recognition of a provision for closing down the branches of Bank BGŻ as part of merger-related restructuring in the amount of PLN 6.9 million (costs of provisions for disputes and other liabilities);
 - costs of liquidation of assets related to branch visualization and assets carrying the previous logo of the banks, totaling PLN 3.3 million;
- additional expenses incurred due to termination of cooperation with an insurance company;
- additional expenses of PLN 10.6 million related to a penalty imposed by a decision regarding calculation of the interchange fee on transactions with MasterCard and Visa cards concluded in Poland by banks acting in agreement (detailed information is presented in section 14.6 *Legal risk* hereof);
- recognition of costs of leasing operations included in the operating structure of the Bank in other operating expenses.

Table 11. Other operating expenses

PLN '000	31.12.2015	31.12.2014	Change YoY	
			PLN '000	%
Loss on sale or liquidation of property, plant and equipment and intangible assets	(20 149)	(3 368)	(16 781)	498.2%
Impairment charges on other receivables	(711)	(4 177)	3 466	(83.0%)
Provisions for litigation and claims and other liabilities	(18 075)	(2 866)	(15 209)	530.7%
Debt collection	(15 917)	(10 749)	(5 168)	48.1%
Donations made	(2 243)	(3 105)	862	(27.8%)
Costs of leasing operations	(12 816)	-	(12 816)	-
Other operating expenses	(21 142)	(5 225)	(15 917)	304.6%
Total other operating expenses	(91 053)	(29 490)	(61 563)	208.8%

Net impairment losses on financial assets and contingent liabilities

Net impairment losses on financial assets and contingent liabilities for 2015 decreased by PLN 14,283 thousand, i.e. by 4.5% YoY, mainly due to the fact that in 2015 no one-off events occurred that had resulted in an increase in write-offs and provisions in 2014 (more conservative estimates used in the collective model, changes in



classification and recognition of additional write-offs in line with post-AQR recommendations by PFSA and asset review carried out by the BNP Paribas Group).

Recognition of additional write-offs was necessary in relation to the portfolio of CHF housing loans due to an increase in CHF/PLN exchange rate (a deterioration of LtV ratio). Additionally, the loan balance increased due to the merger with BNPP Polska.

As regards the key operating segments¹:

- the Retail and Business Banking Segment recorded an increase in impairment losses of PLN 127,942 thousand YoY;
- the SME and AGRO Segment recorded a decrease of PLN 56,569 thousand YoY;
- the Corporate Banking Segment saw a positive change by PLN 37,905 thousand YoY resulting from derecognition of provisions in 2015 totaling PLN 18,989 thousand as compared to recognition of provisions in 2014.

General administrative expenses, personnel expenses, amortization and depreciation

The Bank's general administrative expenses (including depreciation) for the period from 1 January to 31 December 2015 went up by PLN 610,594 thousand, i.e. 65.6%, year-on-year. This was mainly related to the incurred costs of the integration of Bank BGŻ and BNPP Bank Polska.

The integration costs incurred by the Bank in 2015 totaled PLN 206.4 million and included:

- PLN 173.7 million recognized as general administrative expenses;
- PLN 32.7 million recognized as other operating expenses.

Integration costs recognized as general administrative expenses comprise mainly:

- recognition of a restructuring provision totaling PLN 49.3 million;
- costs of legal and consulting services of PLN 35.7 million;
- integration-related projects totaling PLN 52.7 million (including costs of rebranding in the amount of PLN 14.7 million and development of a single product offering of PLN 3.4 million, marketing and communication of PLN 4.9 million, the operational merger of PLN 9.5 million, costs of synergy-supporting activities of PLN 2.7 million and sales network reorganization of PLN 3.0 million);
- retention program of PLN 12.4 million.

Integration costs recognized as other operating expenses are mainly related to:

- write-off of IT investment projects in progress, related to applications which will not be used in the target architecture of the Bank, totaling PLN 13.1 million;
- recognition of a provision for closing down BGŻ Bank branches as part of the planned restructuring process, totaling PLN 6.9 million;
- costs of liquidation of assets related to branch visualization and assets carrying the previous logo of the banks, totaling PLN 3.3 million;
- additional expenses incurred due to termination of cooperation with an insurance company.

¹ Based on the segmentation note included in the Separate Financial Statements of Bank BGŻ BNP Paribas for the year ended 31 December 2015, presenting data that ensure comparability of periods ended 31 December 2015 and 31 December 2014.

**Table 12. General administrative expenses, personnel expenses, amortization and depreciation**

PLN '000	31.12.2015	31.12.2014	Change YoY	
			PLN '000	%
Personnel expenses	(724 007)	(522 094)	(201 913)	38.7%
Marketing	(93 417)	(47 558)	(45 859)	96.4%
IT and telecom costs	(126 267)	(81 811)	(44 456)	54.3%
Rental expenses	(145 526)	(90 430)	(55 096)	60.9%
Other non-personnel expenses	(70 230)	(42 657)	(27 573)	64.6%
Other external services	(130 343)	(101 359)	(28 984)	28.6%
Business travels	(4 870)	(1 857)	(3 013)	162.3%
ATM and cash handling costs	(3 639)	(886)	(2 753)	310.7%
Costs of outsourcing services related to leasing operations	(11 119)	-	(11 119)	-
Payment to the Bank Guarantee Fund	(97 987)	(37 731)	(60 256)	159.7%
Statutory payment from entities included in the guarantee system	(90 214)	-	(90 214)	-
Polish Financial Supervision Authority fee	(5 016)	(3 826)	(1 190)	31.1%
Payment to the Borrower Support Fund	(38 168)	-	(38 168)	-
Total general administrative expenses	(1 540 803)	(930 209)	(610 594)	65.6%
Depreciation and amortization	(147 086)	(100 995)	(46 091)	45.6%
Total expenses*	(1 687 889)	(1 031 204)	(656 685)	63.7%

* for purposes of calculation of the expense to income ratio adjusted by integration costs of PLN 173.7 million

Table 12a. Personnel expenses

PLN '000	31.12.2015	31.12.2014	Change YoY	
			PLN '000	%
Payroll expenses	(561 903)	(434 179)	(127 724)	29.4%
Payroll charges	(77 094)	(61 819)	(15 275)	24.7%
Employee benefits	(7 517)	(4 515)	(3 002)	66.5%
Costs of restructuring provision	(48 488)	1 886	(50 374)	(2 670.9%)
Costs of provision for unused annual leave and retirement benefits	(3 673)	(4 852)	1 179	(24.3%)
Appropriations to the Social Benefits Fund	(5 781)	(6 291)	510	(8.1%)
Other personnel expenses	(19 551)	(12 324)	(7 227)	58.6%
Personnel expenses	(724 007)	(522 094)	(201 913)	38.7%

Apart from integration costs, the level of operating expenses in 2015 was also affected by:

- Statutory payment to the Bank Guarantee Fund (BGF) of PLN 90.2 million to be used for payment of guaranteed funds for depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie, with regard to PFSa's motion for declaring the bank bankrupt;
- contribution to the Borrower Support Fund of PLN 38.2 million;
- takeover of the employees of BNPP Polska as of 30 April 2015 as a result of the merger;
- an increase in the level of payments to the Bank Guarantee Fund by PLN 60.3 million YoY attributable to introduction of higher rates of both the annual and the prudential fee related to establishing of the stabilization fund and expansion of the Bank's operations following its merger with BNPP Polska.

In the reporting period, **the costs of amortization and depreciation** went up by PLN 46,091 thousand, i.e. 45.6% year-on-year. This was attributable to a rise in amortization of intangible assets by PLN 29,728 thousand (as a consequence of acquisition of intangible assets of BNPP Polska) as well as depreciation of property, plant and equipment by PLN 16,363 thousand.

**9.2. STATEMENT OF COMPREHENSIVE INCOME**

In 2015, the Bank's comprehensive income was lower by PLN 352,245 thousand as compared to the preceding year.

A drop in the net profit by PLN 129,467 thousand YoY, mainly as a result of the costs of integration with BNPP Polska in the amount of PLN 206.4 million, additional appropriations of profit in Q4 2015 (recognizing the payment of guaranteed funds to depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie of PLN 90.2 million, recognition of a provision for the Borrower Support Fund of PLN 38.2 million) accompanied by a change in the measurement of available for sale financial assets (i.e. a portfolio of long-term treasury bonds) led to a considerable decrease in the Bank's comprehensive income.

In the analyzed period, the item regarding valuation of derivative instruments designated as cash flow hedges, shown in 2014, did not appear any more. Following the maturity date of transactions hedging future cash flows on originated preferential loans bearing interest based on the rediscount rate of treasury bills of the National Bank of Poland (with 1.5 or 1.6 multiplier) in April 2014, the hedging relationship was canceled and discontinued.

Table 13. Statement of other comprehensive income

PLN '000	31.12.2015	31.12.2014	Change YoY	
			PLN '000	%
Net profit for the period	8 263	137 730	(129 467)	(94.0%)
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss	(64 025)	167 795	(231 820)	(138.2%)
Net change in valuation of available for sale financial assets	(79 043)	215 554	(294 597)	(136.7%)
Net change in valuation of derivative instruments designated as cash flow hedges	-	(8 400)	8 400	(100.0%)
Deferred tax	15 018	(39 359)	54 377	(138.2%)
Items that will not be reclassified subsequently to profit or loss	5 147	(3 895)	9 042	(232.1%)
Actuarial valuation of employee benefits	6 355	(4 808)	11 163	(232.2%)
Deferred tax	(1 208)	913	(2 121)	(232.3%)
Other comprehensive income (net of tax)	(58 878)	163 900	(222 778)	(135.9%)
Total comprehensive income for the period	(50 615)	301 630	(352 245)	(116.8%)



9.3. STATEMENT OF FINANCIAL POSITION

Assets

The balance sheet total of the Bank as at the end of December 2015 was PLN 63,009,129 thousand, which denotes a rise by PLN 22,524,925 thousand, i.e. 55.6% as compared to the end of December 2014, mainly as a result of the merger of Bank BGŻ and BNPP Polska.

Loans and advances to customers, which represented 79% of total assets as at the end of December 2015 vs. 73% at the end of 2014, were the key item in the structure of assets. In terms of value, the net loans and advances increased by PLN 20,173,935 thousand, i.e. 68.0%, mainly due to inclusion of the loan portfolio of BNPP Polska, which totaled PLN 18.1 billion as at 30 April 2015.

The increase in the balance of investment in subsidiaries by PLN 232,116 thousand resulted from the post-merger acquisition of subsidiaries: Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A., BGŻ BNP Paribas Faktoring Sp. z o.o., Fortis Lease Polska Sp. z o.o. in liquidation) and transactions involving the purchase of shares in Sygma Bank Polska S.A. from BNP Paribas Personal Finance Societe Anonyme with the registered office in Paris for PLN 200 million and shares in LaSer Services Polska S.A. for PLN 11 million).

Further, the following items have changed: cash and funds in Central Bank by PLN 1,036,247 thousand, i.e. by 57.9%, financial assets available for sale by PLN 678,660 thousand, i.e. by 9.6% up to PLN 7,762,677 thousand.

The reserve requirement declared as at the end of December 2015 was PLN 1,590,634 thousand vs. PLN 1,086,490 thousand in December 2014.

Table 14. Assets

PLN '000	31.12.2015	31.12.2014	Change	
			PLN '000	%
Cash and balances with the Central Bank	2 826 407	1 790 160	1 036 247	57.9%
Loans and advances to banks	544 012	404 724	139 288	34.4%
Reverse repo transactions	-	100 668	(100 668)	(100.0%)
Debt securities held for trading	-	199 404	(199 404)	(100.0%)
Derivative financial instruments	368 138	420 152	(52 014)	(12.4%)
Hedging instruments	2 711	-	2 711	-
Loans and advances to customers	49 831 458	29 657 523	20 173 935	68.0%
Available for sale financial assets	7 762 677	7 084 017	678 660	9.6%
Investments in subsidiaries	248 848	16 732	232 116	1 387.3%
Intangible assets	250 691	165 307	85 384	51.7%
Property, plant and equipment	528 230	411 063	117 167	28.5%
Deferred tax assets	428 931	173 828	255 103	146.8%
Other assets	217 026	60 626	156 400	258.0%
TOTAL ASSETS	63 009 129	40 484 204	22 524 925	55.6%

Loan portfolio

Structure and quality of the loan portfolio

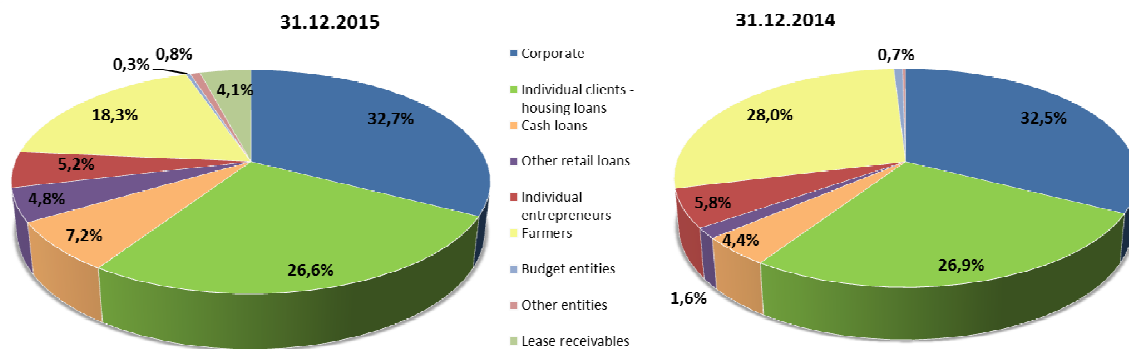
At the end of December 2015, gross loans and advances to customers amounted PLN 52,568,650 thousand and went up by PLN 21,469,605 thousand, i.e. 69.0%, which was mainly attributable to inclusion of the loan portfolios of BNPP Polska.

Loans and advances to enterprises rose by PLN 69.7%, and represent one-third of the gross loan portfolio (both in 2014 and 2015). Loans and advances to households (including individual entrepreneurs and farmers) increased by PLN 11,009,333 thousand, i.e. by 62.8%. Mortgage loans totaling PLN 14,772,641 thousand represent more than a half of loans and advances to households.


Table 15. Loan portfolio structure

PLN '000	31.12.2015		31.12.2014	
	PLN '000	Percentage share	PLN '000	Percentage share
Gross loans and advances	52 568 650	100.0%	31 099 045	100.0%
Corporate	17 180 845	32.7%	10 126 404	32.6%
Individual customers – housing loans	14 722 641	28.0%	8 340 820	26.8%
– in PLN	7 710 797	14.7%	5 438 868	17.5%
– in foreign currencies	7 011 844	13.3%	2 901 952	9.3%
Cash loans	3 679 362	7.0%	1 366 177	4.4%
Other retail loans	1 128 254	2.1%	487 150	1.6%
Individual entrepreneurs	2 847 698	5.4%	1 789 720	5.8%
Farmers	10 132 313	19.3%	8 694 500	28.0%
Budget sector	180 865	0.3%	216 419	0.7%
Other entities	457 980	0.9%	77 855	0.3%
Lease receivables	2 238 692	4.3%	-	-

A major change in the size and structure of the loan portfolio was the effect of a legal merger of Bank BGŻ and BNPP Polska, completed on 30 April 2015.

Chart 8. Structure of loans and advances (gross)

Table 16. Quality of the loan portfolio

PLN '000	31.12.2015			31.12.2014		
	Total gross value	including: impaired	Percentage share	Total gross value	including: impaired	Percentage share
Gross loans and advances	52 568 650	3 923 333	7.5%	31 099 045	2 489 700	8.0%
Individual customers – housing loans	14 722 641	626 922	4.3%	8 340 820	351 924	4.2%
– in PLN	7 710 797	202 055	2.6%	5 438 868	181 052	3.3%
– in foreign currencies	7 011 844	424 867	6.1%	2 901 952	170 872	5.9%
Cash loans	3 679 362	423 136	11.5%	1 366 177	134 286	9.8%
Other retail loans	1 128 254	118 044	10.5%	487 150	55 790	11.5%
Farmers	10 132 313	311 287	3.1%	8 694 500	305 001	3.5%
Institutional customers, excluding farmers	20 667 388	2 316 082	11.2%	12 210 398	1 642 699	13.5%
Lease receivables	2 238 692	127 862	5.7%	-	-	-

The share of impaired exposures in gross loans and advances to the Bank's customers decreased to 7.5% at the end of 2015 vs. 8.0% at the end of 2014.

**Table 17. Loan portfolio quality ratios**

PLN '000	31.12.2015	31.12.2014	Change	
			PLN '000	%
Total loans and advances to customers (gross)	52 568 650	31 099 045	21 469 605	69.0%
Impairment losses	(2 737 192)	(1 441 522)	(1 295 670)	89.9%
Total loans and advances to customers (net)	49 831 458	29 657 523	20 173 935	68.0%
Exposures without indications of impairment				
Gross exposure	48 645 317	28 609 345	20 035 972	70.0%
IBNR provision	(297 994)	(151 524)	(146 470)	96.7%
Net exposure	48 347 323	28 457 821	19 889 502	69.9%
Impaired exposures				
Gross on-balance sheet exposure	3 923 333	2 489 700	1 433 633	57.6%
Impairment losses	(2 439 198)	(1 289 998)	(1 149 200)	89.1%
Net exposure	1 484 135	1 199 702	284 433	23.7%
Ratios				
Share of impaired exposures in gross portfolio	7.5%	8.0%		(0.5pp)
Impairment coverage	(62.2%)	(51.8%)		10.4pp

Liabilities and equity

As at the end of December 2015, the Bank's total liabilities amounted to PLN 56,845,951 thousand and were higher by PLN 20,513,622 thousand, i.e. 56.5%, as compared to the end of 2014.

Table 18. Liabilities and equity

PLN '000	31.12.2015	31.12.2014	Change	
			PLN '000	%
Amounts due to banks	7 617 946	1 546 739	6 071 207	392.5%
Repo transactions	-	45 364	(45 364)	(100.0%)
Hedged instruments	1 605	-	1 605	-
Derivative financial instruments	351 539	448 908	(97 369)	(21.7%)
Amounts due to customers	46 620 848	32 804 752	13 816 096	42.1%
Debt securities issued	468 933	762 142	(293 209)	(38.5%)
Subordinated liabilities	847 568	320 951	526 617	164.1%
Other liabilities	756 161	325 722	430 439	132.1%
Current tax liabilities	37 547	9 639	27 908	289.5%
Provisions	143 804	68 112	75 692	111.1%
TOTAL LIABILITIES	56 845 951	36 332 329	20 513 622	56.5%
Share capital	84 238	56 139	28 099	50.1%
Other supplementary capital	5 092 196	3 430 785	1 661 411	48.4%
Other reserve capital	780 874	271 858	509 016	187.2%
Revaluation reserve	197 607	255 363	(57 756)	(22.6%)
Retained earnings	8 263	137 730	(129 467)	(94.0%)
- net profit for the period	8 263	137 730	(129 467)	(94.0%)
TOTAL EQUITY	6 163 178	4 151 875	2 011 303	48.4%
TOTAL LIABILITIES AND EQUITY	63 009 129	40 484 204	22 524 925	55.6%

Following the banks' merger, an increase was observed mainly in amounts due to customers and amounts due to banks.

At the end of 2015, customer deposits went up by PLN 13,816,096 thousand, i.e. 42.1% vs. the end of December 2014, to PLN 46,620,848 thousand. They accounted for 82% of total liabilities as compared to 90% at the end of 2014. The volume of liabilities to customers of BNPP Polska, which increased the deposit base of the merged Bank, was PLN 12.4 billion as at 30 April 2015.



Following the merger of the two financial institutions, a rise was recorded in the balance of liabilities to banks to PLN 7,617,946 thousand at the end of 2015, i.e. by PLN 6,071,207 thousand, which was mainly attributable to the merged Bank's takeover of loans and advances obtained by BNPP Polska from the BNP Paribas Group as well as EBRD and EIB, which totaled PLN 6.7 billion as at 30 April 2015.

Also, the balance of subordinated liabilities rose following the takeover of the subordinated loans from the BNP Paribas Group.

The balance of liabilities arising from issue of debt securities went down as a result of redemption of 4 tranches of certificates of deposits with the total par value of PLN 290,000 thousand. As at 31 December 2015, the nominal value of certificates of deposit amounted to PLN 465,000 thousand (vs. PLN 755,000 thousand as at 31 December 2014).

Deposits

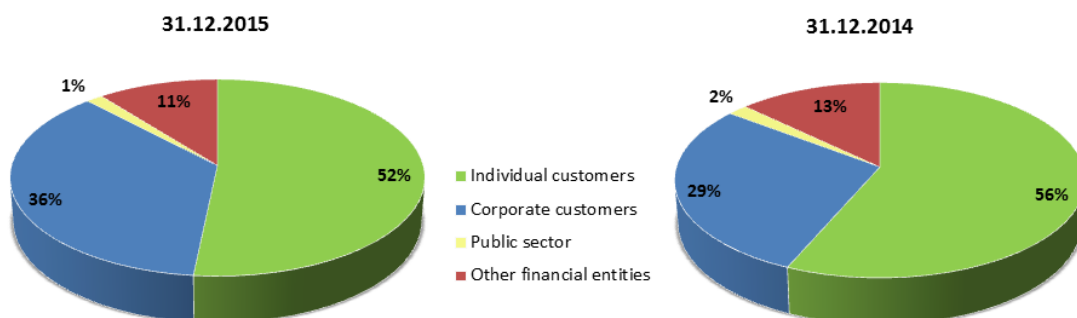
At the end of December 2015, customer deposits amounted to PLN 46,620,848 thousand, i.e. increased by 42.1% YoY, which was mainly attributable to inclusion of the deposit base of BNPP Polska.

The share of current and savings accounts in total deposits rose to 52.5% vs. 45.5% at the end of December 2014. The value of funds deposited in current accounts increased by PLN 9,534,134 thousand, i.e. 63.99%. On the other hand, the share of term deposits in total deposits dropped from 46.9% at the end of December 2014 to 42.0% at the end of 2015. In terms of value, term deposits increased by PLN 4,163,699 thousand, i.e. 27.0% vs. December 2014. The balance of loans and advances taken out decreased by PLN 50,635 thousand, while other liabilities increased by PLN 168,898 thousand.

Table 19. Amounts due to customers by products

PLN '000	31.12.2015		31.12.2014	
	PLN '000	Percentage share	PLN '000	Percentage share
Amounts due to customers	46 620 848	100.0%	32 804 752	100.0%
Current accounts	24 460 911	52.5%	14 926 777	45.5%
Term deposits	19 563 129	42.0%	15 399 430	46.9%
Loans and advances received	2 240 934	4.8%	2 291 569	7.0%
Other liabilities	355 874	0.7%	186 976	0.6%

Chart 9. Structure of customer deposits



Individual customer deposits, which rose by PLN 5 533 418 thousand, i.e. 29.8%, accounted for almost 52% of all deposits at the end of December 2015 vs. 56.5% at the end of December 2014.

On the other hand, corporate customer deposits increased by PLN 7,456,852 thousand, i.e. 78.9%. Their share in total deposits rose from 28.8% at the end of December 2014 to 36.3% at the end of 2015.

**Equity**

As at the end of December 2015, the Bank's equity amounted to PLN 6,163,178 thousand and was higher by PLN 2,011,303 thousand as compared to the end of 2014. The aforesaid change in equity in the analyzed period was mainly the effect of the merger of Bank BGŻ and BNPP Polska and the resulting issue of I series merger shares as well as retaining the profit generated by Bank BGŻ in 2014 in the amount of PLN 137,730 thousand to be allocated to the general risk reserve and the supplementary capital.

The difference between the carrying amount of the net assets of BNPP Polska, which were transferred, and the par value of the shares issued, totaling PLN 2,033,941 thousand, was recognized in the Bank's equity.

Considering the above, the share capital rose by PLN 28,099 thousand, i.e. 50.1%, the supplementary capital by 1,661,411 thousand, i.e. 48.4%, and other reserves by PLN 509,016 thousand, i.e. 187.2%.

The profit for 2015 was materially affected by incurred costs of integration and additional cost charges in Q4 2015.

9.4. EQUITY AND CAPITAL RATIOS

The total capital requirement of the Bank remained on the previous year's level and amounted to 13.78%.

Table 20. Equity and capital ratios of the Bank

PLN '000	31.12.2015	31.12.2014	Change	
			PLN '000	%
Tier 1 capital				
– share capital	84 238	56 139	28 099	50.1%
– other supplementary capital	3 272 502	1 605 049	1 667 453	103.9%
– reserve capital	2 102 170	1 976 955	125 215	6.3%
– general risk reserve	498 399	120 640	377 759	313.1%
– intangible assets	(250 690)	(165 307)	(85 383)	51.7%
– other items of equity included in Tier 1 capital	94 722	(183)	94 905	51 761%
Total Tier 1 capital	5 801 341	3 593 293	2 208 048	61.5%
Tier 2 capital				
– subordinated liabilities classified as equity	796 600	319 023	477 577	51.7%
Total equity	6 597 941	3 912 316	2 685 625	68.7%
Risk exposure due to:				
– credit risk	43 208 615	25 313 891	17 894 724	70.7%
– market risk	228 147	255 383	(27 236)	(10.7%)
– operational risk	4 336 954	2 704 777	1 632 177	60.3%
– credit valuation adjustment	94 789	120 547	(25 758)	(21.4%)
Total risk exposure	47 868 505	28 394 598	19 473 907	68.6%

Separate capital ratios of the Bank	31.12.2015	31.12.2014	Change	
			p.p.	%
Total capital requirement	13.78%	13.78%	0.00pp	0.0%
Tier 1 ratio	12.12%	12.65%	(0.53pp)	(4.2%)

Following the legal merger of Bank BGŻ and BNPP Polska completed on 30 April 2015 and the issue of merger shares, Tier 1 capital was increased.

As at 31 December 2015, total equity went up by PLN 2,685,625 thousand as compared to 31 December 2014, primarily due to:

- the legal merger of the banks – an increase in the share capital to PLN 84,238 thousand as a result of the issue of I series merger shares and recognition of the difference between the carrying amount of the net assets of BNPP Polska, which were transferred, and the par value of the shares issued, totaling PLN 2,033,941 thousand, in the Bank's equity;



- a change in recognition of intangible assets in Tier 1 capital, in accordance with the recommendation of the Polish Financial Supervision Authority formulated in its letter of 26 March 2015;
- allocating the net profit of Bank BGŻ for 2014, in the amount of PLN 137,730 thousand, to the general banking risk reserve (PLN 130,000 thousand) and to the Bank's supplementary capital (PLN 7,730 thousand) pursuant to a Resolution of the General Shareholders' Meeting of Bank BGŻ BNP Paribas of 19 June 2015;
- 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.

In the analyzed period, the total risk exposure rose by PLN 19,473,907 thousand, mainly as a result of the banks' merger.

9.5. CONTINGENT LIABILITIES – OFF-BALANCE SHEET LIABILITIES

Structure and dynamics of contingent liabilities is as follows:

Table 1. Contingent liabilities – Off-balance sheet liabilities

PLN '000	31.12.2015	31.12.2014	change	
			PLN '000	%
Contingent commitments granted				
- financial commitments	11 965 758	4 999 624	6 966 134	139%
- guarantees	3 641 726	694 712	2 947 014	424%
Total contingent commitments granted	15 607 484	5 694 336	9 913 148	174%
Contingent commitments received				
- financial commitments	3 951 269	942 883	3 008 386	319%
- guarantees	1 185 489	630 827	554 662	88%
Total contingent commitments received	5 136 758	1 573 710	3 563 048	226%
TOTAL CONTINGENT LIABILITIES	20 744 242	7 268 046	13 476 196	185%

A considerable increase in the balance of contingent commitments was driven by the legal merger of Bank BGŻ and BNPP Polska.

Contingent financial commitments granted include granted but unused lines of credit, credit card limits, unused overdrafts, credit commitments, framework financial agreements and import LCs granted by the Bank.

Off-balance sheet guarantee commitments granted include guarantees given to customers, framework guarantee agreements and export LCs.

Off-balance sheet guarantee commitments received by the Bank include mainly guarantees, counter-guarantees and suretyships collateralizing granted loans.

Information concerning suretyships and guarantees granted to and received from related parties in 2015 (including disclosures concerning transactions with executives) has been presented in Note 51 *Related Party Transactions* to the separate financial statements of the Bank for the year ended 31 December 2015.



9.6. FINANCIAL RATIOS

In 2015, the Bank's ROE dropped year-on-year, which was the result of a decrease in net profit due to costs of integration of Bank BGŻ Paribas and BNPP Polska. Following elimination of the integration costs, ROE would amount to 3.3%. The synergy effects and results of restructuring initiatives should be seen in a rise in the said ratio in the future. Also, ROA went down as compared to the preceding year. Following elimination of the integration costs, ROA would amount to 0.3%. The net interest margin decreased to 2.6% due to a record low level of interest rates in Poland, with the reference rate of the National Bank of Poland at 1.5%.

The Cost to Income ratio deteriorated considerably due to the integration costs incurred despite a 32% rise in income. If the cost of integration were included, the Expense to Income ratio would be 73.9%, which is 6.5 p.p. higher than the level observed at the end of 2014, i.e. 67.4%.

Cost of risk dropped to 0.7% at the end of 2015, i.e. below the level observed at the end of 2014 (1.1%).

The financial ratios which present loans relative to deposits as well as to total sources of funding increased as compared to the end of 2014 due to a higher share of loans from the BNP Paribas Group used for purposes of financing the mortgage portfolio.

Table 22. Financial ratios

	31.12.2015	31.12.2014	31.12.2013	Change 2015/2014 p.p.
Return on equity ⁽¹⁾	3.3%*	3.5%	4.7%	2.1
Return on assets ⁽²⁾	0.3%*	0.4%	0.4%	0.26
Net interest margin ⁽³⁾	2.6%	2.9%	2.7%	0.3
Cost to Income ⁽⁴⁾	73.9%*	67.4%	68.2%	6.5
Cost of credit risk ⁽⁵⁾	(0.7%)	(1.1%)	(1.0%)	0.4
Net loans to Deposits ⁽⁶⁾	112.3%	97.2%	99.4%	15.1
Gross loans to Total sources of funding ⁽⁷⁾	97.4%	88.3%	89.3%	9.1

* Standardized 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 income and other operating income and expenses.

(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.

**9.7. THE BANK'S AVERAGE INTEREST RATES IN 2015****Table 23. The Bank's average interest rates in 2015***

Product	PLN	EUR
Deposits	0,90%	0,04%
Households and non-commercial institutions	0,92%	0,07%
current	0,00%	0,07%
term	2,24%	
Corporate	0,87%	0,03%
current	0,33%	0,03%
term	1,68%	
Loans and advances	5,50%	1,40%
Households and non-commercial institutions	5,99%	1,70%
credit cards	10,52%	
consumer credit	9,00%	
housing loans	3,55%	
other loans	6,16%	
Corporate	4,51%	1,37%
current account	5,28%	1,37%
credit account	3,94%	

* based on statutory reports filed with the Department of Statistics, National Bank of Poland

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

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

- Strong domestic demand and improvement of economic conditions in the eurozone translate into optimistic forecasts for the Polish GDP. According to projections of the European Commission, Polish GDP shall grow by 3.5% both in 2016 and 2017. The growth projections for the eurozone in the same period are 1.7% and 1.9%, respectively.
- In January 2016, Standard&Poor's reduced the long-term foreign currency rating for Poland from A- to BBB+ with a negative outlook. Further, it reduced the long- and short-term domestic currency rating from A/A-1 to A/A-2. The change resulted in a temporary drop in the PLN exchange rate and stock exchange indexes. Other agencies did not modify their ratings.
- External conditions are the key risk factor for the growth of the economy as a whole. The geopolitical standing in Middle East and Ukraine and potential changes in the EU related to the possible British exit remain the key problems. Adverse macro-economic factors include economic slowdown in China and discontinuation of the monetary policy easing in the U.S.
- Stabilization of the interest rates of the National Bank of Poland at a record low level reduces the Bank's ability 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.
- Government plans regarding translation of mortgage loans denominated or indexed in foreign currencies pose the key risk for the Bank and the entire banking sector. The presidential draft of the *act on restoring equality of parties in certain loan agreements* has proposed three restructuring scenarios: voluntary principal translation by banks at the individually calculated "fair exchange rate" and refund of currency spreads; obligatory translation on client's request or "transferring the keys", i.e. transfer of the ownership title to real property in exchange for debt cancellation.
- The tax on financial institutions introduced in February 2016 has significantly reduced profitability of banking operations. For banks, the tax will be charged on an annual basis in the amount 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 housing loans.
- In 2016, the costs incurred by the Bank shall be affected by contributions to BGF. The annual BGF contribution rate shall drop from 0.189% in 2015 to 0.167% in 2016, while the prudential fee rate shall grow from 0.05% in 2015 to 0.079% in 2016. The rate for protection of guaranteed funds has been determined on the same level as in the previous year, i.e. 0.55%. The obligatory annual fee and the prudential fee are payable by 31 March 2016.
- In 2015, banks incurred costs of guaranteed funds paid to depositories of Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie due to its bankruptcy. More problems in the cooperative banking sector, which will negatively affect the entire banking industry, may be expected.
- In December 2015 the Bank received information concerning its potential share in the settlement of a transaction involving the acquisition of Visa Europe Limited (Visa Europe) by Visa Inc. (the "Transaction"). As a member of Visa Europe, the Bank will be one of the beneficiaries of the said Transaction. The potential Transaction settlement effect on the Bank shall approximate EUR 8.7 million, including:
 - EUR 6.5 million (approx. PLN 27.6 million) in cash;
 - EUR 2.2 million (approx. PLN 9.3 million) in shares.

The aforesaid amounts may be adjusted by the Transaction costs and as a result of accepted requests for adjustment of awarded amounts, which may be filed by members of Visa Europe. The Transaction will depend on the receipt of the required regulatory authorizations and it is expected to be closed in the second quarter 2016.

Additionally, a deferred earn-out payment is expected in connection with the Transaction, to be made in cash following the expiry of 16 quarters of the Transaction settlement date. The receipt of the earn-out payment depends on satisfaction of the up-front distribution requirements and Visa membership for four years after the Transaction close date.



11. OPERATIONS OF BANK BGŻ BNP PARIBAS S.A. IN 2015

The operations 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;
 - 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 BNP Paribas Group 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 31 December 2015, the Bank had 508 retail and business banking branches. The branch network was supported by 8 external cash desks handling cash transactions, 10 Investment Product Centers (IPC) providing comprehensive services related to investment products offered by the Brokerage Office of BGŻ BNP Paribas as well as 7 Private Banking Centers.

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. The country was divided into 9 Regions with 78 leading branches and 430 branches (including 22 partner branches operating under franchise contracts).

In H2 2015, 93 branches were liquidated and 2 relocated. Additionally, 3 external cash desks were closed down.

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 31 December 2015, the Bank operated 528 branch ATMs owned by IT Card. The ATMs carried the logo of BGŻ BNP Paribas.

² The parameter determining the economic size of farms based on EU Farm Accountancy Data Network

³ *Ibidem*

**11.2. DISTRIBUTION CHANNELS****Online banking**

In 2015, the Bank recorded an increase in the number of customers using online banking services, both among individual and institutional customers. The number of transactions carried out via online banking rose as well.

Table 24. Information on the eBGŻ system

eBGŻ system		31.12.2015	31.12.2014	Change YoY	
				thousand	%
Number of customers with access to	eBGŻ/eBGŻ Lite	472 042	453 610	18 432	3.90%
	eBGŻ Firma	99 398	95 280	4 118	4.14%
Number of active users	eBGŻ	297 975	281 887	16 088	5.40%
	eBGŻ Lite	91 991	77 969	14 022	15.24%
	eBGŻ Firma	60 377	57 442	2 935	4.86%
Average monthly number of transactions	eBGŻ	1 322 058	1 221 058	101 000	7.64%
	eBGŻ Lite	68 598	28 526	40 072	140.48%
	eBGŻ Firma	1 286 444	1 193 868	92 576	7.75%

In May 2015, eBGŻ users were provided with a functionality enabling them to download PDF bank statements to the Bank's credit card accounts. Following the merger of Bank BGŻ and BNPP Polska a uniform graphic layout was introduced for the transaction systems.

Table 25. Information on the PI@net system

PI@net system	31.12.2015
Number of customers with access to the system*	261 551
Average monthly number of transactions	429 655

Mobile PI@net application	31.12.2015
Number of customers with access to the system*	40 424
Average monthly number of transactions	1 024 434

*customers being parties to an online banking agreement

Table 26. Information on BGŻOptima

BGŻOptima	31.12.2015	31.12.2014	Change YoY	
			number	%
Number of customers with access to the system	176 900	144 972	31 928	22.02%
Average monthly number of transactions	56 757	52 403	4 354	8.30%

The functionalities of the online banking system eBGŻ were updated to reflect changes introduced to the Bank's offering. Additionally, the range of services offered by the merged Bank includes the electronic banking service PI@net and BiznesPI@net (offered to BNPP Polska customers before).

In June 2015, Mobile PI@net application was upgraded in terms of functionalities, while in December e-payment service was opened in eBGŻ and PI@net, allowing clients to pay for Internet purchases with selected payment integrators.

**Bank cards**

As regards issuing and management of payment cards, 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 31 December 2015, the number of issued cards amounted to 899.6 thousand and was nearly 258 thousand higher than a year before. The 40% increase results mostly from the banks' merger.

Table 27. Number of bank cards issued by BGŻ BNP Paribas S.A.

Thousand	31.12.2015	31.12.2014	Change YoY	
			Thousand	%
Debit cards – retail customers	706.9	525.6	181.3	34.5%
Credit cards – retail customers	103.7	54.7	49.0	89.6%
Debit cards – business	76.6	60.5	16.1	26.6%
Deferred payment cards – business	6.1	1.2	4.9	408.3%
Credit cards – business	1.0	-	1.0	x
Prepaid cards	5.3	-	5.3	x
Total number of cards issued	899.6	642.0	257.6	40.1%

Telephone banking

In 2015, the total number of customers using the telephone banking system rose by 20,742 as compared to the end of December 2014.

Table 28. Information on TeleBGŻ

TeleBGŻ		31.12.2015	31.12.2014	Change YoY	
				Number	%
Number of customers with access to TeleBGŻ	Retail customers	512 093	489 921	22 172	4.53%
	Institutional customers	146 648	148 078	(1 430)	(0.97%)

Cooperation with intermediaries

At the end of 2015, the Bank cooperated actively with 16 network intermediaries, such as Open Finance, Notus or Expander, and 9 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;
 - Affluent;
 - *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 1 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.

DEVELOPMENT OF THE PRODUCT OFFERING

In 2015, the Bank's priority in terms of product offer management was effective implementation of merger of the two organizations. The objective was to develop a single consistent and attractive offering available in the branch network of the combined banks and in alternative distribution channels. At the same time, regulations, price lists, sales and post-sales and service processes were standardized.

In mid-June 2015, the new *Konto Praktyczne* was launched by the Bank. The product includes:

- zero charge for account maintenance with minimum monthly proceeds of PLN 1,000;
- withdrawing cash from ATMs worldwide free of charge;
- instructions for domestic transfers in PLN, submitted through Internet, performed free of charge;
- free of charge transactions with debit MasterCard with contactless payment function for the minimum total value of transactions of PLN 300 per month.

Clients aged under 26 are exempted from the monthly fee for the maintenance of *Konto Praktyczne* and for the issued card.

The image campaign of the merged Bank was followed by other advertisement campaigns regarding the leading products: personal account and cash loans. *Konto Aktywna Pensja* and *Konto aktywator* were offered on special terms along with *Konto Praktyczne*. The promotion included an offer to use the following facilities for the period of 12 months:

- four-percent annual interest on the personal accounts for amounts up to PLN 5,000;
- free of charge revolving loan on the personal account up to PLN 5,000 (excluding interest and commissions),

provided account holders have their salaries transferred to the account.

In 2015, the Bank launched regular campaigns aimed at encouraging personal account holders to have their salaries transferred to the accounts and to use the debit cards for cashless payment purposes, including:

- 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 the period from March to May 2015, the Bank carried out a campaign to encourage clients to pay with debit cards for their purchases. In return for a retail transaction customers would receive a gift. As a result, almost 6.5% of customers used their cards for the first time to make everyday purchases;
- waiver of the monthly contactless card fee for the period of six months;
- moneyback facility available for new clients (5 percent for the period of three months) in return for purchases in supermarkets paid for with a debit card;
- in March 2015, the Bank launched the *3D Secure* service for its customers, offering additional security for card payments made in online stores carrying the *MasterCard SecureCode* logo. The service consists in confirmation of online transactions with a single SMS password sent to the card holder's mobile phone;
- e-statements regarding credit card accounts for e-banking clients.

Following implementation of Recommendation U issued by the Polish Financial Supervision Authority, Aviva insurance offered to credit card holders was discontinued. In the merged Bank, all new credit card insurance products are provided by Cardif Assurances Risques Divers S.A. and Europ Assistance S.A.

⁴ See footnote on page 38



Further, the Bank commenced regular CRM campaigns allowing effective management of customers' savings, among others offering those whose deposits are close to their term with relevant solutions.

Table 29. Retail and Business Banking Deposits and Loans⁵

PLN '000	31.12.2015	31.12.2014	Change YoY	
			PLN '000	%
Current accounts	6 367 866	4 384 566	1 983 300	45%
Savings accounts	9 783 776	7 446 506	2 337 270	31%
Term deposits	11 680 775	9 871 558	1 809 217	18%
Overnight deposits	566 004	339 594	226 409	67%
Accounts and deposits	28 398 421	22 042 225	6 356 196	29%
<i>including: BGŻOptima</i>	<i>6 557 984</i>	<i>5 101 530</i>	<i>1 456 454</i>	<i>29%</i>
Consumer credit	4 341 966	1 274 213	3 067 753	241%
Investment loans	4 924 534	4 121 360	803 174	19%
Overdrafts	3 139 709	2 485 312	654 397	26%
Housing loans	14 412 829	8 244 427	6 168 402	75%
Lease receivables	313 120	-	313 120	
Credit cards	160 148	80 907	79 241	98%
Short-term loans	140 478	151 559	(11 081)	(7%)
Other loans	202 519	244 237	(41 718)	(17%)
Factoring	1 694	3 480	(1 785)	(51%)
Loans and advances (net)	27 636 998	16 605 495	11 031 503	66%

A new product package offer was implemented in August 2015 for business customers, including:

- *Biznes Lider Ekstra* (for firms with limited financial reporting);
- *Biznes Lider Premium* (for firms with full financial reporting);
- *Spółeczny Lider* (for non-profit organizations) previously offered by Bank BGŻ.

Agro Lider package was maintained as an offering for farmers.

In September 2015, in cooperation with Elavon the Bank introduced promotion for customers regarding POS terminals. Each firm that decided to use POS and held or opened an account with the Bank was exempted from the terminal fee for six months.

Deposits

The year 2015 saw the lowest-on-record level of interest rates introduced by the National Bank of Poland. In these demanding conditions, the deposit operations of the Bank were primarily aimed at ensuring stability of the retail customer savings portfolio while optimizing the deposit margin. As part of the initiatives launched in relation to the banks' merger, consistent interest rates were introduced for deposits.

In 2015, customers of the Bank were offered a number of special term deposits and promotional interest on savings accounts, awarding clients who deposited new funds with the Bank. The five progressive deposit promotions enjoyed substantial interest.

The Bank regularly launched attractive special offers to its Personal and Private Banking customers for selected maturities of the *Lokata bardzo osobista* deposit in addition to a high-interest *Lokata urodzinowa* deposit.

Clients expecting profits higher than interest on deposits were offered with a wide range of investment products:

- about 200 investment funds managed by 14 investment fund management companies;

⁵ Deposit and credit volumes in selected segments are presented based on data derived from management information systems since they offer access to more detailed product data.

The volume of deposits does not include balances of certain credit institutions treated as Interbank deposits in the management information system, while in the financial reporting system are recognized under customer deposits; further, the balances do not include interest accrued but not due yet.



- *Lokata Profit Plus* - a product bearing interest up to 8% of the margin offered in combination with investment funds;
- fifteen structured products: nine in the form of investment deposits and six in the form of unit-linked life insurance;
- Panorama Funduszy PLUS unit-linked life insurance offering over 40 investment strategies.

Offering for business customers included a three-month deposit on special terms in two variants.

In the beginning and end of the year farmers were offered preferential interest on savings accounts (*Agro Eskalacja*) allowing depositing of direct subsidies on favorable terms.

As at 31 December 2015, Retail and Business Banking deposits totaled PLN 28,398 million, which denotes a rise by PLN 6,356 million (29%) year-on-year. In addition to the merger, an increase in the volume of term deposits (both standard and negotiated) at the Bank's Branches was the key growth factor.

Table 30. Number of retail customer deposit accounts

Thousand	31.12.2015	31.12.2014	Change YoY	
			Thousand	%
Number of accounts* at branches	1 867.7	1 374.9	492.8	35.8%
Current accounts	961.0	761.3	199.7	26.2%
Savings accounts	499.7	332.2	167.6	50.4%
Term deposits	406.9	281.4	125.5	44.6%
Number of BGŻOptima accounts	243.1	200.2	42.9	21.5%
Savings accounts	202.8	167.5	35.3	21.1%
Term deposits	40.3	32.7	7.6	23.2%
Total number of accounts	2 110.8	1 575.0	535.8	34.0%

*excluding auxiliary accounts

BGŻOptima

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

As at 31 December 2015, the number of customers using BGŻOptima services was 176.9 thousand, which denotes a growth by 39.1 thousand in 2015.

Loans

In 2015, the Bank's retail loan activity focused on increasing its market share while maintaining profitability of such loans. As early as in mid-June 2015, the Bank proposed a single product offer to all customers of the merged banks.

In the beginning of the year, two special offers regarding cash loans took place:

- *Kredyt na PIT* - the offer allowed taking out a loan based on a tax return form for the previous year;
- *Pożyczka na szóstkę* - a loan with attractive 6% annual interest rate.

The campaign of increasing credit card limits and transfer of funds to personal accounts recognized on the credit card limit, addressed to credit card holders, was continued.

Customers using the electronic banking system were offered an electronic bank statement for their credit card accounts.

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 September 2015, an offer of mortgage loans with an attractive margin was introduced, addressed to holders of personal accounts with Cardif insurance. Amendment to the program *Mieszkanie dla młodych*, allowing



subsidizing the purchase of flats on the secondary market, contributed significantly to the growth in sales of mortgage loans. In 2015, mortgage loans sold by the Bank totaled PLN 1,209 million.

At the end of March 2015, insurance products that did not fulfil Recommendation U requirements were withdrawn from the offer. At the same time, the Bank extended its product offering with property and personal insurance sold under agency agreements. The Bank signed such agency agreements with PZU and Towarzystwo Ubezpieczeń na Życie Cardif Polska SA and Cardif Assurances Risques Divers S.A. Oddział w Polsce. The Bank's customers are also encouraged to actively use the discount programs offered by the payment associations Visa and MasterCard.

The Bank attempted to unify the loan offer for business customers and adjust loan terms to the credit policy of BNP Paribas Group. Lending activity remained the key element of the strategy aimed at winning new customers and business development within the existing portfolio. The Bank offered:

- special terms of financing for farmers, both for investment (*Agro Progres loan*), and operational purposes (*Agro Ekspres loan*);
- investment and mortgage loans for the non-agro segment;
- preferential terms of investment loans and transfer of working capital loans from other banks.

In September 2015 the Bank launched *Biznes Lider* loan, an unsecured loan repayable in installments, originated to firms in the amount up to PLN 250 thousand for seven years. The launch was supported with a marketing campaign and promotional action addressed to customers.

As at the end of 2015, the value of the Retail and Business Loan portfolio was PLN 27,637 million, which denotes a rise by PLN 10,385 million (60%) as compared to the preceding year. The volume of cash loans and mortgage loans in PLN as well as those in convertible currencies (CHF) increased.

Following a rapid increase in CHF/PLN exchange rate in January 2015, a growth in the portfolio of housing loans denominated in CHF was seen during the year. The volume of housing loans denominated in foreign currencies (withdrawn in 2008-2009) amounted to PLN 7,012 million at the end of 2015 (an increase by PLN 4,109 million vs. 31 December 2014).

Bank guarantees and LCs

The offer of trade financing products includes export and import documentary LCs as well as nostro and loro guarantees.

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

In 2015, the Bank issued 276 bank guarantees at the request of Business Segment customers, which totaled PLN 13.3 million.

In 2015, the Bank opened 12 import LCs in the total amount of PLN 3.9 million at the request of customers from this segment and handled 41 export LCs totaling PLN 13.3 million, issued by third-party banks for the benefit of those customers.

NET BANKING INCOME – RETAIL AND BUSINESS BANKING

In 2015, net banking income in the Retail and Business Segment was PLN 1,097 million (19% higher compared to 2014) and accounted for 54.4% of the entire net banking income for 2015. Personal Finance generated 26% of the net banking income in this segment.

**Table 31. Net banking income – Retail and Business Banking⁶**

PLN '000	31.12.2015	31.12.2014	Change YoY	
			PLN '000	%
Net interest income	831 645	677 410	154 235	23%
Net fee and commission income	243 468	210 426	33 042	16%
Net trading income	40 243	40 773	(530)	(1%)
Dividend income	839	-	839	-
Other income	(18 892)	(3 055)	(15 837)	518%
Net banking income	1 097 303	925 554	171 749	19%

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;
- car loans – for new and used vehicles, initiated mainly by used car dealers and authorized car dealers;
- credit cards – offered to customers being parties to a credit card linked cash advance or car loan agreement.

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

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.

DEVELOPMENT OF THE PRODUCT OFFERING**Cash loans**

In 2015, the Bank launched the following offers related to cash loans:

- a special offer of cash loans with attractive pricing terms and life insurance;
- a special offer with a guarantee of the lowest total cost of credit and attractive pricing terms depending on personal account opening at the Bank as well as the obligor's life or job loss insurance. The promotion guarantees that the cash advance obtained by the customer will have the lowest total cost of credit as compared to same-parameter (amount, currency, tenor, obligor's identity) loan products offered by other banks;
- an offer involving sales of cash loans with a premium, the so-called *oszczędzający kredyt gotówkowy*; customers were offered attractive interest on the loan and refund of 20% of interest paid once each 12 months of repayment term have passed and after the last installment, if not falling after 12 months. The offer was available for customers who have concluded an insurance contract, and the premium was refunded only to customers who repaid the loan within contractual deadlines;
- a new offer of life insurance products accompanying cash loans (following the introduction the requirements of PFSA - Recommendation U);
- pre-approved offer addressed to permanent clients of the Bank, available in branches and through Contact Center;
- special offer regarding cash loans through Internet.

⁶ Information based on the segmentation note included in the Separate Financial Statements of Bank BGŻ BNP Paribas for the year ended 31.12.2015, presenting data that ensure comparability of the periods ended 31.12.2015 and 31.12.2014.



A new standard and special offer regarding the cash loans was introduced within a new product offering of the combined Bank.

In 2015, sales of the new cash loans amounted to PLN 1,818 million.

Car loans

In 2015, the Bank launched the following offers related to the car loans:

- a new special offer and a standard offer addressed to authorized dealers of Hyundai and Kia;
- an offer dedicated to authorized Mitsubishi dealers (standard loans, balloon loans, special and subsidized loans);
- a 4x25 balloon loan offer for authorized dealers of Hyundai;
- NISKA RATA loan offer for authorized dealers of Hyundai;
- the PROMO KOMIS special offer with modified price parameters;
- a new offer of insurance products accompanying car loans (following the introduction the requirements of Recommendation U);
- a special loan offer with one-month grace period available in commission sales of cars, branches and through sales agents.

In 2015, sales of the new car loans amounted to PLN 809 million.

Leasing

Apart from car loans, the Bank's customers may enter into operating and finance lease agreements (including the Vat Marża finance lease) from PLN 20,000.00 (PLN 13,000.00 for new motorcycle dealers) to PLN 1,000,000.00 for new vehicles and PLN 500,000.00 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 2015, new lease offers were launched with subsidized products, dedicated to Hyundai, KIA and Mitsubishi dealers with whom the Bank had signed partnership contracts.

Credit cards

Credit cards are distributed to customers being parties to a credit card linked cash advance or car loan agreement. The available limits range from PLN 2,000 to PLN 6,000.

In 2015, the Bank launched the following offers related to credit cards:

- modified loan limits granted along with other loan products, adjusted to customers' business needs and requirements;
- pre-approved offer addressed to permanent clients of the Bank, available in branches and through Contact Center;
- modified offer of insurance linked with credit cards, in accordance with Recommendation U; the insurance is provided by Cardif Assurances Risques Divers S.A. and Europ Assistance S.A.

11.5. BROKERAGE OFFICE OPERATIONS

The operations of the Brokerage Office of Bank 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, and, following the merger date, also to Private Banking customers.

The core business of the Brokerage Office comprises portfolio management and investment advice. Investment advice is provided to Affluent customers and Private Banking customers. Following the merger, portfolio management services were also added to the offering of the Brokerage Office.

The net broker fee income in 2015 amounted to PLN 4,006 thousand vs. PLN 8,136 thousand in 2014.

The Brokerage Office offers a wide range of investment funds managed by recognized Polish Investment Fund Management Companies. At the end of December 2015, the Brokerage Office sold units in more than 361 funds managed by 16 Investment Fund Management Companies. As at 31 December 2015, the value of Investment Fund Management Company assets sold by BGŻ BNP Paribas totaled PLN 2,182million.



In the analyzed period, fee income on sales of units in Investment Fund Management Companies by the Investment Product Centers (IPC) and the Bank's Branches increased. In 2015, the above commissions totaled PLN 20,313 thousand. The total net commission income of the Bank's Brokerage Office increased by PLN 1,106 thousand YoY.

Table 32. Fee and commission income of the Bank's Brokerage Office

PLN '000	31.12.2015	31.12.2014	Change YoY	
			PLN '000	%
Broker fees and charges	4 006	8 136	(4 130)	(50.8%)
Fees on sales of units in Investment Fund Management Companies	20 313	15 077	5 236	34.7%
Fee and commission income form brokerage operations	24 319	23 213	1 106	4.8%

Improved financial performance of the Brokerage Office was the effect of the implemented growth strategy, which places a central focus on both human resources and development of the product offering.

Table 33. Share of the Bank's Brokerage Office in WSE trading volume

		31.12.2015		31.12.2014	
		Volume	Share	Volume	Share
Shares	PLN'000,000	931.45	0.23%	1 138.81	0.28%
Bonds	PLN'000,000	19.14	1.08%	69.53	3.60%
Contracts	number	83 965	0.55%	86 727	0.50%
Investment certificates	PLN'000,000	1.44	0.94%	2.61	1.81%
Options	number	6 449	0.79%	6 834	0.73%

11.6. SME AND AGRO BANKING

SME and Agro Banking Segment comprises 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) in the preceding financial year of EUR 75 thousand or more and with the Bank's 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, as well as financial institutions, cooperative banks and associated banks.

The SME sales network has been divided into 7 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.

DEVELOPMENT OF THE 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.).

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

Description of new products

In 2015 new unified loan application processing paths were introduced for all SME customers. Necessary changes were made to applications used in the processing of SME loans. *Ekspres Linia*, the simplified overdraft facility, was removed from the financing offer. At the same time, a new package was introduced: Agro Lider Plus, a cheap offer for Agro customers, Standard MSP negotiated plan and *plan eBiznes* for non-Agro customers.

At the end of 2015, the Bank provided services to 24,095 SME customers, 6,429 (27%) of which were farmers, 2,598 (11%) Agro enterprises and 15,068 (62%) other sector enterprises.

Table 34. Deposits and loans – SME and Agro⁷

PLN'000	31.12.2015	31.12.2014	Change YoY	
			PLN '000	%
Current accounts	3 876 044	2 017 496	1 858 548	92%
Savings accounts	406 573	194 878	211 695	109%
Term deposits	1 120 474	825 808	294 666	36%
Overnight deposits	535 153	531 743	3 411	1%
Accounts and deposits	5 938 245	3 569 924	2 368 320	66%
Consumer credit	1 699	-	1 699	-
Investment loans	6 958 849	6 030 018	928 832	15%
Overdrafts	2 134 283	1 572 277	562 006	36%
Lease receivables	461 065	-	461 065	-
Credit cards	1 378	575	803	140%
Short-term loans	1 095 864	797 335	298 529	37%
Other loans	19 140	38 534	(19 394)	(50%)
Factoring	31 700	51 734	(20 033)	(39%)
Loans and advances (net)	10 703 979	8 490 473	2 213 507	26%

Agro sub-segment The Bank has developed a comprehensive offering for the agro-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.

In May 2015, a new Agro loan policy was approved due to the necessity to bring the principles regarding loans for farmers and auxiliary entities into line with those followed by the BNP Paribas Group.

⁷ See footnote on page 42



Preferential loans

In response to the amendments introduced to European Commission regulations and national laws, as from 12 March 2015 a new preferential loan policy has been adopted. The number of credit facilities was limited to six: for investments in farming and inland fishing, for purchase of agricultural land, for investments in processing of agro products, fish, crustaceans and snails, purchase of shares, post-disaster investment facility, post-disaster working capital facility and a loan 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. Financing of the purchase of agricultural land is possible up to 10% of eligible expenses.

In 2015, the Agency for Restructuring and Modernization of Agriculture (ARMA) introduced a new formula for allocation of loan limits to interested banks. Bank BGŻ won ARMA competition for the best offering of preferential loans to farmers. As a result, almost PLN 900 million, i.e. 60% of the total limit for all banks, was allocated to Bank BGŻ. Bank BGŻ proposed 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 September 2015, expecting a reduced use of the limit granted for the loan campaign, the Bank returned PLN 200.6 million to ARMA and reduced the available limit to PLN 694.2 million.

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 agro-food sector enterprises.

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

In 2015, the Bank issued 939 bank guarantees at the request of SME customers, which totaled PLN 139.1 million.

In 2015, the Bank opened 133 import LCs in the total amount of PLN 26.4 million at the request of SME customers and handled 66 export LCs totaling PLN 16.9 million, issued by third-party banks for the benefit of those customers.

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

OFFERING RELATED TO PUBLIC PROGRAMS

Agreement with the European Investment Bank

On 16 September 2015 the Bank concluded another agreement with the European Investment Bank concerning a credit facility of EUR 100 million. SME and MIDCAP segment customers may be beneficiaries of the facility. Customers who meet the eligibility criteria are offered a lower markup. Under the facility, beneficiaries can take out an investment loan or conclude a lease.

Ten percent of the facility amount has been earmarked for Green Initiative (GI) Program investments. GI *Energo Leasing* is available for investment project that improve energy efficiency of an enterprise, involving replacement of old machines with new, energy-efficient ones. Beneficiaries receive free of charge technical support of a consultant, lower interest and refund of up to 12% of the provided financing amount. They have to meet the requirements of the SME definition as adopted by the EU.

De minimis guarantees of BGK

In November 2015, de minimis guarantee limits granted to Bank BGŻ and BNP Paribas were combined. At the same time, the total limit was increased to PLN 1.5 billion.

COSME guarantees

On 29 October 2015, the Bank signed a cooperation agreement with Bank Gospodarstwa Krajowego regarding loans for SME guaranteed by BGK under the COSME program.

The BGK guarantee under the COSME program is an alternative solution for entrepreneurs who cannot use the de minimis guarantees. The new program allows securing up to 80% of the loan amount (both for working



capital and investment loans) at a relatively low cost, amounting to 1% of the guarantee amount per year. The product has been offered by the Bank since 2016.

Technological loan

On 3 November 2015, the Bank and Bank Gospodarstwa Krajowego signed a cooperation agreement regarding loans originated under *Sub-measure 3.2.2. "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. The investment co-funding competition was held from 7 December 2015 to 29 January 2016.

PoISEFF2 Program

In 2015, BGŻ BNP Paribas S.A. continued cooperation with EBRD and National Fund for Environmental Protection and Water Management under PoISEFF2 based on the Loan Agreement and Cooperation Agreement. Based on the Loan Agreement, BGŻ BNP Paribas uses a credit facility originated by EBRD, under which SME segment customers can obtain loans for energy efficiency projects and thermo-modernization of buildings. Additionally, the Loan Agreement provides enterprises (the beneficiaries) with access to Technical Assistance. The key objective of cooperation between BGŻ BNP Paribas and EBRD and National Fund for Environmental Protection and Water Management (NFEPWM) is to make investment funds easily available for SME to reduce energy consumption in enterprises and carbon emissions. Subsidies provided by NFEPWM are an integral part of the funding and are paid to borrowers following implementation and positive verification of the investment. Subsidies are granted for loan repayment purposes.

The period in which agreements can be concluded under the program has been extended until December 2016.

NET BANKING INCOME – SME AND AGRO BANKING

In 2015, net banking income in SME and Agro Banking was PLN 320.8 million, which denotes a 19% increase year-on-year. It represents 15.9% of the total net banking income of the Group.

Table 35. Net banking income – SME and Agro Banking⁸

PLN'000	31.12.2015	31.12.2014	Change YoY	
			PLN '000	%
Net interest income	199 607	173 940	25 667	15%
Net fee and commission income	84 837	67 463	17 374	26%
Net trading income	30 905	25 164	5 741	23%
Dividend income	416	-	416	-
Other income	5 032	3 024	2 008	66%
Net banking income	320 797	269 591	51 206	19%

⁸ See footnote on page 45



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 2015, 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.

To enhance the quality of international customer service, in liaison with the BNP Paribas Group, the Bank has established Italian and Benelux desks, which have joined forces with the German desk launched before in acquiring new and strengthening the relationships with existing customers from a dedicated area, both at the local level and in the BNP Paribas Group as a whole. Additionally, a decision was made to launch the Asia-Pacific desk.

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 Krakow, Katowice, Poznan, Wroclaw, Lublin and Gdansk each. In addition to the existing BCs, services are provided to customers locally by dedicated relationship managers in Bialystok, Bydgoszcz, Lodz, Olsztyn, Rzeszow and Szczecin.

DEVELOPMENT OF THE 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:

- **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;
- **deposits** – from overnight to term deposits, indexed using the WIBOR rate;
- **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;

- **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 PI@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.

Online 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).

Table 36. Corporate Banking Deposits and Loans⁹

PLN '000	31.12.2015	31.12.2014	change YoY	
			PLN '000	%
Current accounts	4 344 454	1 040 419	3 304 035	318%
Savings accounts	2 744	91	2 653	2 911%
Term deposits	3 858 965	3 407 749	451 216	13%
Overnight deposits	1 922 407	374 032	1 548 375	414%
Accounts and deposits	10 128 571	4 822 291	5 306 280	110%
Consumer credit	202	-	202	-
Investment loans	5 234 846	2 241 669	2 993 177	134%
Loans and advances in current accounts	2 229 248	975 444	1 253 804	129%
Lease receivables	1 369 824	-	1 369 824	-
Credit cards	2 016	210	1 805	858%
Short-term loans	2 356 685	951 795	1 404 890	148%
Other loans	27 978	29 705	(1 727)	(6%)
Factoring	91 617	350 376	(258 759)	(74%)
Loans and advances (net)	11 312 416	4 549 200	6 763 216	149%

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.

⁹ See footnote on p. 42

**Bank guarantees and LCs**

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

In 2015, the Bank issued 2,633 bank guarantees at the request of Corporate Banking customers, which totaled PLN 1,263.5 million.

In 2015, the Bank opened 1,402 import LCs in the total amount of PLN 518.3 million at the request of Corporate Banking customers and handled 323 export LCs totaling PLN 406.7 million, issued by third-party banks for the benefit of those customers.

NET BANKING INCOME – CORPORATE BANKING

In 2015, the net banking income of Corporate Banking was PLN 310.3 million, which denotes an increase by 168% year-on-year. It represented 15.4% of the total net banking income of the Group as compared to 7.6% in the corresponding period of the preceding year. This was due to inclusion of the corporate portfolio of BNPP Polska.

Table 37. Net banking income – Corporate Banking¹⁰

PLN '000	31.12.2015	31.12.2014	change YoY	
			PLN '000	%
Net interest income	158 313	73 241	85 072	116%
Net fee and commission income	77 179	28 956	48 223	167%
Net trading income	57 046	12 331	44 715	363%
Result on investment activities	14 218	-	14 218	-
Dividend income	1 188	-	1 188	-
Other	2 328	1 184	1 144	97%
Net banking income	310 272	115 712	194 560	168%

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, 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 2015, CIB focused on improving its liaison 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.

¹⁰ See footnote on p. 45



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 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 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 transfer 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 31 December 2015, the Bank was a correspondent bank of ca. 900 other banks, and held 54 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.

In the second half of 2015, Bank BGŻ BNP Paribas S.A. cooperated with one foreign non-bank financial institution offering cheap and fast money remittance services – MoneyGram (USA), both as regards cash and credit transfers. The transactions were two-directional – from and to Poland.

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 December 2015, Bank BGŻ BNP Paribas had 7,588 FTEs (including employees on maternity leave, childcare leave and longer sick leave) as compared to 5,209 at the end of December 2014. The said rise in the number of employees year-on-year was mainly driven by the merger of BGŻ and BNPP Polska as at 30 April 2015.

The table below presents the Bank's employment structure as at 31 December 2015 and 30 June 2015 in FTEs. The change in the number of employees in the analyzed periods resulted mainly from the restructuring projects carried out at the Bank.

Table 38. The Bank's headcount in FTEs

	31.12.2015	30.06.2015
Total Bank, including:	7 588	7 762
Head Office	3 189	3 116
Branches	4 242	4 485
Mobile Relationship Managers	88	88
Brokerage Office	54	57
Training Center	11	13
Trade Unions	4	3

Anticipating the necessity of employment restructuring, on 4 March 2015, Bank BGŻ, BNPP Polska and the Inter-Company Committee of the Independent, Self-Governing Trade Union *Solidarność* of Banking Sector Employees at Bank Gospodarki Żywnościowej S.A., the Trade Union of the Employees of Bank Gospodarki Żywnościowej S.A. and Cooperative Banks (two trade unions active at Bank BGŻ) and the Company Organization of the Independent, Self-Governing Trade Union *Solidarność* No. 3254 at BNPP Polska, entered into an agreement whereby the procedures related to the group dismissal process were defined (the *Agreement*). The parties agreed that group dismissal would take place during the period of 24 months of the banks' merger and affect no more than 1,800 employees.

The parties established the criteria of selection of employees whose employment contracts would be terminated as part of the group dismissal process, set out the conditions to be satisfied by employees in order to participate in the voluntary redundancy scheme, the terms of termination benefits and additional compensation to employees, including the terms of relocation (change of the workplace) and the outplacement program.

To mitigate the social effects of the restructuring initiatives necessary to build a new, efficient organization, two voluntary redundancy schemes were launched for employees whose job positions are planned to be eliminated and who satisfy the age criteria. The aforesaid criteria have been developed with a view to reducing the effects of job loss by those employees who would experience the most considerable difficulties on the labor market and, consequently, could be faced with unemployment or those who, due to their age (the maximum of 4 years to be granted the right to retirement), are not willing to confront new challenges. Employees who decide to join in the schemes will be granted additional compensation by the Bank upon termination of employment. The first scheme is addressed to women who are more than 50 years old and men who are more than 55 years old and have not reached the pre-retirement protection age, while the second scheme is dedicated to those employees who have reached the pre-retirement protection age.

With a view to fulfilling its obligations to dismissed employees, as set out in the abovementioned Agreement, on 29 April 2015 Bank BGŻ recognized a provision for restructuring of PLN 49.3 million, and BNPP Polska of PLN 35.7 million. The aforesaid provisions cover benefits for termination of employment, additional compensation as well as cost of training addressed to dismissed employees.



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 2015, the Policies were not amended.

The key assumptions underlying the Compensation Policies are as follows:

- the relationship between fixed and variable compensation components has to be sufficiently balanced, which enables development of a fully flexible variable compensation policy, including the possibility to reduce or resign from granting variable compensation components where appropriate;
- performance-based variable compensation is not granted and paid where the profit generated by the Bank is lower than 85% of the profit specified in the financial plan;
- variable compensation is determined in a manner ensuring that it properly reflects performance in respect of sustainable development, accounting, at the same time, for the risks that the Bank is exposed to, and it does not constitute an award for insufficient performance;
- in order to ensure that variable compensation is in line with the Bank's risk profile, a minimum requirement has been introduced that once variable (including deferred) compensation has been calculated and paid, the Bank's equity is equal to or exceeds the threshold defined in the applicable regulations (the Basel Accord, PFSA's guidelines and resolutions). If the aforementioned minimum requirement is not satisfied, variable (including deferred) compensation is not due for the period during which the requirement is not fulfilled.

The variable compensation policy applicable to employees exerting a considerable influence on the risk profile of the Bank is reviewed annually by the Internal Audit unit. The aforesaid area was audited in 2015 (as regards variable compensation calculated and paid for 2014) with a view to assessing the quality of the internal control system and the quality of actions taken by the management. In particular, the scope of the audit included appropriateness of internal procedures as well as compliance with legal requirements (specifically, PFSA's Resolutions No. 258/2011 and 259/2011). The policy review conducted at the Bank confirmed compliance with those regulations.

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.

On an annual basis, by 31 January, the Bank files reports with the Polish Financial Supervision Authority, on the number of its employees whose aggregate compensation paid in the preceding year exceeds the equivalent of EUR 1,000,000, along with information on the positions held by those employees and the value of their key compensation components, bonuses, long-term awards and retirement contributions paid by the Bank. In 2015, there were no such employees at the Bank.

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.

As from the second half of 2015, the bonus schemes for direct sales staff were brought into line with the tasks assigned to each business line of the Bank, i.e. SME and Agro, Corporate Banking and Retail Banking. The bonus schemes in place at the Bank 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. Additionally, the Bank has a commission scheme for its Personal Finance sales staff.

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 also has 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 2015 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 109,950, out of which 94,758 completed e-learning courses.

Major training initiatives in 2015

- 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.

Development programs implemented in 2015

- *Prestiż* Potential Development Program – the last stage of the third edition of the Program aimed at developing highest potential employees as managers and experts;
- *Talenty sprzedaży* Development Program – the last stage of another edition of the Program dedicated to the best relationship managers in retail and business banking. The manager and expert career paths are developed as part of the Program;
- identification of management talents as part of the *Leaders for Tomorrow* initiative – identification of employees with management potential, outperforming others, following the ethical principles of the BNP Paribas Group and acting in the interest of customers;
- in 2015, 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* were an initiative undertaken in 2015 to support the occupational mobility of the employees, who could obtain detailed information on the nature of work in a specific business area or attend meetings, both traditional and virtual, during which issues related to professional development were discussed. Additionally, *Centrum Mobilności Zawodowej* (Occupational Mobility Center) was launched on the internal social networking website, where the employees are provided with access to up-to-date job offers on the Internal Labor Market and solutions supporting their professional development;



- the Bank participated in the *Learn from each other* Program aimed at exchanging knowledge and experience among the BNP Paribas Group companies. The participants attend meetings during which information on the work in their respective business areas is presented and good practices shared with other countries;
- *Development Center Sessions* – one-day development sessions addressed to newly-promoted managers and aimed at providing them with support in development of competencies which are important for their new roles.

Internship and traineeship programs

The Bank offers traineeship and internship programs to students, university graduates and high-school students.

11.12. INFORMATION TECHNOLOGY

In 2015, IT investment projects totaled PLN 147.8 million, with 82 projects completed and 132 projects in progress in that period.

The most important initiative is the integration of Bank BGŻ and BNPP Polska. Its scope includes numerous projects to be carried out in the following phases:

- legal merger – 32 projects completed;
- brand merger (single brand introduction) – 35 projects completed;
- operational merger (IT system integration) – 132 projects in progress.

Major IT initiatives

The projects related to preparation for the legal merger, which was completed on 30 April 2015, 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 tasks fulfilled as part of the Bank's full integration process:

- implementation of single processes for risk assessment and new customer approval, transaction monitoring and a single register for purposes of fulfilling the obligations imposed by the General Inspector for Financial Information;
- functions centralization and integration of systems managing financial market transactions and supporting market risk management;
- integration of domestic and cross-border payments, modification of transaction systems handling directly banking operations, including access to clearing networks, implementation of consistent transaction filtering principles as well as centralization of levies on bank accounts and enquiries;
- implementation of a single approach to risk measurement and reporting, along with shared customer risk management principles and application;
- introduction of consistent principles of financial accounting and keeping the accounting records so as to ensure security of the merged Bank's operations and their compliance with the applicable laws;
- securing connections between the IT networks of both banks and ensuring mutual access to the IT systems;
- change of the Bank's name in documents and systems available to customers;
- partial integration of the exBGŻ and exBNPP IT systems as part of the Day 2.5 project;
- implementation of changes resulting from Recommendation U to improve the quality of the standards of cooperation between banks and insurance companies in the banks' offering insurance products to customers;
- implementation of a new version of InDocs Enterprise – a system supporting development and modification of the Bank's internal regulations;
- implementation of a single system of domestic and cross-border payments among exBNPP, exBGŻ and exRABO so that they are treated as internal ones;
- introduction of consistent e-mail addresses at the merged Bank;
- bringing the system of SWIFT exchange between the Bank and the BNPP Group into line with the new SWIFT SR 2015 standard.



Projects related to brand merger and introduction of new products to the offering of the merged Bank 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:

- change of the image and visual identity of the branches/head office;
- 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 Center;
- launching a single Internet website;
- launching the *Aktywna Pensja* personal account and the cash advance;
- launching a single Intranet website.

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 quarter 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;
- preparation for the integration with Sygma Bank Polska.

11.13. AGREEMENTS WITH THE CENTRAL BANK AND SUPERVISORY AUTHORITIES

Agreements with the National Bank of Poland

- Agreement of 18 February 2015 setting out the terms of incoming and outgoing transfers of the Polish currency and the related operations, introducing communication between the Bank and the National Bank of Poland in respect of incoming and outgoing transfers of cash through the SESCO system. The Bank executed five annexes to the aforesaid agreement in 2015.
- Agreement of 9 April 2015 on maintenance of a bank account and a depository account for NBP treasury bills and money bills, and on securities transactions in the SKARBNET 4 system.
- Agreement of 9 April 2015 on Lombard credit and the related lien.
- Agreement of 9 April 2015 on stand-by credit and assignment of rights attached to securities.
- Annex No. 6 of 9 April 2015 to the Agreement setting out the terms of Sorbnet 2 bank account opening and maintenance – due to NBP's launch of the SKARBNET 4 system and introduction of changes to the fees and charges table.
- Annex No. 7 of 26 November 2015 to the aforementioned Agreement – due to adoption of the Regulation of the Minister of Finance of 11 September 2015 setting out the customs authority cash deposit and credit transfer forms.

12. CORPORATE SOCIAL RESPONSIBILITY

The merger of two banks in 2015 meant also an intense period of evolution of the vision of the merged Bank's sustainable development based on the best practices of both organizations. Also, two foundations were merged into the BGŻ BNP Paribas Foundation.



A responsible bank in the changing world

At Bank BGŻ BNP Paribas statutory responsibility is defined as sustainable financing for the economy as well as support for individual and social development. This idea of CSR is put into action **on four dimensions of responsibility**, i.e. economic, social, civic and environmental.

I. ECONOMIC RESPONSIBILITY

Responsible financing for the economy

A sustainable approach understood as long-term financing for the economy in accordance with ethical principles means the economic responsibility of our Bank. It is put into action through development of long-term relationships not only with customers but also other stakeholders. Such an approach facilitates the achievement of a proper balance between the quality of transactions and the expected profit. Transactions are monitored on an ongoing basis from the social, economic and environmental perspective in the sensitive sectors which have a considerable effect on the environment, such as the power, coal or agricultural industries. In 2015, a CSR analysis was conducted for more than 30 business entities.

The BNP Paribas Group as a partner of the Climate Summit in Paris

BNP Paribas was a partner of the COP 21 Climate Summit in Paris, at which the Group repeated its declaration to discontinue the provision of funding to entities based only on coal economy, while increasing the level of financing for the renewable energy sector and supporting low-emission innovations.

Bank BGŻ BNP Paribas among the best “banks for Mr. Kowalski”

Our responsibility is also reflected in continuous improvement of the customer service standards. The Bank conducts regular customer satisfaction surveys, which enables it to monitor the level of satisfaction on an ongoing basis. Additionally, the Mystery Shopping survey is carried out by the Bank in cooperation with third parties. The quality of customer service at each branch is evaluated by professional auditors. Bank BGŻ BNP Paribas was ranked second in the “Przyjazny Bank – bankowość tradycyjna” (Customer-Friendly Bank – Traditional Banking) category and third in the “Przyjazny Bank – bankowość internetowa” (Customer-Friendly Bank – online banking) category by Newsweek (2015).

Ethical responsibility

We promote and raise our employees’ ethical awareness at training sessions and workshops. As a member of the Initiative Group in the Coalition of the Ambassadors of Ethics at the United Nations Global Compact and the Ethics Committee at the Polish Bank Association, we also pro-actively contribute to building sector responsibility.

Responsible products

The Bank’s employees are particularly proud of the “heart account”, or the *Leader Social Package*, a fee-free account for social innovation organizations, which is widely recognized in the third sector. Thus far, the Package has been used by more than 11,500 social entities.

II. SOCIAL RESPONSIBILITY

Social responsibility is reflected mainly in creating an attractive work environment that supports professional development of the Bank’s employees in addition to increasing their engagement. This is a process of raising the employees’ awareness of the benefits that may be derived from openness, respect for diversity and readiness for occupational mobility. The highest standards in the recruitment process, which enable the Bank to acquire top talent whose competence and experience contribute to building the organization’s value, are an important aspect of our responsibility. Currently, the Bank focuses on internal recruitment on the *Internal Labor Market* so as to enable its employees to develop their careers inside the organization.

Another issue of crucial importance is development of career paths based on a diagnosis of the professional potential as well as analysis of the employees’ development needs, competence development management as well as development and implementation of the recruitment policy and succession plans.



Employer branding initiatives

In 2015, the Bank continued its employer branding initiatives addressed to existing and prospective employees.

A Global People Survey (GPS) was conducted with a view to assessing the level of the employees' engagement and their perception of the employer. The survey was carried out for all business lines and support functions. On the basis of information obtained as part of the survey, the Bank undertakes initiatives that enhance the motivation and increase the engagement of its staff.

Additionally, the Bank conducted four people surveys during the integration process with a view to obtaining information on the level of the employees' engagement, on their perception of the situation and on the sentiments related to the merger and integration process.

In 2015, the Bank continued the *Ambassador Program* aimed mainly at promoting the Bank among university students. The agenda included lectures and presentations given by the Bank's experts. In June 2015, the 1st edition of the Banking Academy addressed to 20 students of the University of Economics in Katowice came to an end.

At the same time, numerous employer branding initiatives were launched in order to reach as many addressees as possible, raise their brand awareness and inform the labor market of the Bank and the benefits that may be derived from work at this organization.

Having received the individual Top Employer 2015 certificate before the merger and applied the best HR practices, Bank BGŻ BNP Paribas could use the Top Employer 2015 title.

Additionally, the Bank's profile was created on such websites as Goldenline, LinkedIn, Kariera w Finansach, Eurostudent or Absolwent, for employer branding purposes.

III. CIVIC RESPONSIBILITY

Our civic responsibility means counteracting social exclusion as well as supporting educational and cultural initiatives, in particular those implemented locally, in small communities. We believe that this is the best way to strengthen the civil society.

Support for local initiatives

The Bank's local grant program is a means of supporting socially responsible initiatives carried out locally by small organizations. Frequently, such relationships turn into long-term cooperation between the Bank and a local organization, thus enhancing the Bank's reputation as an entity that is truly engaged and committed to support local communities. 76 applications were submitted in the 5th edition of the Program and grants of PLN 1,000 to PLN 5,000 were awarded to 47 local projects.

BGŻ BNP Paribas Foundation Programs

The Foundation is involved in socially responsible projects in such fields as education, culture or social solidarity. It launches and supports initiatives that promote active citizenship and entrepreneurship in addition to raising financial awareness. Additionally, the Foundation supports employee volunteer programs at the Bank and promotes them in the financial sector.

Class – Own Scholarship Program

The *Class* scholarship program is the most important initiative launched by the BGŻ BNP Paribas Foundation itself. Since 2003, more than 600 beneficiaries have received grants totaling PLN 18 million. The objective of the Program is to support talented teenagers from small towns/villages, who are in a difficult financial situation, by enabling them to attend prestigious high schools in five university cities, i.e. Warsaw, Wrocław, Gdansk, Krakow and Gdynia. Thus far, more than 600 junior high school graduates have been provided with such an opportunity. In 2015, we launched the 13th edition of *Class* with 36 new scholarship holders.

Agro-Talents

Agro-Talents, addressed to ambitious young talents in the agricultural industry, is another scholarship program developed by the Foundation. As part of the Program, the Foundation offers grants to winners of the *Agricultural Knowledge and Skills Contest* in addition to bridge scholarship awarded to best agriculture students (more than 150 beneficiaries since 2011). The objective of *Agro-Talents* is to improve the knowledge and skills possessed by young people in addition to preparing them for their future profession and consequently, stimulating innovation and modernization of agriculture. In 2015, the Foundation awarded grants to 35 pupils and students as part of the 4th edition of the Program.



***Dream Up* Educational Program**

In 2015, the Foundation launched a three-year *Dream Up* Program which offers musical classes taught by professionals to support the development of children and teenagers from day care centers located in Praga, Warsaw. The initiative is carried out in cooperation with *Fundacja Muzyka* (program operator) and *Towarzystwo Przyjaciół Dzieci* (TPD, a long-term partner of the Foundation). The program is addressed to almost 100 children in TPD's charge. Its scope includes three-year music education initiatives, including regular instrument classes for the most interested and motivated participants. Musical activity combined with educational classes teaches children respect for one another, develops their creativity and cultural competence, shapes their personality and fosters emotional harmony.

Dream Up is a program run currently by the BNP Paribas Group in 26 countries and initiated by the BNP Paribas Foundation in France. Solidarity with socially excluded groups and the idea of education through art addressed to young people facing difficulties in their life are the underlying assumptions of the Program.

The National Philharmonic Orchestra

For many years now, the BGŻ BNP Paribas Foundation has been supporting the educational projects implemented by the National Philharmonic Orchestra as part of the *Meetings with Music* series. They are addressed to children and teenagers in more than ten regions of Poland and involve outstanding musical performances with comments explaining the art of sound in detail to the young audience. This way, children from small towns, who have limited access to high culture on everyday basis, are given the opportunity to experience music, and consequently, develop their own talent and new passions. In 2014/2015, 2,148 concerts were performed in schools across Poland, attended by 378,669 listeners.

***Szalone Dni Muzyki* Festival**

In line with the idea of promotion of culture, the BGŻ BNP Paribas Foundation lent its patronage to the *Szalone Dni Muzyki* Festival organized by the Sinfonia Varsovia Orchestra in Warsaw between 25 and 27 September 2015 and entitled *Passions of Heart and Soul*. It was the sixth Polish edition of the international La Folle Journee Festival popularizing classical music around the world. The event received the financial support of the BNP Paribas Foundation in France.

Volunteering as a social engagement program

With the *You can rely on me* motto, the Foundation has been developing an employee volunteer program at the Bank, coordinating individual, competence (*BAKCYL* Program), initiative (such as *Krwinka* and *Dobre Kilometry*) and team (*Best Community Initiative Contest*) volunteer programs.

In 2015:

- 16 employees participated in individual volunteer programs for the benefit of an organization of their choice;
- 31 volunteers taught 99 classes as part of the *BAKCYL* Program, an initiative launched by the Warsaw Institute of Banking, as part of which the employees of 17 banks (including Bank BGŻ BNP Paribas) act as volunteer trainers and teach finance classes addressed to junior high school students;
- 250 employees participated in the *Dobre Kilometry* initiative, as part of which they counted, for a month, the kilometers of their jogging, bike riding, rollerblading, walking, Nordic walking and swimming activity. Each kilometer was translated into Polish zlotys to be spent on a charitable purpose of the participants' choice. Their total distance was 70,000 kilometers and the donation of PLN 10,000 was made to the Oncology Center in Warsaw;
- 138 employees from three Head Offices of the Bank (Warsaw Kasprzaka, Warsaw Suwak and Krakow Awatar) became involved in the *Krwinka* initiative launched together with the Blood Donation Center. 42 liters of blood were donated in total. Blood donation initiatives have been launched by the Bank every year since 2009 as part of the *Your Blood, My Life* campaign;
- As part of the 4th edition of the *Best Community Initiative Contest* (a grant contest for the Bank's employees from Poland), the Foundation awarded grants to 17 projects (out of 25 applications submitted), which were addressed to more than 2,000 beneficiaries and implemented by 100 volunteers. The winners receive grants to put their ideas into practice by supporting the communities they work and live in, in addition to the Foundation's non-financial support. Since 2011, over 260 employees have carried out their own volunteer projects (54) in liaison with local NGOs.



BGŻ BNP Paribas Foundation Partner Programs

Membership in the Polish Donors Forum (since 2009)

The Polish Donors Forum sees its role as an institution focusing on education and research involving financial and non-financial support to socially responsible initiatives. The Foundation's membership in the Forum is tantamount to confirmation of the usefulness and transparency of its activities. It also creates the opportunity to participate actively in the projects carried out by the Forum, thus create and develop the Polish NGO sector and its initiatives. In 2015, the Foundation participated in a project aimed at raising the operational standards of corporate foundations in Poland, which resulted in development of the *Corporate Foundation Operational Standards* document.

The Foundation as a partner of the BAKCYL – Bankers for Financial Education of the Young educational project, coordinated by the Warsaw Institute of Banking

The Foundation as a partner of the CEOs – Volunteers Coalition Philanthropy Development Academy

The objective of the *CEOs – Volunteers Coalition* project is to encourage a debate about the social engagement of business leaders in addition to promoting public-spirited attitudes and behaviors by offering a good example of high-level managers sharing their time, experience, expertise and skills in volunteer projects.

Annual partner of the Agricultural Knowledge and Skills Contest held by the top 8 agricultural universities.

Donations:

- to *Stowarzyszenie Animacji Kultury Pogranicza "Folkowisko"* to support the *Oblivion* project;
- to the Polish Economic Society to support the *20th Anniversary of the Polish Economic Society Conference*.

IV. ENVIRONMENTAL RESPONSIBILITY

In our day-to-day operations, we make every effort to minimize our organization's negative effect on the environment, both by reducing greenhouse gas emissions related to such operations and by providing responsible financing for the economy through CSR monitoring in sensitive sector procedures.

Energy saving projects

The energy saving projects carried out by the Bank involve modifications including:

- introduction of signage systems at the Bank's branches that replace fluorescent lamps used before with LEDs, which are more environmentally friendly;
- introduction of lighting, ventilation and AC control systems in the Bank's Head Office;
- astronomical clock steered outdoor advertisements, which are switched on between dusk and 11 pm and again from 5 am to dawn.

Paper saving projects

The Bank has implemented a Follow Me Printing system, where users may print their documents on any printer installed in the Bank's buildings in Warsaw and Krakow, which is equipped with a card reader. This solution enables the Bank to reduce the number of printed pages and the quantity of energy consumed, which in turn reduces the quantity of wood used and industrial waste produced. The Bank's initiatives are also aimed at encouraging its employees and customers to use electronic documents. Additionally, eco-friendly paper with reduced basis weight is used.

Promoting eco-friendly attitudes

The Bank regularly launches initiatives aimed at raising its employees' awareness of their individual impact on the natural environment. These include the *Car-Free Day*, when motorists are encouraged to give up their car for a day on their way to work and choose a bicycle instead, as well as the *CSR Days*, during which we try to raise the employees' awareness of the importance of eco-friendly attitudes, healthcare and the life-work balance: (i) the *Take Your Bike to Work* project enabled us to reduce greenhouse gas emissions by 385 kilograms thanks to giving up our cars and choosing a bike instead; (ii) more than 300 employees had blood tests to check their cholesterol or glucose levels; (iii) our employees from Krakow and Warsaw took a relaxing break with professional instructors.

At the same time, a number of quizzes, contests and pieces of advice were available on the Intranet.

**Car-Free Day**

The Bank has participated in the *Car-Free Day* initiative for seven years. On that day, our employees leave their cars at home and come to work by bike, which lets them save on fuel and reduce greenhouse gas emissions. On the 2015 *Car-Free Day*, we reduced our emissions by 100 kilograms of carbon dioxide.

Our Head Offices in Krakow and Warsaw have the necessary bike infrastructure (stands, weather-proof bicycle parks and showers).

E-Waste

We regularly collect electronic waste. Since 2011, we have collected more than 11 tons of e-waste.

Used equipment donated to public benefit organizations

Almost 100 pieces of furniture in a good condition, which had not been used by the Bank, were donated to six primary schools in and around Warsaw.

Responsible business travel planning

We make every effort to enhance our mobility and promote environmentally-friendly attitudes. To this end, we focus on responsible business travel planning, increase our availability using teleconference and videoconference solutions and reduce the number of training trips by introduction of e-learning courses instead.

THE BANK'S ACTIVITY ON THE POLISH CSR MARKET***Srebrny listek CSR award***

In 2015, Bank BGŻ was recognized by Deloitte and the *POLITYKA Weekly* by receiving the *Srebrny listek CSR award* for socially engaged and responsible businesses. In the ranking prepared by *POLITYKA*, Bank BGŻ was among entities which declare that their day-to-day operations are in compliance with all the key solutions of the ISO 26000 standard. They frequently use best local and global practices and comply with international standards in addition to regularly reporting the effects of their initiatives to their stakeholders. Additionally, the jury recognized the ethics management system in place at the Bank and its highest HR management standards.

The Bank as an active organizer of the international CSR conference entitled *Business Changing the World*

As the *Bank of the Changing World*, Bank BGŻ BNP Paribas was involved in the organization of an international CSR conference entitled *Business Changing the World*, which was held on 20 and 21 October 2015.

At the initiative of the Bank and in liaison with the BNP Foundation, Jean-Pierre Gattuso, a professor at the University of Paris, who conducts experimental research on the effect of greenhouse gas emissions on ocean acidification, had been invited to give a lecture at the conference. It was a great opportunity to introduce the topic and encourage the participants to follow the greenhouse gas debate at the COP 21 Climate Summit held in Paris in December. The BNP Paribas Group lent its official patronage to the Climate Summit.

The *Business Changing the World* conference was a great opportunity to celebrate the 15th anniversary of the Responsible Business Forum. Bank BGŻ BNP Paribas is a strategic partner of the Responsible Business Forum.

Signatory to the Declaration of Sustainable Development Vision 2050 for the Polish Business

It is our commitment to achieve strategic business objectives in accordance with the principles of sustainable development. The Bank is an active member of the CSR Task Force at the Ministry of Economy.

Partner of the Brandbility Program at the United Nations Global Compact

By monitoring the process of waste production and cooperation with vendors in respect of waste utilization, the merged bank's rebranding process was subjected to certification. Our good practice was published in the *Global Compact Yearbook*.

Member of the *Coalition of the Ambassadors of Ethics Initiative Group*

It is an initiative under the patronage of the United Nations Global Compact, which is joined in by organizations that are actively involved in development of ethical standards for companies and organizations implementing a code of ethics. It is also aimed to build a permanent platform for the exchange of knowledge of best standards in ethics management at companies and organizations. The good ethics management practices of Bank BGŻ BNP Paribas have been presented in the *Coalition of the Ambassadors of Ethics – We Care* publication by the Global Compact.

**Bank BGŻ BNPP Paribas among the top three responsible banks in Poland**

In the prestigious **Ranking of Responsible Businesses in Poland**, organized for nine years by the *Gazeta Prawna* daily and PwC, an audit firm, the Bank was recognized as one of the top three banks whose strategy and operations respond to social, economic and environmental challenges most effectively.

NON-FINANCIAL REPORTING

Since 2011, the financial information contained in the Bank's CSR reports has been presented in accordance with the GRI 3.1 (Global Reporting Initiative) methodology, at the B application level.

13. SPONSORSHIP AND CHARITY ACTIVITIES**Sponsorship Policy**

The primary and direct objective of the sponsorship policy adopted by Bank BGŻ BNPP is to build and foster brand awareness in addition to enhancing a positive image of the Bank. Indirectly, sponsorship initiatives are aimed to strengthen the Bank's relationships with its customers. Due to its profile and growth strategy, the Bank is mainly searching for initiatives that would enable it to communicate directly with customers representing its target groups. This way, the Bank is looking for solutions linking naturally its products and services with potential customers.

Bank BGŻ BNP Paribas is part of the BNP Paribas Group, which is number one tennis sponsor worldwide. That is the reason why offers of sponsorship of tennis events in Poland are treated by the Bank with priority.

In 2015, the Bank was the title sponsor of BGŻ BNP Paribas Lexus Business Cup (tennis tournament series) in addition to sponsoring local tournaments such as:

- *Turniej o Puchar Prezydenta Stalowej Woli* (Stalowa Wola President's Cup);
- BGŻ BNP Paribas OPEN Stalowa Wola
- *I Amatorski Turniej Tenisowy o puchar dyr. Banku BGŻ BNP Paribas w Iławie* (1st Amateur Tennis Tournament – BGŻ BNP Paribas Director's Cup in Iława);
- *Turniej Tenisowy o puchar dyr. Banku BGŻ BNP Paribas w Kurzętniku* (Tennis Tournament – BGŻ BNP Paribas Director's Cup in Kurzetnik);
- *Jubileuszowy 10 Rotariański Memoriał Tenisowy im. Tadeusza Sowińskiego w Olsztynie* (10th Anniversary Tennis Championships in Olsztyn);
- Bank BGŻ BNP Paribas Cup – tennis tournament series in Wagrowiec, Trzcianka and Jarocin;
- *Turniej Powiatów o Puchar Banku BGŻ BNP Paribas w Czarnkowie* (Bank BGŻ BNP Paribas Cup – powiat tournament in Czarnkowie);
- Solec Open (Junior Tennis Tournament in Solec Kujawski);
- *XII Morski Turniej Tenisowy Gwiazd w Międzyzdrojach* (12th Stars' Tennis Tournament in Międzyzdroje);
- *Beskid Cup – Turniej Tenisa Ziarnego Artystów Polskich w Jaworzu* (Polish Artists' Tennis Tournament in Jaworze)
- ITF Future Tauron Cup in Wrocław.

Additionally, the Bank was involved in the organization of Fed Cup by BNP Paribas and Davis Cup by BNP Paribas tennis matches taking place in Poland but sponsored by the BNP Paribas Group. They were played in Krakow, Zielona Gora, Plock, Szczecin and Gdynia.

Charity Policy

The Bank undertakes philanthropic activities and socially responsible initiatives, mainly through the BGŻ BNP Paribas Foundation. The Foundation's priorities are social solidarity, in particular supporting access to education to young people running the risk of exclusion (*Class* – own scholarship program), promoting volunteerism (*You can rely on me* employee volunteer program) as well as developing the social sector (a grant program addressed to small local NGOs). Additionally, the Foundation lends its patronage to cultural events by supporting the National Philharmonic Orchestra and fostering musical culture and education through projects implemented together with music institutions and organizations. Philanthropic activity and socially responsible initiatives are social investment, carried out in the form of long-term projects, subject to needs analysis and periodic effectiveness assessment.



14. 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.

14.1. 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 BGŻ 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 account for 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 uses 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 customers of the Bank;
- 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.



Debt restructuring and collection

In 2015, the debt collection procedures resulted in payment of following amounts:

- Personal Finance – PLN 110.2 million,
- SME – PLN 236.1 million,
- Enterprises and Affluent Individual Clients – PLN 27.4 million.

The aforesaid debt was repaid as a result of enforced collection, instituted bankruptcy proceedings and arrangements made with the obligors.

The Bank issued 8 193 enforcement titles in total.

14.2. 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 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's liquidity risk comprises:

- financing liquidity risk, i.e. the risk that expected or unexpected withdrawal instructions will not be performed without incurring unacceptable losses or without running a risk to the Bank's ability to carry out its business;
- market liquidity risk, i.e. the inability to realize assets due to inappropriate market depth or market disruptions. Thus, the said risk is related to market risk to a certain extent. Market liquidity risk reflects the changes in the liquidation value of the portfolio as a result of changes in its value expressed by market valuation. Liquidity risk involves uncertainty as to the time necessary to liquidate assets.

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.

Table 39. Loan portfolio financing structure

PLN million	31.12.2015
Net loans and advances	49 831
Total sources of funding	51 849
Customer deposits, including:	42 708
- retail	28 350
- SME	5 518
- large enterprises	8 840
Long-term lines of credit	8 721
Debt securities issued	420

The Bank's loans in foreign currencies are financed mainly with the use of medium- and long-term loans from the BNP Paribas Group. This concerns, in particular, the CHF home loan portfolio, for which a stable level of funding has been secured by the Bank. As at 31 December 2015, the structure of open long-term lines of credit was as follows:

Table 40. Structure of loans from the BNP Paribas Group

million	31.12.2015
CHF	1 518
EUR	151
PLN	1 006

Table 41. Structure of loans from EBRD and EIB

million	31.12.2015
EUR	117
PLN	470

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 2015 and the verification did not identify the necessity to make any adjustments.

Interest rate risk in the banking book

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:

- interest rate gap – a mismatch between the repricing dates of interest-bearing items, expressed in the reverse accumulated gap, i.e. the net value of assets, equity and liabilities repriced at a date later than a given point in time;
- earnings at risk (EaR) – simulations of future net interest income (within the next year, two and three years) 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 31 December 2015.

Table 42. Interest rate gap (PLN million)

Term	Interest rate gap limit		Gap
	Minimum	Maximum	
1M	-4 000	9 102	-464
3M	-9 181	11 319	1 941
6M	-11 537	12 344	2 916
1Y	-11 703	9 843	1 027
2Y	-13 050	5 842	546
3Y	-14 948	3 267	371
5Y	-6 383	2 273	442
10Y	-2 528	1 727	280

As at 31 December 2015, the limits defined at the Bank had not been exceeded and the Bank's aggregate exposure to the said risk, expressed as the interest rate gap, was considerably lower as, in accordance with ALCO guidelines, the Bank had entered into a number of transactions, to include a purchase of long-term, fixed rate bonds and IRS where the Bank receives fixed rate interest in exchange for floating rate interest, which reduce the Bank's natural exposure.

14.3. 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.

At the end of December 2015, 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.

14.4. 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 31 December 2015, foreign lending operations of the Bank represented almost a half, international trade transactions accounted for 33%, treasury transactions (including deposits and derivatives) for 22% and derivative transactions entered into with foreign corporate customers represented 0.2% of the Bank's exposure to foreign markets. France accounted for 33%, Germany and Belgium for 16% each and the Czech Republic for 10% of the exposure. The remaining exposure was related to the Netherlands, UK, Senegal and Switzerland.

14.5. 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 Administration Unit, 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 (management sign-off).

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 Tier 1 ratio method both for Bank BGŻ BNP Paribas SA and its subsidiaries.

14.6. LEGAL RISK

As at 31 December 2015, 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 31 December 2015, the total value of the litigation initiated against the Bank (except adverse claims) was PLN 113,395,145.65. The total value of the litigation initiated by the Bank was PLN 169,551,767.98.

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 amounts to PLN 12,544 thousand and includes: i) a fine for the practice of Bank Gospodarki Żywnościowej (BGŻ) 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 fine levied by the court was paid by the Bank within the prescribed time limit of 14 days of the date of the decision becoming final, i.e. 19 October 2015.

As the amount of the fine exceeds the relevant provisions recognized in 2013 by BGŻ and FBP, the cost of the fine totaling PLN 10.6 million had a direct effect on the Bank's net profit in the fourth quarter of 2015.

A last resort appeal may be brought by the banks against the decision of the Court. Having analysed the judgment with a statement of reasons the Bank will decide whether a last resort appeal should be filed.



15. CERTIFIED AUDITOR

On 11 June 2015, acting pursuant to Section 20.1.1g) of the Bank's Statute and in conformity with the applicable laws and professional standards, the Supervisory Board of the Bank appointed Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office at al. Jana Pawła II 19 in Warsaw (00-854), recorded under number 73 on the list of entities authorized to audit financial statements, kept by the National Council of Statutory Auditors ("Deloitte"), as the entity authorized to audit the separate financial statements of Bank BGŻ BNP Paribas S.A. and the consolidated financial statements of the Capital Group of Bank BGŻ BNP Paribas S.A. for 2015-2017.

The relevant Agreement on the review and audit of financial statements and consolidation packages with Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. was signed on 12 June 2015.

Deloitte will be responsible for:

- auditing the annual financial statements of the Bank and the annual consolidated financial statements of the Capital Group of the Bank;
- reviewing the interim (semi-annual) financial statements of the Bank and the Capital Group of the Bank;

prepared in conformity with the International Financial Reporting Standards.

Table 43. Auditor's fees broken down by service type

<i>PLN '000 (inclusive of VAT)</i>	Year ended 31 December 2015	Year ended 31 December 2014
Statutory audit/review of financial statements	903	812
Other assurance services	597	440
Other services	52	99
Total	1 552	1 351

An increase in the Auditor's fees year-on-year results, among other things, from additional costs of auditing the financial statements of BNPP Polska as at the acquisition date.

**16. COMPENSATION PAID TO THE MANAGEMENT BOARD AND SUPERVISORY BOARD**

Compensation paid to each Member of the Management Board for the year:

Table 44. Compensation paid to Members of the Management Board in 2015

Full name	Term of office		Base pay	Annual bonus paid in the year	Buy-back of phantom shares	Additional benefits	Total
	from	to					
Tomasz Bogus	01.09.2015	31.12.2015	560	-	-	2	562
Józef Wancer	16.09.2013	31.08.2015	2 546	115	127	337	3 125
Gerardus Cornelis Embrechts	01.01.2013	31.03.2015	224	55	146	300	725
Magdalena Legęć	01.01.2013	31.12.2015	735	83	149	73	1 040
Monika Nachyła	01.04.2013	30.04.2015	440	170	280	715	1 605
Dariusz Odzioba	01.01.2013	31.03.2015	265	165	322	1 061	1 813
Witold Okarma	01.01.2013	30.04.2015	454	102	185	1 099	1 840
Wojciech Sass	01.01.2013	31.08.2015	882	212	402	71	1 567
Andrzej Sieradz	01.01.2013	31.03.2015	200	99	170	625	1 094
Wojciech Kembłowski	01.05.2015	31.12.2015	744	110	111	3	968
Bartosz Urbaniak	01.04.2015	31.12.2015	540	63	115	3	721
Daniel Astraud	01.05.2015	31.12.2015	1 560	310	-	452	2 322
Francois Benaroya	01.05.2015	31.12.2015	1 143	273	-	182	1 598
Blagoy Bochev	01.05.2015	31.12.2015	545	0	-	100	645
Jan Bujak	01.05.2015	31.12.2015	837	112	111	3	1 063
Jaromir Pelczarski	01.05.2015	31.12.2015	839	112	111	3	1 065
Jean-Philippe Stephane Rodes	01.05.2015	31.12.2015	691	98	98	225	1 112
Michel Thebault	01.05.2015	31.12.2015	752	87	87	425	1 351
Total			13 957	2 166	2 414	5 679	24 216

Table 45. Compensation paid to Members of the Management Board in 2014

Full name	Term of office		Base pay	Annual bonus paid in the year	Buy-back of phantom shares	Additional benefits	Total
	from	to					
Jacek Bartkiewicz	01.01.2013	31.03.2013	-	53	309	-	362
Józef Wancer	16.09.2013	31.12.2014	2 608	28	-	57	2 693
Johannes Gerardus Beuming	01.01.2013	30.06.2014	403	29	73	998	1 503
Gerardus Cornelis Embrechts	01.01.2013	31.12.2014	873	88	90	1 672	2 723
Magdalena Legęć	01.01.2013	31.12.2014	735	72	91	96	994
Monika Nachyła	01.04.2013	31.12.2014	1 320	124	0	117	1 561
Dariusz Odzioba	01.01.2013	31.12.2014	1 058	166	213	96	1 533
Witold Okarma	01.01.2013	31.12.2014	909	89	113	86	1 197
Wojciech Sass	01.01.2013	31.12.2014	1 339	202	243	97	1 881
Andrzej Sieradz	01.01.2013	31.12.2014	794	78	99	91	1 062
Total			10 039	929	1 231	3 310	15 509

Under individual employment contracts signed with Members of the Management Board, they are entitled to life insurance, medical care and compensation bonuses.

Additionally, the additional benefits to which Members of the Management Board are entitled (under their individual employment contracts) include:



- accommodation allowance, as specified in the employment contract;
- coverage or reimbursement of costs incurred in relation to secondment to work in Poland;
- coverage of the cost of private travel to the home country for a Member of the Management Board and his/her family members staying in Poland (with specific frequency);
- coverage of tuition fees for children in Poland;
- a lump-sum relocation allowance.

Compensation paid to each Member of the Supervisory Board for the year:

Table 46. Compensation paid to Members of the Supervisory Board in 2015

PLN '000 Full name	Term of office		Compensation
	from	to	
Józef Wancer	01.09.2015	31.12.2015	150*
Jean-Paul Sabet	01.01.2015	31.12.2015	25
Jarosław Bauc	01.01.2015	31.12.2015	105
Stefaan Decraene	01.09.2015	31.12.2015	25
Thomas Mennicken	01.09.2015	31.12.2015	25
Piotr Mietkowski	01.09.2015	31.12.2015	25
Monika Nachyła	19.06.2015	31.12.2015	44
Jacques d'Estais	19.06.2015	31.12.2015	25
Alain Van Groenendael	01.09.2015	31.12.2015	-
Mariusz Warych	01.01.2015	31.12.2015	99
Dariusz Filar	01.01.2015	30.04.2015	41
Jean Lemierre	01.01.2015	19.06.2015	-
Michel Vial	01.01.2015	31.08.2015	-
Total			564

* only compensation related to the function of Member of the Supervisory Board

Table 47. Compensation paid to Members of the Supervisory Board in 2014

PLN '000 Full name	Term of office		Compensation
	from	to	
Evert Derks Drok	01.01.2014	15.09.2014	76
Jan Aleksander Pruijs	01.01.2014	15.09.2014	114
Tanja Cuppen	01.01.2014	15.09.2014	76
Dariusz Filar	01.01.2014	31.12.2014	116
Jarosław Iwanicki	01.01.2014	15.09.2014	76
Mariusz Warych	01.01.2014	31.12.2014	96
Jarosław Bauc	15.09.2014	31.12.2014	20
Jean-Paul Sabet	15.09.2014	31.12.2014	-
Jean Lemierre	15.09.2014	31.12.2014	-
Michel Vial	15.09.2014	31.12.2014	-
Total			574

Information regarding compensation paid to Members of the Management Board and the Supervisory Board of the Bank has also been presented in Note 51 *Related party transactions* to the Separate Financial Statements of Bank BGŻ BNP Paribas S.A. for the year ended 31 December 2015.



17. REPORT ON BANK BGŻ BNP PARIBAS' COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

17.1. STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES IN 2015

In accordance with Section 91.5.4) of the Regulation of the Minister of Finance of 19 February 2009 concerning current and periodic information reported by issuers of securities and conditions for recognizing as equivalent information required under the law of a non-member state (consolidated text: Journal of Laws of 2014, item 133), the Management Board of Bank BGŻ BNP Paribas S.A. (the "Bank") presents the following information regarding compliance with corporate governance principles in 2015.

Corporate governance principles applicable to the Bank and the place where they are made available to the public

Since 1 January 2015, the Bank has been bound by the *Principles of Corporate Governance for Supervised Institutions* of 22 July 2014, issued by the Polish Financial Supervision Authority (the "Principles of Corporate Governance"). The aforesaid principles were adopted by the Bank's Management Board and Supervisory Board in December 2014 and by the General Shareholders' Meeting in February 2015. They are available to the public on the website of the Polish Financial Supervision Authority at:

http://www.knf.gov.pl/dla_rynku/zasady_ladu_korporacyjnego/index.html.

Additionally, in 2015 the Bank was obliged to comply with the *Code of Best Practice for WSE Listed Companies*, attached to Resolution No. 19/1307/2012 of the Board of the Warsaw Stock Exchange of 21 November 2012. The Code is available to the public on the website of the Warsaw Stock Exchange at:

http://static.gpw.pl/pub/files/PDF/dobre_praktyki/dobre_praktyki_16_11_2012.pdf

The Principles of Corporate Governance which were not applied by the issuer and the reasons for their non-application

The Bank has adopted the Principles of Corporate Governance with the following exceptions:

Principle:

8.4 – A supervised institution, when justified by the number of shareholders, should strive for facilitating the participation of all shareholders in the meeting of the General Meeting of the supervised institution, among others, through ensuring the possibility of electronic active participation in the meetings of the General Meeting.

Reasons:

The Bank's Statute does not provide for the possibility of a shareholder's electronic active participation in the General Shareholders' Meeting. As the majority of shares were held by the two shareholders specified below as at 31 December 2014, the Bank decided not to apply the principle that the shareholders may participate in the General Shareholders' Meeting electronically.

Situation as at 31 December 2015:

As 94.99% of the Bank's shares are held by three shareholders, the Bank will continue not to apply the aforementioned principle.

Principle:

30.5 – Remuneration of a management body member or key personnel should be financed and paid from the funds of the supervised institution.

Reasons:

Considering the exceptional situation of the Bank (ownership transformation), members of the management body and some members of the Bank's key personnel are parties to contracts which provide for additional compensation from a source other than the Bank's own funds.

Situation as at 31 December 2015:

The said contracts expired on 15 March 2015 and the Bank has been applying the aforementioned principle as from that date.

**Principle:**

29.1 – Remuneration of the members of the supervisory body shall be established adequately to the fulfilled function, as well as adequately to the scale of operations of the supervised institution. Supervisory body members appointed to work in committees, including the audit committee, should be remunerated adequately to the additional tasks performed within a given committee.

Reasons:

This principle is applied only to members of the Supervisory Board and only to individuals who are not employees of BNP Paribas SA or its subsidiaries. The general compensation policy and the level of compensation paid to members of the supervisory body were introduced by Resolution No. 24 of the Extraordinary Shareholders' Meeting of 10 January 2005, as amended (Resolution No. 4 of the Extraordinary Shareholders' Meeting of 17 November 2014), whereby members of the Supervisory Board being at the same time employees of BNP Paribas S.A. or its subsidiaries are not entitled to receive compensation. The principle that *supervisory body members appointed to work in committees, including the audit committee, should be remunerated adequately to the additional tasks performed within a given committee* is not included in the resolution.

Situation as at 31 December 2015:

On 1 September 2015, the Extraordinary Shareholders' Meeting of Bank BGŻ BNP Paribas S.A. adopted a resolution to amend Resolution No. 24 of the Extraordinary Shareholders' Meeting of Bank Gospodarki Żywnościowej S.A. concerning the compensation paid to members of the Supervisory Board of Bank Gospodarki Żywnościowej Spółka Akcyjna, dated 10 January 2005, which cancelled the principle that members of the Supervisory Board employed by BNP Paribas S.A. or its subsidiaries do not receive compensation. The principle that *supervisory body members appointed to work in committees, including the audit committee, should be remunerated adequately to the additional tasks performed within a given committee* is still not applied.

Principle:

31.1 – A supervised institution should maintain a transparent communication policy, taking into account the needs of its shareholders and clients, made available on the institution's website.

Reasons:

As the Bank does not have a single document comprising its communication policy, no such document is published on the Bank's website. The Bank's communication policy is transparent. Information material for the company's customers and shareholders is published on the Bank's website. As regards confidential information, the Bank complies with the principle of equal access to information. The communication policy will be developed and published on the Bank's website in the third quarter of 2015.

Situation as at 31 December 2015:

The Bank's communication policy was adopted by the Management Board on 30 September 2015. Thus, the Bank complies with the aforesaid principle.

Detailed information concerning the adopted principles as well as the Management and Supervisory Boards' non-compliance with the *Principles of Corporate Governance for Supervised Institutions* is available on the Bank's website at:

<http://www.bgzbnpparibas.pl/relacje-inwestorskie/zasady-ladu-korporacyjnego-knf.asp>

The Management Board of the Bank hereby represents that the Bank and its governing bodies complied with the adopted Principles of Corporate Governance in 2015. In the reporting period, the Principles of Corporate Governance adopted by the Bank were not violated.



Code of Best Practice for WSE Listed Companies

The Bank has adopted the corporate governance principles laid down in the *Code of Best Practice for WSE Listed Companies* (the “Code of Best Practice”), as amended by the Board of the Warsaw Stock Exchange in its Resolution No. 19/1307/2012 of 21 November 2012 introducing amendments to the *Code of Best Practice for WSE Listed Companies*. The Code of Best Practice, with the aforementioned amendments, was adopted for use by the Management Board of the Bank in its Resolution No. 189/BZ/55/2012 of 18 December 2012, which decided that:

- 1) the principle laid down in Section II.9a of the Code of Best Practice that a company should operate a corporate website and publish on it, in addition to information required by legal regulations, audio or video recordings of the General Shareholders’ Meetings; and
- 2) the principle laid down in Section IV.10 of the Code of Best Practice that a company should enable its shareholders to participate in the General Shareholders’ Meeting using electronic communication means;

– would not be applied by the Bank.

Reasons:

Re 1): Since the date of the banks’ merger in 2015 and as at 31 December 2015, minority shareholders held 5.01% of the Bank’s shares. Therefore, the Bank is not planning to make any audio or video recordings of its General Shareholders’ Meetings and publish such recordings on the Bank’s website. According to the Management Board of the Bank, submission of current reports and publication of information concerning the General Shareholders’ Meeting on the Bank’s website guarantees transparency and fully protects the interest of minority shareholders.

Re 2): Due to the aforementioned changes in the Bank’s shareholder structure, the Management Board is of the opinion that the solutions adopted by the Bank with respect to the shareholders’ participation in General Shareholders’ Meetings enable them to properly exercise the rights attached to their shares and fully protect the interest of minority shareholders.

The Management Board of the Bank hereby represents that the Bank and its governing bodies complied in 2015 with the adopted Principles of Corporate Governance laid down in the Code of Best Practice. In the reporting period, the principles laid down in the Code of Best Practice and adopted by the Bank were not violated.

Key characteristics of the internal control and risk management systems used by the issuer for purposes of preparation of financial statements and consolidated financial statements

The Bank’s internal control system complies with the requirements imposed by the Polish supervision authorities and has been brought into line with the internal control policy in place at the BNP Paribas Group.

The Bank has and develops an internal control system appropriate for its organizational structure and comprising the Bank’s organizational entities and the basic organizational units, along with subsidiaries.

The objective of the Bank’s internal control system is to support decision-making processes to enable early identification of risk, its mitigation and control to ensure:

- efficiency and effectiveness of the Bank’s operations;
- reliability of the financial reporting process;
- compliance of the Bank’s operations with the laws and internal regulations;
- security of transactions and assets.

The internal control system at the Bank comprises:

- risk control mechanisms;
- review of compliance of the Bank’s operations with the laws and internal regulations;
- internal audit;
- functional control;



- operational control.

The risk control mechanism have been developed considering the Bank's characteristics and comprise:

- principles, limits and procedures applicable to the Bank's business, which are aimed at ensuring control and function as part of the operating activities of the Bank;
- activities aimed at controlling the quality and correctness of the tasks fulfilled at the Bank, falling within the scope of permanent control.

The internal control system in place at the Bank is based on three levels which comprise two control categories:

- permanent control (level 1: functional control and level 2: including operational control);
- periodic control (level 3: institutional control), exercised by an independent internal audit unit.

Functional control and permanent operational control is exercised in accordance with internal regulations adopted by the Bank and approved by the Management Board and the Supervisory Board. Permanent operational controls (Fundamental Monitoring Points – FMP) are obligatory aspects of the control system, which affect the process of management of the key risks identified before in a regular assessment.

The Bank has established an Internal Control Coordination Committee, which is an advisory body supporting the Management Board in effective management of the internal control system at the Bank. Additionally, the Internal Audit Committee supports the Supervisory Board in monitoring the effectiveness of the internal control system and risk management.

The objective of the risk management system is to identify, measure or estimate, monitor and manage the risks inherent in the Bank's operations. 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.

The Bank has an Internal Audit Division, which assumes responsibility for conducting internal audits in addition to auditing and assessing, in an independent and unbiased manner, the appropriateness and effectiveness of the internal control system, in addition to issuing opinions on the Bank's management system, to include the effectiveness of management of risks inherent in the Bank's operations. The Managing Director of the Internal Audit Division reports directly to the President of the Bank's Management Board. The Internal Audit Division regularly provides the Internal Audit Committee and the Supervisory Board with the findings of its internal audits, in particular, information on identified irregularities and issued recommendations.

The Bank has adopted an Accounting Policy developed in conformity with the International Financial Reporting Standards. Preparation of financial statements, periodic financial reports and management information is the responsibility of the Financial Accounting Division and the Management Accounting and Investor Relations Division, reporting to the Vice-President of the Management Board in charge of Finance. Financial statements are adopted by a resolution and approved for publication by the Management Board of the Bank.

A key role in the process of evaluation of the Bank's financial statements is played by the Internal Audit Committee, which monitors the financial reporting process, along with independence of the certified auditor and the entity authorized to audit financial statements, in addition to advising the Supervisory Board to accept or reject the annual financial statements. Once evaluated positively by the Internal Audit Committee and the Supervisory Board, the annual financial statements are presented to the General Shareholders' Meeting for approval.

Shareholders with a direct or indirect qualifying holding, along with the number of shares held, their percentage interest in the share capital, the resulting number of votes and their percentage share in the total number of votes at the General Shareholders' Meeting

As at 31 December 2015, the following entities were the major shareholders of the Bank:

- BNP Paribas SA with its registered office in Paris (Boulevard des Italiens, 1675009 Paris, France) holding directly 50,524,889 shares of the Bank, which represents 59.98% interest in the share capital of the Bank. The core business of BNP Paribas SA is carrying out banking operations and provision of banking services;
- BNP Paribas Fortis BV/SA with its registered office in Brussels (Rue Montagne du Parc 3, B-1000, Brussels, Belgium) holding directly 23,884,975 shares of the Bank, which represents 28.35% interest in the share capital of the Bank. The core business of BNP Paribas Fortis SA is carrying out banking operations



and provision of banking services;

- Rabobank International Holding B.V. with its registered office in Utrecht (Croeselaan 18, 3521 CB Utrecht, the Netherlands) [RIH] holding directly 5,613,875 shares of the Bank, which represents 6.66% interest in the share capital of the Bank. RIH is the holding company in the Rabobank Group of companies whose core business is carrying out banking operations and provision of banking services.

Detailed information on the Bank's shareholders is available in Section 7 *Shareholder Structure*.

Holders of securities with special control rights, including a description of such rights

The Bank's shares are ordinary bearer or registered shares (as at 31 December 2014, there were 13,024,915 registered shares, including 4 B series shares). No special control rights are attached to the ordinary bearer shares.

On the other hand, registered B series shares of the Bank (as at 31 December 2015: four shares) 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, once the rights attached to the preference shares have been exercised, may be insufficient to cover the total par value of those shares.

Limitations with respect to exercising the voting rights, such as limitations with respect to exercising the voting rights by the holders of a specified portion or number of votes, time limitations with respect to exercising the voting rights or provisions pursuant to which (with the company's involvement) equity rights attached to securities are separated from the holding itself

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. Under Section 10.4 of the Bank's Statute, one vote at the General Shareholders' Meeting is attached to each share.

Limitations on transferring the title to the issuer's securities

The Bank's Statute does not impose any limitations as to transferring the title to the securities issued by the Bank.

Principles applicable to appointment and removal of members of the management bodies as well as their powers, in particular the right to take decisions regarding the issue or buy-back of shares

Under Section 21.1 of the Bank's Statute, the Management Board of the Bank is composed of four to twelve members and effective from 1 January 2018 – from four to nine members appointed for a joint term of office (three years).

The Management Board is composed of the President, First Vice-President, Vice-Presidents and/or Members of the Management Board, who are appointed, removed or suspended by the Supervisory Board. At least two members of the Management Board, including the President, should have expertise and experience enabling stable and prudential management of the Bank. On the other hand, individuals possessing an in-depth knowledge of the banking market in Poland, i.e. permanently residing in Poland, fluent in Polish and having the relevant experience on the Polish market, have to represent at least a half of the members of the Management Board of the Bank (Section 21.2-21.4 of the Statute).

The Management Board manages the Bank's affairs and represents the Bank outside. The Bank's Statute does not confer any special rights in respect of the issue or buy-back of shares on the Management Board. A detailed description of the Management Board's procedures, including the scope of its powers, is provided in Section 22.2 of the Bank's Statute.

Introduction of amendments to the issuer's statute

Any amendment to the Bank's Statute requires a resolution of the General Shareholders' Meeting and an entry in the Register of Entrepreneurs of the National Court Register. Amendments to the Statute in respect of the matters specified in Article 34.2 of the Banking Law of 29 August 1997 (consolidated text: Journal of Laws of 2012, item 1376, as amended) require a consent of the Polish Financial Supervision Authority.



The Management Board's motions to amend the Bank's Statute and those concerning other matters to be examined by the General Shareholders' Meeting, should be consulted upon with the Supervisory Board in advance.

Resolutions of the General Shareholders' Meeting to amend the Statute, in particular, change the Bank's name, registered office, business profile as referred to in Section 5.2 of the Statute, increase or reduce its share capital, require the majority of 3/4 of votes cast (Section 13.2 of the Statute).

In accordance with Section 20.1m) of the Bank's Statute, immediately after the General Shareholders' Meeting adopting amendments to the Bank's Statute has been held, the Supervisory Board shall draft the consolidated text of the Statute and introduce other editorial changes to the Statute, as specified in the relevant resolution of the General Shareholders' Meeting.

Description of the procedures of the General Shareholders' Meeting and its key powers, including information on the shareholders' rights and the method of their exercising, in particular the principles set forth in the regulations of the General Shareholders' Meeting insofar as they do not result directly from the provisions of the law

In accordance with Section 8.6 of the Bank's Statute, the General Shareholders' Meeting is convened by way of a notice published on the Bank's website and in the manner specified for reporting current information, in line with the regulations concerning public offering, conditions governing the introduction of financial instruments to organized trading, and public companies, at least 26 days before the scheduled date of the General Shareholders' Meeting.

General Shareholders' Meetings are held in the registered office of the Bank, in Warsaw. General Shareholders' Meetings may be ordinary or extraordinary. The General Shareholders' Meeting is convened by the Management Board of the Bank. The Ordinary Shareholders' Meeting is held annually within six months of the end of each financial year (Section 8.2 of the Statute).

The Extraordinary Shareholders' Meeting is convened when necessary by the Management Board at its own initiative, at the request of the Supervisory Board or a shareholder or shareholders representing in aggregate at least 1/20 of the share capital (Section 8.3).

A shareholder or shareholders representing in aggregate at least 1/20 of the Bank's share capital may request that the Extraordinary Shareholders' Meeting be convened and particular items put on its agenda. The Extraordinary Shareholders' Meeting may be convened by shareholders representing at least a half of the Bank's share capital or at least a half of the total number of votes at the Bank. The chairperson of the meeting is elected by the shareholders (Section 8.5 of the Statute).

Under Section 9 of the Bank's Statute, any matters raised by the Management Board to be discussed at the General Shareholders' Meeting need to be presented to the Supervisory Board in advance.

A shareholder or shareholders representing in aggregate at least 1/20 of the Bank's share capital may request that particular items be put on the agenda of the nearest General Shareholders' Meeting. Such items should be submitted in writing or in electronic form to the Management Board of the Bank, which subsequently presents them, along with its opinion, to the Supervisory Board. A shareholder's motion with a statement of reasons or a draft resolution concerning a proposed item on the agenda should be submitted to the Management Board of the Bank at least 21 days before the scheduled date of the General Shareholders' Meeting (Section 9.1, sentence 2, and Section 9.2 of the Statute).

Removal of an item from the agenda or non-consideration of an item placed on the agenda at the request of the Bank's shareholders requires a resolution of the General Shareholders' Meeting of the Bank, along with the consent of all the shareholders of the Bank who have filed a motion to place an item on the agenda of the General Shareholders' Meeting.

A General Shareholders' Meeting is valid regardless of the number of shares represented at such a meeting. In addition to the Code of Commercial Companies, the issues related to convening a General Shareholders' Meeting and its being held are governed by the Bank's Statute, the Regulations of the General Shareholders' Meeting as well as the General Shareholders' Meeting notice.



The General Shareholders' Meeting should be held in compliance with the Code of Commercial Companies, the Banking Law, the Bank's Statute, Regulations and the Code of Best Practice. Under Section 10 of the Regulations of the General Shareholders' Meeting, the General Shareholders' Meeting is attended by Members of the Supervisory Board and Members of the Management Board who are able to provide answers to any questions asked during the General Shareholders' Meeting. If financial matters are to be discussed, the General Shareholders' Meeting should be attended by the certified auditor. In particular, the Rules of the General Shareholders' Meeting set forth provisions applicable to election, including of the Supervisory Board, by way of voting in separate groups.

In accordance with the Code of Commercial Companies, the Banking Law and the Bank's Statute, the key powers of the General Shareholders' Meeting are:

- verification and approval of the Management Board's report on the activities of the Bank and the financial statements for the prior financial year;
- verification and approval of the Management Board's report on the activities of the Bank's Capital Group and the consolidated financial statements of the Bank's Capital Group for the prior financial year;
- adoption of resolutions to distribute the profit or cover the loss;
- acknowledgement of the fulfilment of duties by members of the Bank's governing bodies.

In addition, the General Shareholders' Meeting may adopt resolutions concerning:

- amendments to the Bank's Statute;
- appointment and removal of Members of the Supervisory Board;
- increases or reductions in the Bank's share capital;
- issue of convertible bonds and bonds with the pre-emptive right to take up the Bank's shares, and subscription warrants;
- redemption of shares and detailed terms of such redemption;
- merger or liquidation of the Bank, appointment of the liquidators and adoption of a liquidation procedure;
- development of the compensation policy and determination of the amount of compensation paid to members of the Supervisory Board;
- any issues proposed by the Supervisory Board or Management Board of the Bank;
- any issues proposed by the shareholders in accordance with the applicable laws and the Bank's Statute;
- other issues as provided for by the applicable laws and the Bank's Statute.

Composition and changes introduced during the last financial year, including a description of the procedures of the issuer's management, supervisory or administrative bodies as well as their committees

The composition of the Management Board and Supervisory Board of the Bank has been presented in Section 4 *Governing Bodies of Bank BGŻ BNP Paribas S.A.*

The Supervisory Board of Bank BGŻ BNP Paribas S.A. exercises permanent supervision of the Bank's all operations.

In addition to the powers and duties specified in the applicable laws and the Bank's Statute, the scope of the Supervisory Board's responsibilities includes adoption of the annual financial plan of the Bank, appointment and removal of members of the Management Board, appointment of the certified auditor to examine the financial statements of the Bank and its Capital Group, development of the compensation policy and determining the amount of compensation paid to members of the Management Board, approval of the Bank's growth strategy developed by the Management Board, granting consent for transactions with related parties of the Bank which do not satisfy the arm's length conditions, approval of the organizational regulations of the Bank drafted by the Management Board, drafting a consolidated text of the Statute immediately after the General Shareholders' Meeting adopting amendments thereto has been held as well as introduction of other editorial changes to the Statute, as specified in resolutions of the General Shareholders' Meeting.

The Supervisory Board exercises permanent supervision of the Bank's operations by evaluating the Management Board's reports on the activities of the Bank and its Capital Group as well as the financial statements of the Bank and its Capital Group for the prior financial year, as regards their compliance with the accounting records



and documents and the facts, in addition to examining the Management Board's motions to distribute profits or cover losses.

The Supervisory Board of the Bank submits annual reports to the General Shareholders' Meetings, presenting the results of evaluation of the financial statements of the Bank and its Capital Group as well as the Management Board's reports on the activities of the Bank and its Capital Group for the financial year, along with the Management Board's motion to distribute profit. Additionally, the Supervisory Board assumes responsibility for oversight of internal control system implementation as well as assessment of the appropriateness and effectiveness of the internal control system in place at the Bank.

Furthermore, the Supervisory Board issues opinions on any motions and matters which require a resolution of the General Shareholders' Meeting. Members of the Supervisory Board attend the General Shareholders' Meetings.

In 2015, the Supervisory Board held 11 meetings and adopted 139 resolutions.

The Supervisory Board appoints internal committees out of its members:

- the Bank's Internal Audit Committee;
- the HR and Compensation Committee.

The Bank's Internal Audit Committee (Committee) is responsible for supporting the Supervisory Board in fulfilment of its supervisory duties, in particular assisting the Supervisory Board in ensuring compliance with internal and external regulations, key risk management, assessment of the effectiveness of the compliance function, supervision and assessment of the internal audit function, supervision and assessment of the quality of management of the Bank's assets as well as supervision and assessment of the quality of the external audit function.

The Committee is composed of at least three members of the Supervisory Board.

A detailed scope of duties and procedure of the Bank's Internal Audit Committee has been defined in its regulations adopted by the Supervisory Board.

In accordance with its powers, in 2015, the Committee obtained the results of both internal and external audits and controls, information regarding implementation of audit and PFSA's recommendations, risk and compliance reports, information on the review of the Bank's risk, documents concerning the risk appetite as well as restructuring, debt collection and operational risk reports.

Composition of the Committee in 2015:

- Jarosław Bauc – Chairman;
- Dariusz Filar – Member (resignation as of 30 April upon the close of the Supervisory Board meeting on 30 April);
- Jean-Paul Sabet – Member;
- Michel Vial – Member (resignation as of 31 August);
- Mariusz Warych – Member;
- Monika Nachyła – Member (appointed on 8 July).

The HR and Compensation Policy Committee (the Committee) 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 policy.

The Committee is composed of at least two members of the Supervisory Board.

A detailed scope of duties and procedure of the HR and Compensation Committee has been defined in its regulations adopted by the Supervisory Board.

In fulfilment of its duties in 2015, the HR and Compensation Committee discussed, among other things, the issue of determination of the amount considered particularly high, above which 60% of the base amount of the variable compensation of Members of the Management Board and other Material Risk Takers (MRT) is deferred. Additionally, the Supervisory Board dealt with changes in the composition of the Management Board, the compensation policy and the amount of compensation paid to members of the Management Board, assessed



the achievement of goals by each member of the Management Board in 2014 as well as appropriateness of members of the Management Board for their roles in accordance with the Board Member and Key Bank Personnel Assessment Policy.

Composition of the Committee in 2015:

- Jean Lemierre – Chairman (resignation as of 19 June);
- Jean-Paul Sabet – Member (until 8 July), Chairman (appointed on 8 July);
- Jacques d’Estais – Member (resignation as of 1 September);
- Stefaan Decraene – Member (appointed on 1 September);
- Józef Wancer – Member (appointed on 1 September).

17.2. INFORMATION CONCERNING THE BANK’S COMPLIANCE WITH THE RECOMMENDATIONS AND PRINCIPLES OF THE BEST PRACTICE FOR WSE LISTED COMPANIES 2016

Since 1 January 2016, the Bank has been bound by the *Best Practice for WSE Listed Companies 2016*, introduced by the Warsaw Stock Exchange under Resolution No. 26/1413/2015 of the Board of the Warsaw Stock Exchange, dated 13 October 2015.

The *Best Practice for WSE Listed Companies 2016* is available on the website of the Warsaw Stock Exchange at: <http://static.gpw.pl/pub/files/PDF/RG/DPSN2016 GPW.pdf>

In its resolution No. 7/BZ/3/2016, the Management Board of the Bank adopted the principles of corporate governance laid down in the *Best Practice for WSE Listed Companies 2016*, except recommendation IV.R.2. and principles I.Z.1.16., I.Z.1.20., IV.Z.2. and (in part) V.Z.5. Additionally, it was assumed that principle I.Z.1.10. and III.Z.6. and recommendation IV.R.3 did not apply to the Bank.

Under Section 29.3 of the Regulations of the Warsaw Stock Exchange, on 26 January 2016, the Bank published a report on its non-application of some detailed principles laid down in the *Best Practice for WSE Listed Companies 2016*.

The following recommendations and principles are not applied by or do not apply to the Bank:

[I.Z.1. A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation: (...)]

I.Z.1.10. financial projections, if the company has decided to publish them, published at least in the last 5 years, including information about the degree of their implementation

Principle I.Z.1.10. does not apply – the Bank does not publish financial projections.

I.Z.1.16. information about the planned transmission of a general shareholders’ meeting, not later than 7 days before the date of the general shareholders’ meeting

Principle I.Z.1.16. is not applied by the Bank – neither the Statute nor the Regulations of the General Shareholders’ Meeting provide for transmission of General Shareholders’ Meetings. Furthermore, at present, 5% free float of shares on the Warsaw Stock Exchange and little interest justify the Bank’s non-application of the aforesaid principle.

I.Z.1.20. an audio or video recording of a general shareholders’ meeting

Principle I.Z.1.20. is not applied by the Bank. – Comment: see Principle I.Z.1.16. Additionally, transmitting and recording meetings necessitates application of appropriate technical solutions, which translates into additional costs of organization of general shareholders’ meetings.

IV.R.2. If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general shareholders’ meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general shareholders’ meeting using such means, in particular through:

- 1) real-life broadcast of the general shareholders’ meeting;



- 2) real-time bilateral communication where shareholders may take the floor during a general shareholders' meeting from a location other than the general shareholders' meeting;
- 3) exercise of the right to vote during a general shareholders' meeting either in person or through a plenipotentiary.

Recommendation IV.R.2. is not applied by the Bank – neither the Statute nor the Regulations of the General Shareholders' Meeting provide for transmission of General Shareholders' Meetings. Furthermore, at present, inconsiderable free float of shares on the Warsaw Stock Exchange (5%) and little interest justify the Bank's non-application of the aforesaid recommendation.

IV.R.3. Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.

Recommendation IV.R.3. does not apply – the Bank's shares are listed on Warsaw Stock Exchange only.

IV.Z.2. If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general shareholders' meetings.

Principle IV.Z.2. is not applied by the Bank – neither the Statute nor the Regulations of the General Shareholders' Meeting provide for transmission of General Shareholders' Meetings. Furthermore, at present, 5% free float of shares on the Warsaw Stock Exchange and little interest justify the Bank's non-application of the aforesaid principle.

V.Z.5. Before the company concludes a significant agreement with a shareholder who holds at least 5% of the total vote in the company or with a related party, the management board should request the supervisory board's approval of the transaction. Before giving its approval, the supervisory board should evaluate the impact of the transaction on the interest of the company. The foregoing does not apply to typical transactions and transactions at arm's-length made as part of the company's operations between the company and members of its group. If the decision concerning the company's significant agreement with a related party is made by the general shareholders' meeting, the company should give all shareholders access to information necessary to assess the impact of the transaction on the interest of the company before the decision is made.

Principle V.Z.5. is applied by the Bank whereas: The principle is applied in part, insofar as specified in Section 20.1.1k) of the Bank's Statute, whereby the Supervisory Board's consent for the entry into a transaction with the Bank's related party is required for transactions which may not be classified, in aggregate, as typical transactions concluded on arm's length terms in the course of the Bank's day-to-day operations. However, no such principle applies to significant agreements with a shareholder holding 5% of the total number of votes or a related party.

18. GROWTH PROSPECTS OF BANK BGŻ BNP PARIBAS S.A.

The merger of two complementary organizations: Bank BGŻ with a tradition of almost a century on the Polish market and Bank BNP Paribas Polska with extensive international experience, 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 market share of the merged Bank exceeds 4% and the Bank is the eighth largest bank in Poland in terms of asset value. The Bank's ambition is to become one of the five largest banks in Poland within the upcoming 3 to 5 years.

As it is the mission of the Bank to offer responsibly innovative financial solutions supporting customers in changing their world and stimulating the local economy, Bank BGŻ BNP Paribas focuses its efforts on creating value for its customers in the long term, relying on multi-sector expertise and experience to develop pragmatic solutions that exert a positive effect on the comfort of its customers' life and development of enterprises, while ensuring compliance with the highest professional, loyalty and responsibility standards. Additionally, a better understanding of the needs and expectations of customers will contribute to improvement of relationships and enhancing mutual trust.

It is the intention of Bank BGŻ BNP Paribas to be a bank open to its customers, communicating with them in a clear and transparent but also professional manner. Sharing its experience and expertise, the Bank treats the



customers as its business partners and delivers the value they expect. The Bank constantly tries to stay ahead of its customers' needs by looking for new solutions that will meet their expectations at every stage of their functioning and living in their community.

The Bank intends to further strengthen its presence and increase its market share in all major areas of its operations. To this end, it needs solid financial foundations in addition to high operational and organizational efficiency. A permanent and reliable assessment of its potential as well as an analysis of the market environment, initiatives of its competitors and verification of the directions of changes in the economy in the nearest future are also necessary. The merged Bank has already begun to serve its customers under a single brand of Bank BGŻ BNP Paribas. However, the process of integration will be completed only at the time of the full operational merger, including migration of customers to one IT system, which is planned by the end of 2016, and a single product offering, which will affect the Bank's ability to accomplish its strategic objectives.

Reinforcing the current leading position in the agri-food sector, becoming a leader 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. Optimization of the range of products offered, identification of the sources of competitive advantage and elimination of redundant distribution chain links will contribute to development of a profitable product offering and enable the Bank to expand its operations onto new areas and new customers, in addition to development of competencies 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.

The estimated synergy effect in 2017 is estimated at the level of PLN 350 million, with restructuring costs of ca. PLN 440 million to be incurred within 3 years (including also the restructuring costs reported by the BNP Paribas Group) will be achieved through:

- implementation of an integrated business model of the BNP Paribas Group considering Polish market conditions, taking advantage of the business lines competencies for synergistic purposes,
- IT system optimization, retail branch network restructuring and adjustment for strategy purposes;
- efficiency improvement projects (central and back-office functions);
- development of the online offering drawing on the experience with *BGŻOptima* – an online channel of BGŻ.

For the full integration of services provided on the Polish market and in accordance with the growth strategy of the BNPP Group a merger of Bank BGŻ BNPP and Sygma Bank Polska Polska is planned in the first half of 2016. It is also a result of a fulfillment of an investor obligation of BNP Paribas S.A. to the Polish Financial Supervision Authority upon the purchase of shares in BGŻ S.A.

Detailed information concerning the conversion of Sygma Banque SA Branch in Poland into Sygma Bank Polska S.A., reorganization of the Laser Group and the Bank's BGŻ BNPP purchase of the shares in Sygma Bank Polska S.A. and Laser Services Polska S.A. (LSP) has been presented in Section 1.1 of this Report.

The objective of the merger of the aforementioned institutions is to maintain the strengths of both banks and their expertise in addition to further development of a fully universal bank.

The integration of Sygma Bank Polska into BGŻ BNPP structures will enable the Bank to broaden its product offering on the Polish consumer finance market, which will have a positive effect on the income generated both by the Bank and the capital group. The integrated consumer finance (installment loans, cash loans, car loans, credit cards as well as partner and loyalty programs) will ensure comprehensiveness of the Bank's offering in this area, increase the scale of its operations and improve its competitive advantage. On the other hand, integration with BGŻ BNPP will provide the customers of Sygma Bank Polska with access to a wider range of banking products and selective access to the distribution network of BGŻ BNPP.

A merger of three banks will open up a unique opportunity for growth and expansion, while the new business areas integrated under a single brand of Bank BGŻ BNP Paribas will be the mainspring of the Bank's market success when the synergies of their joint operations are used.

Bank BGŻ BNP Paribas is an organization with the prospects of long-term operations, whose scale and market share ensure sustainable and profitable growth in addition to maintaining a prudential risk profile. The stability and scale of the operations carried out by the BNP Paribas Group will considerably increase the probability of implementation of the value growth strategy in the upcoming years. Adoption of the highest operating standards and consistent achievement of the objectives defined by the Bank will contribute to building solid foundations for efficient and effective operations, to the pleasure of the shareholders, customers and employees.



19. MAJOR EVENTS AFTER THE END OF THE REPORTING PERIOD

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 an adequate 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 dated 28 January 2015 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 as of 29.01.2016.

– the funds were obtained by the Bank under subordinated loan agreements concluded with BNP Paribas S.A. on 29 December 2015. Once the aforesaid subordinated loans have been classified as Tier 2 capital, the Bank's equity is sufficient to satisfy the capital requirements recommended by PFSA.

26.02.2016 **The first notification of shareholders on the planned merger of BGŻ BNPP with Sygma Bank Polska S.A.**

20. 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 Separate Financial Statements of Bank BGŻ BNP Paribas S.A. for the year ended 31 December 2015 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 Bank as well as its financial performance in all material respects.
- the Management Board's Report on the Activities of Bank BGŻ BNP Paribas S.A. for 2015 gives a true view of the development and achievements as well as the capital position 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. represents that:

- (i) 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 separate financial statements of Bank BGŻ BNP Paribas S.A. for 2015; and
- (ii) the entity and the certified auditors conducting the review satisfy the conditions necessary to issue an unbiased and independent report on the review, in conformity with the applicable local laws.

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

15.03.2016	Tomasz Bogus <i>President of the Management Board</i>	..... signature
15.03.2016	Daniel Astraud <i>Vice-President of the Management Board</i>	..... signature
15.03.2016	François Benaroya <i>Vice-President of the Management Board</i>	..... signature
15.03.2016	Blagoy Bochev <i>Vice-President of the Management Board</i>	..... signature
15.03.2016	Jan Bujak <i>Vice-President of the Management Board</i>	..... signature
15.03.2016	Wojciech Kembłowski <i>Vice-President of the Management Board</i>	..... signature
15.03.2016	Magdalena Legęć <i>Vice-President of the Management Board</i>	..... signature
15.03.2016	Jaromir Pelczarski <i>Vice-President of the Management Board</i>	..... signature
15.03.2016	Stephane Rodes <i>Vice-President of the Management Board</i>	..... signature
15.03.2016	Michel Thebault <i>Vice-President of the Management Board</i>	..... signature
15.03.2016	Bartosz Urbaniak <i>Member of the Management Board</i>	..... signature
