



2016

**MANAGEMENT BOARD REPORT
ON THE ACTIVITIES OF
BANK BGŻ BNP PARIBAS S.A. IN 2016**



BGZ BNP PARIBAS

The bank for a changing world

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1. BANK BGŻ BNP PARIBAS S.A.

Bank BGŻ BNP Paribas S.A. (hereinafter referred to as the “Bank”, “BGŻ BNPP”) operates within BNP Paribas, a leading multi-national financial group present in 74 countries with over 190,000 employees, including more than 146,000 in Europe.

The BNP Paribas Group operates in two key areas:

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

The BNP Paribas Group supports its clients (individuals, local authorities, businesses, SME, corporations and institutions) in implementation of projects, offering a broad range of financial, investment and savings projects along with insurance.

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

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

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

Mission of Bank BGŻ BNP Paribas S.A.

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

Vision of Bank BGŻ BNP Paribas S.A.

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

Strategy of Bank BGŻ BNP Paribas S.A.

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

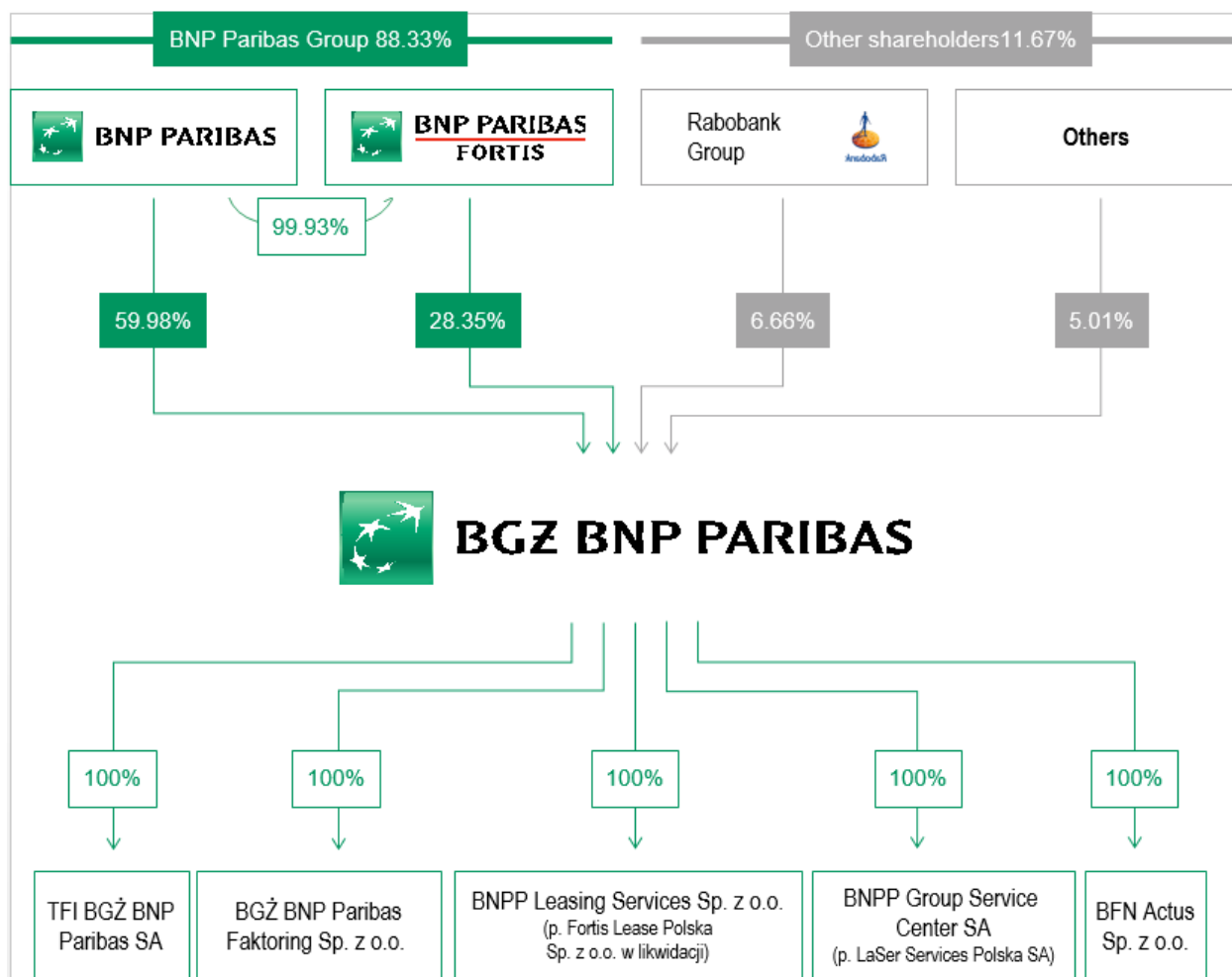
1.1. Structure of the Capital Group of Bank BGŻ BNP Paribas S.A.

Composition of the Group as at 31 December 2016:

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

Entity's name	Core business	Bank's interest in share capital	Consolidation and measurement method
Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A. (“TFI BGŻ BNPP”)	investment fund establishment and management	100.0%	full method
BGŻ BNP Paribas Faktoring Sp. z o.o. (“Factoring”)	factoring	100.0%	full method
Bankowy Fundusz Nieruchomościowy ACTUS Sp. z o.o. (“Actus”)	purchase and sale of real property	100.0%	full method
BNP Paribas Leasing Services Sp. z o.o. (“Leasing”, formerly: Fortis Lease Polska Sp. z o.o. in liquidation)	leases	100.0%	full method
BNP Paribas Group Service Center S.A. (“GSC”, formerly: LaSer Services Polska S.A.)	financial agency services	100.0%	full method

The structure of the shareholders of the Bank and the Capital Group composition:



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 merger had been preceded with relevant decisions of supervisory bodies.

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 to PLN 84,238,318 through the issue of 28,099,554 shares of Bank BGŻ with the par value of PLN 1 each, to be acquired by the existing shareholders of BNPP Polska (Merger Shares). The shareholders of BNPP Polska received 5 Merger Shares in exchange for 6 shares in BNPP Polska.

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

Purchase of shares in Sygma Bank Polska S.A. and Laser Services Polska S.A.; planned merger of the Bank with Sygma Bank Polska

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

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

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

On 28 July 2015, the Bank concluded a preliminary agreement concerning the purchase of 100% of shares in Sygma Bank Polska by Bank BGŻ BNP Paribas S.A. Then, once the conditions precedent have been fulfilled, to include obtaining of necessary permissions 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 permission for BNP Paribas Personal Finance Société Anonyme with the registered office in Paris to sell shares in Sygma Bank Polska to the Bank.

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

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

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

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

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

Pursuant to Art. 494.1 of the Code of Commercial Companies, as a result of the merger, on 31 May 2016, Bank BGŻ BNP Paribas S.A. – the acquirer assumed all the rights and duties of Sygma Bank Polska S.A. – the acquiree. Sygma Bank Polska S.A. was wound up without a liquidation procedure as at the merger date.

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

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

The merger was aimed at a more effective use of the potential of the combined companies and direct and indirect economic and financial synergies, including broadening of the product offering of Bank BGŻ BNP Paribas S.A. on the Polish consumer finance market.

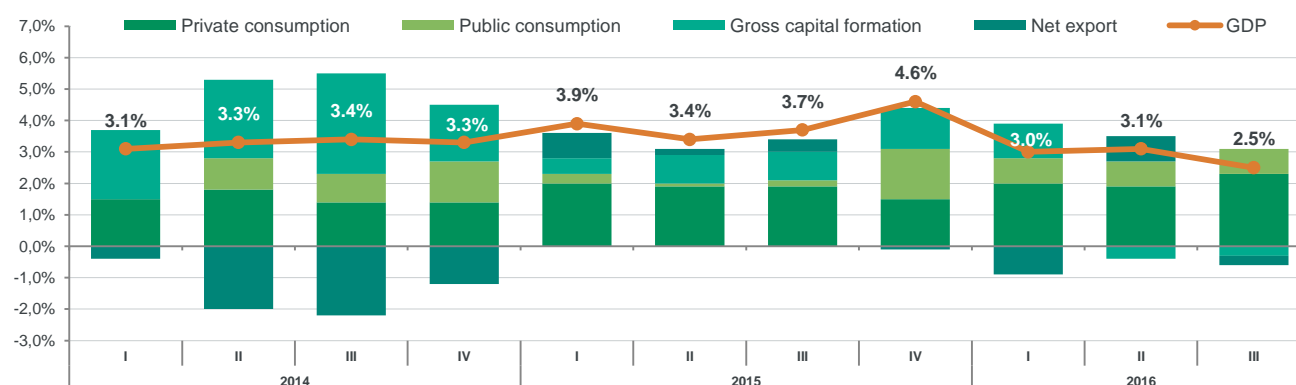
2. EXTERNAL FACTORS AFFECTING OPERATIONS OF THE BANK IN 2016

2.1. Macroeconomic conditions

GDP

In 2016 Polish GDP increased by 2.8% y/y. In the second half of the year, economic growth slowed down to 2.6% YoY from 3.1% in the first half of 2016 and 3.9% YoY in 2015, mainly due to a decrease in investment outlays, which in 2016 dropped by 5.5% YoY compared to a 6.1% growth in 2015. The capital expenditure decrease resulted mostly from a reduced inflow of EU structural funds and direct foreign investments. Private consumption, whose growth jumped to 3.6% in 2016 compared to 3.2% in 2015, remained the key economic growth engine. A good standing of the domestic labor market contributed to the consumption growth. In 2016 the average employment in the enterprise sector increased by 3.1% and remuneration rose by 4.1%, which resulted in a strong growth in actual disposable income of households, accompanied with dropping prices. Further, in 2016 the average unemployment rate dropped to 9.0% from 10.5% in 2015.

Chart 1. GDP growth (YoY)

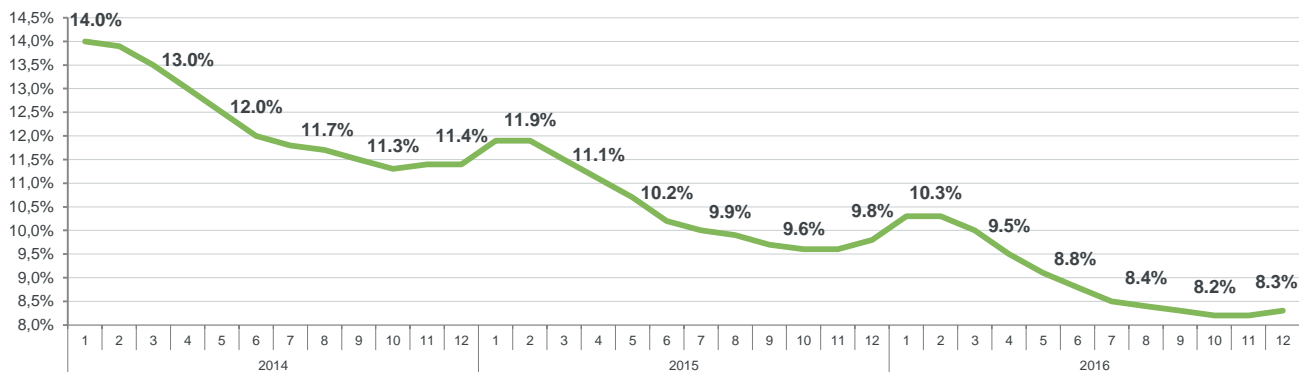


Source: Central Statistical Office

Business activity

In the second half of 2016 industrial production increased by 1.8% YoY on average vs. 4.0% YoY in the first six months, due to a slowdown on foreign markets, which resulted in reduced exports. Recession on the construction and assembly market continued, resulting in its average drop of 15.5% YoY vs. 13.2% YoY in the period from January to June, which was caused by still poor investment level. Actual retail sales increase sped up from 4.8% YoY to 6.1% YoY, supported by the strong labor market and an increase in social support under *Rodzina 500+ program*. In 2016, apart from retail sales, whose actual growth accelerated to 5.4%, both industrial production (a growth by 2.9%) and construction and assembly market (a decrease by 14.4%) were much lower than in 2015.

Chart 2. Registered unemployment rate



Source: Central Statistical Office

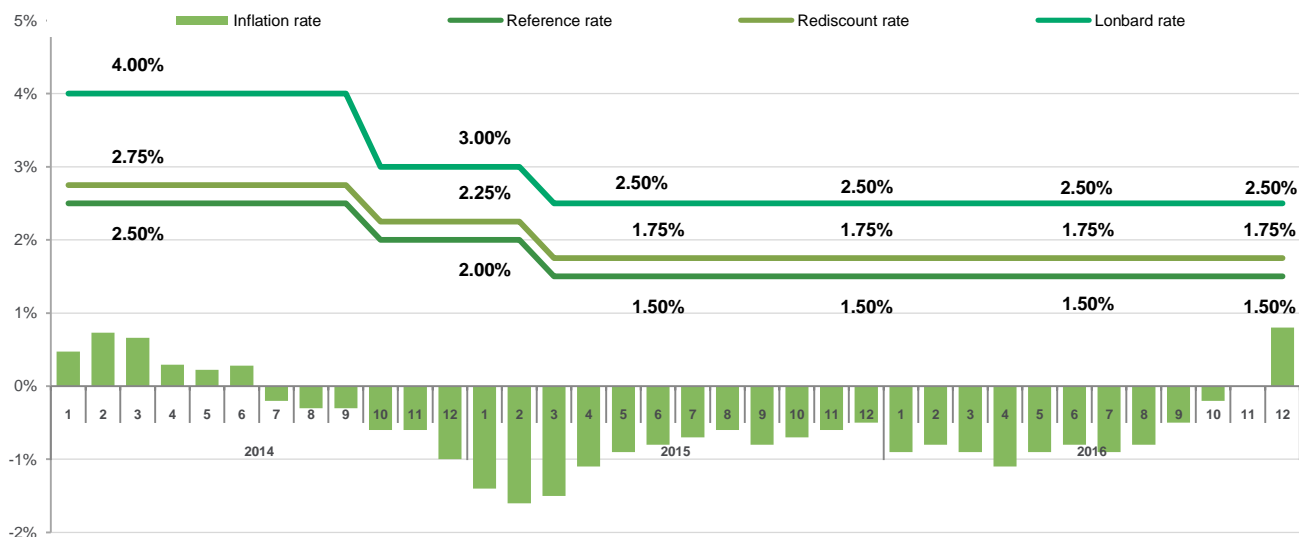
Inflation

In the first half of 2016, prices of consumer goods decreased by 0.9% YoY on average, marking a continued trend commenced in the last quarter of 2015, mostly as a result of another reduction in crude oil prices on the global market. In mid-year, though, the CPI deflation slowed down, which reflected a weakening base effect of low energy commodity prices and a growth in food prices. In November 2016, the CPI deflation in Poland stopped. In December 2016, consumer goods prices increased by 0.8% YoY. In January 2017, CPI inflation increased to 1.8% YoY. The recent increase in prices has resulted mostly from supply factors, such as more expensive fuel and food products. In subsequent quarters, a strong growth in remuneration and increasing demand pressure should contribute to the inflation level being close to the target set by the National Bank of Poland, i.e. 2.5% YoY.

Monetary policy

Last year, Monetary Policy Council (MPC) maintained flat interest rates of the National Bank of Poland, with the reference rate of 1.50%. The key argument supporting the stabilizing of interest rates was the expected reversal of inflation trends and the Council members being uncertain whether investment growth may be triggered with reduced cost of money. Despite growing inflation and foreign market interest rates, MPC members prefer maintaining the current levels of interest rates until the end of 2017.

Chart 3. Inflation and interest rates



Source: Central Statistical Office, National Bank of Poland

Bonds market

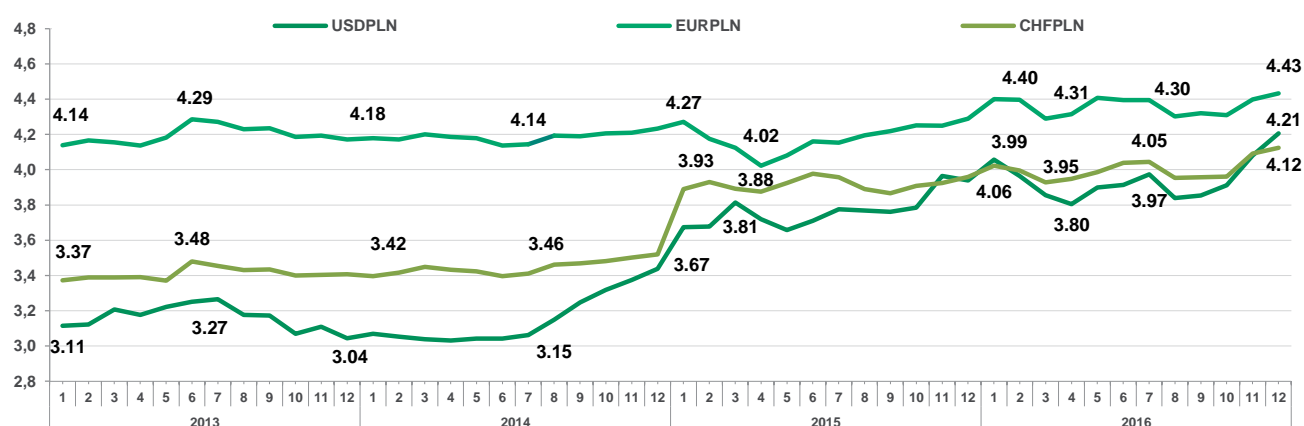
In first months of 2016, no clear trend was visible on the Polish bonds market, with profitability rates fluctuating. A profitability increase in January 2016 resulted from the S&P rating of Poland being reduced and lower market expectations regarding interest rates reduction in Poland. However, the lack of inflation pressure and the slower economic growth, especially in investments, had a positive effect on Polish treasury bonds, though. Regulatory changes related to the banking tax, which significantly increased interest in treasury bonds of the national banking sector, triggered demand for these bonds.

In the second half of 2016 profitability of domestic bonds improved, following the valuation on the base markets. Expectations regarding fiscal easing continuation in the U.S. after the presidential election, to be followed by an accelerated GDP growth and inflation in the American economy, resulted in a strong increase in market interest rates (IRS and bonds profitability) in the U.S. Lately, domestic factors have had a reduced impact on the prices of Polish bonds. The growing inflation and risk of further reductions in international ratings of Poland (related to possible deterioration in the fiscal standing due to the reduction of the retirement age) are the key domestic factors that may adversely impact the demand for Polish debt securities in the coming months.

Currency market

The reduced credit rating of Poland, published by S&P in January 2016, adversely affected the PLN exchange rate, with the PLN/EUR rate nearing 4.50. In the subsequent months, the currency market improved and in spite of the anxiety over Brexit results, in Q1 and Q2 the value of the zloty fell below the January maximum. In that period, the drop in expectations regarding interest rates reduction in Poland and unchanged credit ratings of Poland by the other rating agencies supported the PLN exchange rate. In addition, the developments resulting from Brexit strengthened investors' expectations of quantitative easing continuation in the U.S. and Euroland, which was also positive for growing economies' currencies in summer.

Chart 4. PLN exchange rate (monthly average)



Source: Macrobond

In the second half of 2016, the fluctuation of PLN/EUR exchange rate increased and ranged 4.30 to 4.50, being affected mostly by changes in the global risk appetite. External factors (such as interest rate increase in key global economies and the continuing uncertainty regarding the election cycle in the EU countries and negotiations regarding Brexit) and domestic ones (the growing inflation and aggressive fiscal policy) may result in substantial changes in PLN/EUR rate, also in the months to come.

2.2. Performance of the banking sector

According to preliminary data published by the Polish Financial Supervision Authority, in 2016 the net profit of the Polish banking sector grew by 24.3% YoY to the level of PLN 13.9 billion (as compared to PLN 11.2 billion in 2015).

The year-on-year **improvement in net income of the sector** was determined by the increase in the net banking income (of approx. PLN 3.4 billion, i.e. 6.1% YoY), resulting mostly from a growth in the net interest income of the sector (by PLN 2.7 billion) and an increase of other net banking income items (by approx. PLN 1.5 billion). The improvement in the net interest income was determined by the effective consecutive quarterly reduction in the banks' interest expenses (in spite of a rapidly growing volume of deposits), which was accompanied by a slower loan origination growth in lower-margin loan segments, and an increase in loan margins in some of the sectors, e.g. mortgages. Besides, very high revenues that banks earned on the sale of shares in the payment facilitator Visa Europe to the American company Visa Inc. were the key factor that led to the year-on-year growth in the aforementioned items of the net banking income. According to PFSA, the income (before tax) reached nearly PLN 2.5 billion. A decrease in fees and commissions income (by over PLN 0.7 billion YoY) had a clear negative effect on the net banking income. It resulted mostly from a poor capital market standing for most of the year, adverse changes on the bancassurance market that reduced sales income and the continuing competition on the personal account market.

The increase in the net banking income was clearly supported with the improved other operating income (by approx. 0.8 billion, i.e. 65.9% YoY) and a significant drop in net impairment losses on assets and other provisions (in excess of PLN 1.1 billion, i.e. by 11.7%). The latter resulted mostly from a high 2015 base, when substantial impairment losses had been recognized, among others to cover receivables in SK Bank in Wołomin.

Table 1. Selected income statement items of the banking sector

PLN million	31.12.2016	31.12.2015	Change YoY	
			PLN million	%
Net interest income	38 058	35 377	2 681	7.6%
Net fee and commission income	12 595	13 317	(722)	(5.4%)
Dividend income	1 309	1 363	(54)	(4.0%)
Other items	7 388	5 902	1 486	25.2%
Net banking income	59 350	55 958	3 391	6.1%
Other operating income	1 920	1 157	763	65.9%
Operating expenses, personnel expenses	(15 626)	(15 210)	(417)	2.7%
General administrative expenses	(15 924)	(15 456)	(468)	3.0%
Depreciation and amortization	(2 913)	(2 855)	(59)	2.1%
Total expenses	(34 463)	(33 521)	(943)	2.8%
Impairment losses on assets and other provisions	(8 362)	(9 470)	1 108	(11.7%)
Profit before income tax for the period	18 514	14 175	4 340	30.6%
Income taxes and other statutory reductions in profit	(4 357)	(2 987)	(1 369)	45.8%
Net profit for the period	13 909	11 187	2 722	24.3%

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

The improvement in the sector's performance would have been much better had it not been for the exponential increase in total operating expenses (of over PLN 0.9 billion, i.e. 2.8% YoY). This was mainly due to the so-called tax on assets of some financial institutions introduced in February 2016. According to PFSA, within eight months of the introduction of the tax, i.e. by September 2016, eighteen banks paid the related amount of PLN 2,331 million. Therefore, during the year, the estimated tax paid by the banking sector may range from PLN 3.2 billion to PLN 3.3 billion.

The reported increase in total operating expenses during the year would have been significantly higher had it not been for the high cost base of the sector recorded in 2015, when the banks incurred one-off bankruptcy cost of SK Bank in Wołomin (payments under the Guaranteed Deposit Protection Fund in excess of PLN 2 billion charged to expenses)

and paid premiums to the newly established Borrowers' Support Fund (of PLN 0.6 billion). In 2016, they only had to pay approx. PLN 0.15 billion due to the bankruptcy of Bank Spółdzielczy in Nadarzyn.

According to the National Bank of Poland (NBP), in 2016 the **loan originating campaign slowed down**. At the end of December 2016, the volume of loans for non-banking clients increased by 5.0% YoY, while at the end of December 2015, by 6.9% YoY. Deposit activity of non-banking clients increased. Annual growth in such deposits reached 9.4% at the end of December 2016, vs. 7.4% at the end of December 2015.

As at the end of December 2016 private debt went up by 5.6% YoY vs. a rise of 7.0% YoY as at the end of December 2015, which was determined by a negative rate of growth in private debt in respect of foreign currency home loans in 2016, unlike in 2015 (-2.3% YoY vs. +2.0% at the end of December 2015), resulting from suspended sales of new loans and gradual repayment of the ones taken out, despite a moderate drop in PLN/CHF rate (4.5% YoY at the end of December 2016).

The PLN home loan segment growth has slightly dropped as well (accompanied with a growing base effect) compared to 2015. A moderate demand for home loans in the analyzed period continued despite the lowest in history NBP interest rates, gradual improvement of the labor market standing and the support provided in the form of Mieszkanie dla Młodych (MdM) governmental program, especially because – in spite of the interest rates being at a record low – the majority of investors bought properties in cash (in whole or in part). Furthermore, availability and sales of home loans in the Polish currency could be reduced by banks' implementation of even stricter down-payment requirements as of the beginning of 2016 (a further rise of 5 p.p. to 15%, in accordance with amended Recommendation S) and a regular growth in home loan margins. At the same time the home loan limit available to the average household was reduced significantly and gradually over the past year, mostly due to recommendations of PFSA, which considered banking practices regarding customer creditworthiness assessment as inappropriate (underestimating of maintenance costs and interest rate risk) and the home loans granted as excessive. In this context, please remember that individual banks having low (compared to regulator's expectations) capital adequacy ratios, or facing long-term funding problems, decided to reduce sales of home loans. Additionally, legislation changes that radically cut agricultural land trading adversely affected the standing of the home loan market.

Consumer loans contributed significantly (more than in 2015) to the increase in loans granted in the private debt sector, mainly as a result of the continuing pressure of banks to sell short- and long-term cash loans denominated in PLN as high-margin products, stemming from attempts to protect their financial performance, heavily pressurized by tough regulatory conditions. It was accompanied by steady demand triggered by positive consumer sentiments. The growth rate of the consumer loan sales campaign was supported by improvement of the credit card loan market.

On the other hand, in 2016 the enterprise loan campaign, measured with the nominal growth of business indebtedness to banks, slowed down (despite the YoY drop in PLN/EUR exchange rate at the end of 2016; at the end of 2015 the exchange rate remained stable). The slowdown on the enterprise loan market relates mostly to delays in absorption and distribution of EU funds under 2014-2020 financial perspective, which substantially curtailed investments, in particular in the public sector. Continuing uncertainty regarding further development of international and domestic market conditions had a strong adverse effect on business investments. With regard to the domestic market, legal and regulatory issues were of special importance, among others new sectoral taxes, planned changes in taxation of business owners and growing restrictiveness of the tax law. Foreign markets were affected by Brexit and its consequences and U.S. presidential elections. To some extent, companies' demand for current and investment loans weakened as a consequence of their high liquidity ratios.

Table 2. Banking sector loans by value

PLN billion	31.12.2016	31.12.2015	31.12.2014	Change YoY	
				2016 vs 2015	2015 vs 2014
Loans to private customers	556.2	526.8	492.3	5.6%	7.0%
- home loans	397.6	379.0	354.0	4.9%	7.1%
- in PLN	235.5	213.1	191.3	10.5%	11.4%
- in foreign currencies	162.1	165.9	162.7	(2.3%)	2.0%
- consumer credit	157.7	146.8	137.4	7.4%	6.8%
- other loans	0.9	1.0	0.9	(3.3%)	6.7%
Loans to institutional customers	562.1	538.7	504.2	4.3%	6.8%
- non-bank financial institutions	56.4	56.0	51.5	0.7%	8.7%
- business entities	422.2	402.0	373.5	5.0%	7.6%
corporate	314.5	297.9	275.8	5.6%	8.0%
individual entrepreneurs	68.6	66.2	62.8	3.7%	5.4%
farmers	32.6	31.8	29.3	2.7%	8.6%
- non-commercial institutions	6.5	6.1	5.7	6.9%	6.8%
- public sector	83.5	80.7	79.2	3.4%	1.9%
Total loans to non-bank customers	1 118.3	1 065.5	996.5	5.0%	6.9%

Source: NBP, data for monetary financial institutions except for Central Bank and SKOK (Credit Unions); residents only.

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

At the same time, bank's inclination to grant loans to businesses, especially the lowest-margin ones, may have decreased, among others as a result of introducing the tax on banking assets and its construction, which allowed treasury bonds exemption from the tax base. Growing popularity of alternative funding sources, as reflected in high growth of the lease market (16.6% YoY increase in the value of funding granted in 2016) and trade volume of factors associated in PZF (Polish Factoring Association) seem to confirm the notion. The aforementioned negative effects on the enterprise loan market were reduced, although only partly, by the following: continuing of the de minimis SME guarantee program and low costs of financing caused by the record low interest rates.

Private customers' savings remained the key source of **a rise in banking sector deposits**. At the end of December 2016, the annual growth in deposits of this customer group (9.5% YoY) was close to that at the end of December 2015 (9.7% YoY). The category growth was supported mostly by a rapid increase in the volume of current deposits (by 18.5% YoY) and was accompanied by stabilization in the volume of term deposits (a change by 0.8% YoY) perceived as not attractive due to record low interest rates. Deposit activity among individuals rose despite the interest rates set by the National Bank of Poland being at a record low and despite further reductions in interest rates on saving products by the banks in the subsequent quarters of the reviewed period. It could be supported by continuing gradual improvement of the labor market, reflected both by continuing average employment growth in the enterprise sector and by regular increases in gross monthly pays, as well as the registered unemployment rate dropping to the record low level. The growth in individual deposits beginning from the second quarter of 2016 could have been supported by first payments under 500+ Program commenced in April 2016, which exceeded PLN 17 billion by year-end.

Table 3. Banking sector deposits by value

PLN billion	31.12.2016	31.12.2015	31.12.2014	Change YoY	
				2016 vs 2015	2015 vs 2014
Private deposits	660.0	602.9	549.3	9.5%	9.7%
- current	350.4	295.6	260.6	18.5%	13.4%
- term	309.6	307.3	288.8	0.8%	6.4%
Institutional deposits	463.6	424.3	407.0	9.2%	4.2%
- non-bank financial institutions	53.6	55.4	57.5	(3.3%)	(3.7%)
- business entities	345.9	317.6	288.0	8.9%	10.3%
corporate	269.8	250.1	226.7	7.9%	10.3%
individual entrepreneurs	40.1	37.0	33.2	8.3%	11.6%
farmers	13.8	10.9	9.9	26.8%	9.6%
non-commercial institutions	22.3	19.6	18.2	13.5%	7.9%
- public sector	64.1	51.4	61.6	24.8%	(16.6%)
Total non-bank deposits	1 123.5	1 027.2	956.4	9.4%	7.4%

Source: NBP, data for monetary financial institutions except for Central Bank and SKOK (Credit Unions); residents only.

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

In 2016 a slight decrease in corporate deposits was seen (a growth by 7.9% YoY at the end of 2016 vs. 10.3% YoY at the end of 2015), although it remained high. The aforesaid may have been supported by a rise in sales income generated by enterprises on the Polish market, which was reflected by at least a moderate annual increase in real retail sales over the whole period reviewed. On the other hand, the continuing increase in corporate deposits could have been positively affected by the investment slowdown referred to above, and growing annual exports (despite continuing Russian embargo on certain food products, albeit less strict).

2.3. Stock market and investment

The year 2016 has brought a positive change in WIG, representing all companies listed on Warsaw Stock Exchange, denoting an 11.4% growth. 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. In 2016, WIG20 representing the largest companies saw a moderate growth of 4.8%, WIG40 representing mid-market entities gained 18.2% and sWIG80 increased by 9.9%. The relative poor performance of WIG20 was mostly contributed to by the domestic political risk increase, which impacted mainly power sector companies, which constitute a majority of this index. The positive trend shown by mWIG40 resulted from global tendencies, additionally supported by little exposure of domestic companies included in the index to the domestic political risk.

Table 4. Key WSE indices

Index	31.12.2016	31.12.2015	31.12.2014	Change in 2016	Change in 2015
WIG	51 754	46 467	51 416	11.4%	(9.6%)
WIG20	1 948	1 859	2 316	4.8%	(19.7%)
mWIG40	4 216	3 567	3 483	18.2%	2.4%
sWIG80	14 515	13 211	12 108	9.9%	9.1%

Source: WSE

The following factors determined the situation on the Warsaw Stock Exchange in 2016: (i) S&P reducing the long-term credit rating of Poland; (ii) expecting the results of the UK referendum; (iii) political uncertainty regarding introduction of new taxes (banking tax, retail sales tax); (iv) political uncertainty regarding the announced reforms (of the pension system, translation of CHF loans, a proposed increase in the nominal value of shares in power sector companies); (v) expectations and the outcome of U.S. presidential election, (vi) concerns regarding lower GDP growth in Poland in 2016 and an increase in the budget deficit in subsequent years; (vii) expectations regarding Fed monetary policy.

The first half of 2016 saw considerable volatility on the Polish treasury bond market caused by factors including the lowering of Poland's credit rating and uncertainty related to the Brexit referendum in the UK. In the second half of 2016, prices of bonds decreased as a result of global trends marked by capital outflow from emerging markets and increased inflation expectations. Consequently, the yield on 10-year bonds rose from ca. 2.9% at the end of 2015 to 3.4% at the end of 2016.

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

	31.12.2016	31.12.2015	31.12.2014	Change in 2016	Change in 2015
Number of companies	487	487	471	0.0%	3.4%
Cap of domestic companies (PLN million)	557 124	516 785	591 165	7.8%	(12.6%)
Share trading volume (PLN million)	202 293	225 287	232 864	(10.2%)	(3.3%)
Futures trading volume ('000)	7 598	7 767	9 002	(2.2%)	(13.7%)

Source: WSE

3. MAJOR EVENTS IN BANK BGŻ BNP PARIBAS S.A. IN 2016

- 8.01.2016 **Payment of a contribution to the Borrowers' Support Fund** – pursuant to a decision of the Board of the Borrowers' Support Fund of 5 January 2016 regarding the actual amount and due date of the contribution to the Borrowers' Support Fund (the "Fund"), the Bank was obliged to pay a contribution of PLN 38,167,677.50 by 18 February 2016.
In the fourth quarter of 2015, the Bank recognized the relevant provision for the said contribution. The payment was made in the first quarter of 2016.
-
- 19.01.2016 **The estimated effects of the Act** (of 15 January 2016, Journal of Laws item 68, effective as of 1 February 2016) **on tax on financial institutions on the performance of Bank BGŻ BNP Paribas S.A. for 2016** - According to estimates by the Bank's Management Board, the related reduction in profit shall approximate PLN 200 million. The actual cost of the tax was PLN 185,876 thousand in 2016.
-
- 29.01.2016 **PFSA decisions of 28 January 2016 granting the consent for classification of subordinated loans (of PLN 440 million and EUR 40 million) as the Bank's Tier II capital** - received by the Bank on 29 January 2016.
The Bank raised the funds from realization of subordinated loan agreements concluded with BNP Paribas S.A. on 29 December 2015. Once the aforesaid subordinated loans are classified as Tier II capital, the Bank's equity will be sufficient to satisfy the capital requirements recommended by PFSA.
-
- 26.02.2016 **Shareholders' first announcement of planned merger of Bank BGŻ BNP S.A. and Sygma Bank Polska S.A.**
-
- 14.03.2016 **Registration of amendments to the Statute of Bank BGŻ BNP Paribas S.A.**, adopted by the Extraordinary Shareholders' Meeting on 15 December 2015 in the National Court Register.
-
- 21.03.2016 **Second announcement of planned merger of Bank BGŻ BNP S.A. and Sygma Bank Polska S.A.**
-
- 23.03.2016 **Management Board of Bank BGŻ BNP Paribas S.A. gives positive opinion on merger of Bank BGŻ BNP Paribas S.A. with Sygma Bank Polska S.A.**
-
- 24.03.2016 **PFSA's recommendations regarding the additional capital requirement for the Bank on the consolidated level and on an increase in equity by retaining the entire profit generated in 2015.**
PFSA recommends that the Capital Group of the Bank maintain equity necessary to satisfy an additional capital requirement of 0.72 p.p. with Tier 1 capital accounting for at least 75% (i.e. 0.54 p.p.).
Effective from 1 January 2016, the Bank's minimum capital ratios taking into account the additional capital requirement should be as follows:
 - Standalone presentation: Tier I - 10.78%; TCR* - 13.96%;
 - Consolidated presentation: Tier I - 10.79%; TCR* - 13.97%.
In addition the Bank was instructed to increase its equity through retaining its whole profit earned from 1 January to 31 December 2015.
**TCR - Total Capital Ratio*
-
- 30.03.2016 **Extraordinary Shareholders' Meeting of Bank BGŻ BNP Paribas S.A.** - a decision to merge Bank BGŻ BNP Paribas S.A. with Sygma Bank Polska S.A. and acceptance of the Merger Plan.
-
- 13.04.2016 **Announcing an updated of the strategy of Bank BGŻ BNP Paribas S.A. for 2016-2018.**
The key strategic goals to be achieved by 2018 (on stable economic growth assumption):
 - over five percent share in the loans and deposits market;
 - an improvement in effectiveness as a result of post-integration cost synergies and increased revenues;
 - a 14% increase in the net banking income measured by the compound average growth rate between 2015 and 2018, resulting from implementation of new initiatives in all business lines;
 - a reduction of the cost/income ratio from 74% in 2015 (less integration costs) to ca. 55% in 2018;
 - an increase in ROE to ca. 10%.
The key to effective implementation of the Strategy will be completion of the operating integration of Bank BGŻ S.A. with BNP Paribas Bank Polska S.A. by the end of 2016, as well as a legal merger of the Bank with Sygma Bank Polska S.A. by the end of 2016.

The four pillars of the Strategy are:

- Focus on the customer;
- Support for international expansion of corporate customers;
- Integrated universal bank;
- Implementation of digital services in each operating segment.

19.04.2016 **Obtaining a permission of Polish Financial Supervisory Authority to merge Bank BGŻ S.A. and BNP Paribas Bank Polska S.A.**

Pursuant to Art. 124.1 of the Banking Law of 29 August 1997, the Polish Financial Supervision Authority gave its permission for the merger of Bank BGŻ BNP Paribas S.A. ("BGŻ BNPP") (the acquiring bank) and Sygma Bank Polska ("Sygma Bank Polska") (the acquired bank) by way of transferring all the assets and liabilities of Sygma Bank Polska to BGŻ BNPP in line with the conditions set forth in the Merger Plan agreed between the banks on 10 December 2015.

31.05.2016 **Registration of the merger of Bank BGŻ BNP Paribas S.A. and Sygma Bank Polska S.A. in the National Court Register**

31.05.2016 **The change in the deadline to fulfil the investor obligation of BNP Paribas SA, regarding the improving of liquidity of shares of Bank BGŻ BNP Paribas S.A.**, justified with an unforeseen adverse change in market conditions compared to the date of accepting the obligation, consists in PFSA considering the obligation fulfilled if liquidity of shares of Bank BGŻ BNP Paribas S.A. reaches at least:

- 12.5% shares by the end of 2018; and
- 25% plus one share by the end of 2020.

09.06.2016 **Ordinary General Shareholders' Meeting of Bank BGŻ BNP Paribas S.A. - part 1**, accepting the change to the Statute. Announcing a break in the meeting until 30 June 2016.

17.06.2016 **Information concerning the effect of the acquisition of Visa Europe by Visa Inc. on the financial performance of Bank BGŻ BNP Paribas S.A.**

The share of the Bank as a beneficiary of the transaction:

- EUR 6.9 million in cash - an equivalent of PLN 30.5 million (at the average exchange rate of NBP of 20 June 2016 of 4.3945);
- 2 521 C-series preference shares in Visa Inc.

The transactions were settled in the second quarter of 2016.

Following an amendment to the terms of the transaction regarding its settlement, as announced in the current report no. 90/2015, the earn-out payment was replaced by an increase in the cash amount payable in the second quarter of 2016 and a deferred cash amount payable in the second quarter of 2019 (Deferred payment). According to the communication, the deferred payment may be adjusted in cases described in Transaction Terms.

The total amount of the Deferred Payment assigned to all participants of the Transaction shall be EUR 1.12 billion, 0.0535214433% of which is assigned to the Bank.

30.06.2016 **Ordinary General Shareholders' Meeting of Bank BGŻ BNP Paribas S.A. - part 2** (continuing the meeting after the break announced on 9 June 2016);

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

14.07.2016 **Registration of amendments to the Statute of Bank BGŻ BNP Paribas S.A.**, adopted by the Extraordinary Shareholders' Meeting on 9 June 2016 in the National Court Register.

9.08.2016 **The stand of the Financial Supervision Authority (KNF) on the additional requirement regarding the own funds of Bank BGŻ BNP Paribas S.A. with respect to the capital buffer for other systemically-important institution** - under the ongoing administrative proceedings conducted to identify the Bank as other systemically-important institution and impose on the Bank (based on consolidated and standalone principle) a buffer for other systemically-important institution, based on the performed evaluation of the Bank's systemic importance, pursuant to Article 39, item 1 of the Act on Macroprudential Supervision over the Financial System and Crisis Management in the Financial System of 5 August 2015, PFSA has decided to request the opinion of the Financial Stability Committee on identification of the Bank as other systemically-important institution, and on imposing on the Bank a buffer (based on consolidated and standalone principle) equal to 0.25% of the total risk exposure amount.

- 18.08.2016 **Decision of the Financial Stability Committee** on issuance of a positive opinion on identification of Bank BGŻ BNP Paribas S.A. by the Polish Financial Supervision Authority as other systemically-important institution, and on imposing a buffer of other systemically-important institution on Bank BGŻ BNP Paribas S.A.
-
- 6.10.2016 **A decision of the Polish Financial Supervision Authority ("PFSA") on identification of the Bank as other systemically-important institution**, and imposing on the Bank a buffer of other systemically-important institution (based on consolidated and standalone principle) equal to 0.25% of the total risk exposure amount, calculated pursuant to Article 92, item 3 of EU Regulation no 575/2013.
-
- 19.10.2016 **A decision of the Polish Financial Supervision Authority recommending that the Bank should maintain own funds for the coverage of additional capital requirement** in order to secure the risk resulting from FX mortgage loans for households, at the level of 0.71 p.p. above the level of Total Capital Ratio as mentioned in Article 92, para. 1(c) of the Regulation (EU) No 575/2013.
Additional capital requirement should consist of at least 75% of Tier I capital (which corresponds to capital requirement at the level of 0.53 p.p. above the level of Tier I Capital Ratio as mentioned in Article 92, para. 1(b) of the Regulation (EU) No 575/2013), and should consist of at least 56% of core Tier I capital (which corresponds to capital requirement at the level of 0.40 p.p. above the level of Core Tier I Ratio as mentioned in Article 92, para. 1(a) of the Regulation (EU) No 575/2013).
-
- 22.11.2016 **The Bank concluded a fixed-term subordinated loan agreement** with Lion International Investments S.A. based in Luxembourg, in the amount of EUR 60 million, i.e. the equivalent of PLN 266.3 million at the average NBP exchange rate of 21 November 2016.
Classification of the funds obtained under the aforesaid loan agreements as the Bank's equity (Tier 2 capital) requires the consent of the Polish Financial Supervision Authority.
-
- 22.12.2016 **The decision of the PFSA dated 21 December 2016 on the consent for recognition of the net profit for first half of 2016 in the amount of PLN 42.1 million as a part of the Bank's Tier 1 capital** - received by the Bank on 22 December 2016.
-
- 27.12.2016 **Decision of the PFSA of 23 December 2016 to include subordinated loan of EUR 60 million into the Bank's Tier 2 capital calculation** - received by the Bank on 27 December 2016.
The Bank obtained the fund under a subordinated loan agreement concluded with Lion International Investments S.A. with the registered office in Luxembourg on 22 November 2016.
-
- 27.12.2016 **Recommendation of the PFSA on the additional capital requirement in order to secure the risk resulting from FX mortgage loans for households on consolidated level.**
The PFSA recommends that the Bank's Capital Group should maintain its own funds to cover the additional capital requirement at 0.68 p.p. for Total Capital Ratio (TCR), 0.51 p.p. for Tier I Ratio and 0.38 p.p. for Core Tier I Ratio.
Previously, as the Bank informed in current report no. 10/2016 published on 24 March 2016, the Bank's Capital Group had been obliged to maintain own funds for the coverage of additional capital requirement in order to secure the risk resulting from FX mortgage loans for households on consolidated level, at 0.72 p.p., which should have consisted in at least 75% of Tier I capital (which corresponded to 0.54 p.p.).

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

4.1. Composition of the Supervisory Board

Composition of the Supervisory Board of the Bank as at 31 December 2016:

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

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

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

The Supervisory Board of the new office term constituted at the meeting of 21 July 2016.

4.2. Composition of the Management Board

Composition of the Management Board of the Bank as at 31 December 2016:

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
Philippe Paul Bézieau	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 Legeć	Vice-President of the Management Board
Jaromir Pelczarski	Vice-President of the Management Board
Jerzy Śledziewski	Vice-President of the Management Board
Bartosz Urbaniak	Member of the Management Board

Changes in the Management Board in 2016:

- On 21 April 2016, Mr. Jean-Philippe Stephane Rodes submitted his resignation from the position of Vice-President and Member of the Management Board of the Bank with effect from 31 July 2016. On 16 June 2016 Mr. Jean-Philippe Stephane Rodes submitted a representation, changing the effective date of his resignation from the position of Vice-President of the Management Board of the Bank to 18 July 2016.
- During a meeting on 21 April 2016, the Supervisory Board of the Bank appointed Mr. Jerzy Śledziewski from the position of Vice-President of the Management Board effective from 1 August 2016, until the end of the existing three-year joint office term of the members of the Management Board.
- On 16 June 2016 Mr. Michel Thebault submitted a statement of resignation from the position of Vice-President of the Management Board of the Bank effective from 30 June 2016.
- During a meeting on 16 June 2016, the Supervisory Board of the Bank appointed Mr. Philippe Paul Béziau Vice-President of the Management Board effective from 1 July 2016, until the end of the existing three-year joint office term of the members of the Management Board.

4.3. Remuneration of the Management and Supervisory Board Members

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

Table 6. Remuneration paid to Management Board Members in 2016*

PLN '000	Term of office		Base pay	Annual bonus paid during the year	Buy-back of phantom shares	Additional benefits	Total	
	Full name	from						to
	Tomasz Bogus	01.01.2016	31.12.2016	1 680	126	126	81	2 013
	Daniel Astraud	01.01.2016	31.12.2016	1 556	585	485	238	2 864
	Francois Benaroya	01.01.2016	31.12.2016	1 152	625	500	190	2 467
	Philippe Bezieau	01.07.2016	31.12.2016	457	-	-	115	572
	Blagoy Bochev	01.01.2016	31.12.2016	822	105	96	222	1 245
	Jan Bujak	01.01.2016	31.12.2016	932	243	222	72	1 469
	Wojciech Kemblowski	01.01.2016	31.12.2016	951	281	214	71	1 517
	Magdalena Legęć	01.01.2016	31.12.2016	789	141	133	71	1 134
	Jaromir Pelczarski	01.01.2016	31.12.2016	973	243	222	6	1 444
	Jean-Philippe Stephane Rodes	01.01.2016	18.07.2016	428	263	195	177	1 063
	Jerzy Śledziewski	01.08.2016	31.12.2016	450	-	-	366	816
	Michel Thebault	01.01.2016	30.06.2016	523	299	208	268	1 298
	Bartosz Urbaniak	01.01.2016	31.12.2016	800	103	94	71	1 068
Total				11 513	3 014	2 495	1 948	18 970

* The table presents remuneration paid in the entire 2016.

Table 7. Remuneration paid to Management Board Members in 2015*

Full name	Term of office		Base pay	Annual bonus paid during 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	-	-	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

* The table presents remuneration paid in the entire 2015.

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

Further, Management Board Members are entitled to the following additional benefits (based on individual employment contracts):

- accommodation allowance, as specified in the employment contract;
- coverage or reimbursement of costs incurred in relation to secondment to work in Poland;
- coverage of costs of private trips to the seconding country for a Member of the Management Board and his/her family members living in Poland (of specified 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 8. Compensation paid to Members of the Supervisory Board in 2016

Full name	Term of office		Compensation
	from	to	
Józef Wancer	01.01.2016	31.12.2016	600*
Mariusz Warych	01.01.2016	31.12.2016	185
Jean-Paul Sabet	01.01.2016	31.12.2016	150
Jarosław Bauc	01.01.2016	31.12.2016	150
Stefaan Decraene	01.01.2016	31.12.2016	122
Jacques d'Estais	01.01.2016	31.12.2016	122
Alain Van Groenendael	01.01.2016	31.12.2016	-
Thomas Mennicken	01.01.2016	31.12.2016	122
Piotr Mietkowski	01.01.2016	31.12.2016	122
Monika Nachyła	01.01.2016	31.12.2016	122
Total			1 695

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

Table 9. Compensation paid to Members of the Supervisory Board in 2015

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

Information regarding compensation paid to Members of the Management Board and the Supervisory Board of the Bank has also been presented in Note 48 Related party transactions to the Separate Financial Statements of Bank BGŻ BNP Paribas S.A. for the year ended 31 December 2016.

5. RATINGS

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

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

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

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

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

The review of the rating carried out in 2016 confirmed that all assessment would stay unchanged. The report justifying the rating mentions the good equity base and safe liquidity profile of Bank BGŻ BNP Paribas S.A.

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

6. AWARDS AND ACCOLADES

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

January	Bank BGŻ BNP Paribas came first in the Best Farmer 2016 ranking prepared by research agency Martin&Jacob.
February	BNP Paribas Bank Polska S.A. was named Top Employer Polska 2016 for its HR policy developed in line with best market practices.
April	The Fastest Growing Bank - an award granted during 5th Grand Gala of Banking and Insurance Leaders under 11th edition of Banking Forum
May	Srebrny Listek CSR POLITYKI - an award granted by the editors of POLITYKA magazine and Deloitte for the most responsible corporations; this was the second time the Bank won the award.
May	The Bank was ranked first in the Responsible Business Ranking in the banking, insurance and financial sector category. The ranking is published by Dziennik Gazeta Prawna partnered by Responsible Business Forum and Deloitte.
June	The Bank won in the "Consumer finance" category in the ranking of the "Top 50 Polish Banks" prepared by Miesięcznik Finansowy BANK monthly.
June	The Bank won in the "Growth Rate" category in the second edition of the "Banking Stars" rating organized by Dziennik Gazeta Prawna and business partner PwC.
December	The Bank won an award " The Best Polish Loyalty Card 2016 " granted during Central European Electronic Card 2016 conference.

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

As at 31 December 2016 and the date of sign the report for 2016, i.e. 14 March 2017, the structure of the shareholders of BGŻ BNP Paribas S.A., including those holding at least 5% of the total number of votes at the General Shareholders' Meeting, was as follows:

Table 10. Shareholder structure

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

There were no changes in shareholding structure in the 2016.

As at 31 December 2016, the Bank's share capital amounted to PLN 84,238 thousand and was divided into 84,238,318 shares with the par value of PLN 1.00, including: 15,088,100 A series shares, 7,807,300 B series shares, 247,329 C series shares, 3,220,932 D series shares, 10,640,643 E series shares, 6,132,460 F series shares, 8,000,000 G series shares, 5,002,000 H series shares and 28,099,554 I series shares.

The Bank's shares are ordinary bearer and registered shares (as at 31 December 2016, 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 2016, none of the members of the Management Board or Supervisory Board of the Bank declared holding any shares of Bank BGŻ BNP Paribas S.A., and there were no change in this respect from the date of presenting the report for the third quarter of 2016, i.e. 10 November 2016.

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

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

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

The Bank's shares, to which ISIN code PLBGZ000010 has been assigned, are listed on the Main Market of the Warsaw Stock Exchange (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 last session of 2015, i.e. on 30 December 2015, the share price was pLN 48.30. During 2016 it increased by 19.5 % and was PLN 57.70 on 31 December 2016, with the maximum (PLN 60.98) on 28 September 2016. During the same period, the WIG Banki index increased by 2.9%.

The average price of the Bank's shares in 2016 was PLN 50.52. The average trading volume exceeded 3,165 shares per session, and the average value of Bank's shares traded per session was PLN 154.3 thousand.

In the fourth quarter of 2016 the price of shares remained relatively stable (the average price in the quarter was PLN 57.27) and ranged from PLN 55 to PLN 60 with the trading volume and value being lower than the annual average.

Chart 5. The Bank's share price between 30 December 2015 and 30 December 2016

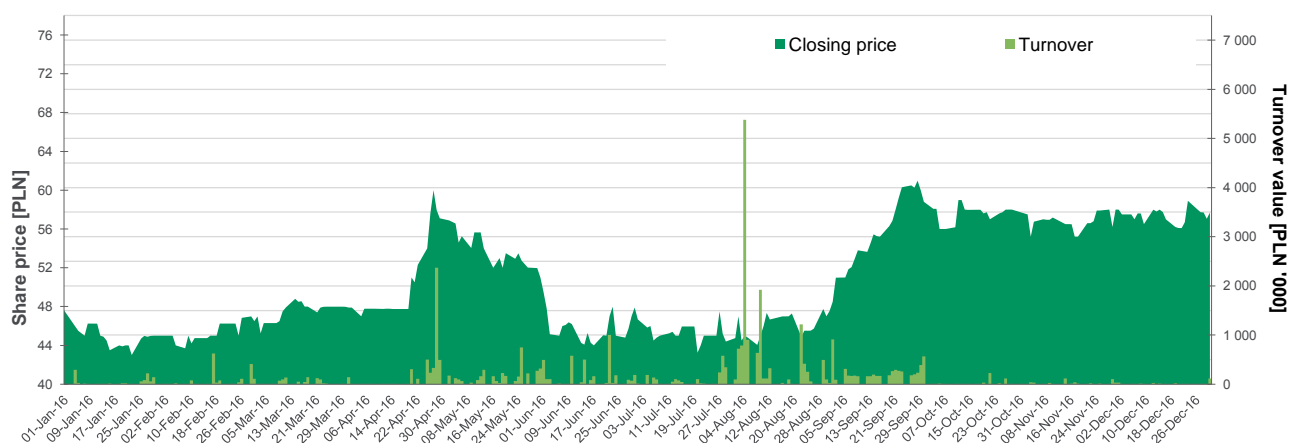
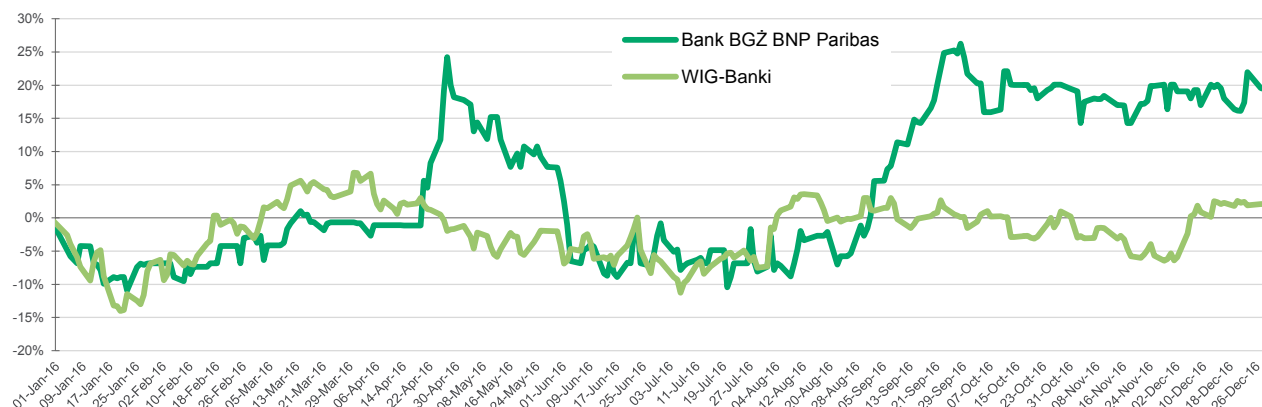


Chart 6. Change in the price of Bank's shares vs. WIG Banki in the period from 30 December 2015 to 30 December 2016 (30.12.2015 = 100%)



9. FINANCIAL POSITION OF BANK BGŻ BNP PARIBAS

The following transactions exerted significant effect on the presented comparison of performance of the Bank for 2016 and 2015:

- **The legal merger of Bank BGŻ and BNP Paribas Bank Polska on 30 April 2015.** The business combination transaction was accounted for using the book value method and the results of operations of BNPP Bank Polski S.A were recognized in the separate financial statements of Bank BGŻ BNP Paribas prospectively, i.e. as of 30 April 2015;
- **A legal merger of Bank BGŻ BNP Paribas with Sygma Bank Polska on 31 May 2016.** Following the settlement of the merger with Sygma Bank Polska, as at 31 May 2016 the amount of PLN 111,155 thousand, constituting a difference between the net assets of Sygma Bank Polska (PLN 311,154 thousand) and the book value of the investment in the subsidiary prior to the merger (PLN 200,000 thousand) was recognized in Bank's equity. The results of operations (revenue and expenses) of Sygma Bank Polska were recognized in the separate financial statements of Bank BGŻ BNP Paribas prospectively, i.e. from 31 May 2016.

As at 31 May 2016, the book value of the assets of Sygma Bank Polska was PLN 1,846,619 thousand, which accounted for 2.6% of the balance sheet total of the Bank as at 31 December 2016. In addition, the net loans of PLN 1,530,414 thousand transferred on 31 May 2016, represented almost 2.9% of the Bank's loans as at the end of December 2016.

Since comparative data for periods preceding the merger have not been restated, the above events affected the comparability of data, in particular with regard to the statement of profit or loss for the analyzed periods and ratio calculation.

9.1. Separate statement of profit or loss

In 2016, the Bank BGŻ BNP Paribas generated a net profit of PLN 49,388 thousand, which denoted a year-on-year growth by PLN 41,125 thousand (497.7%).

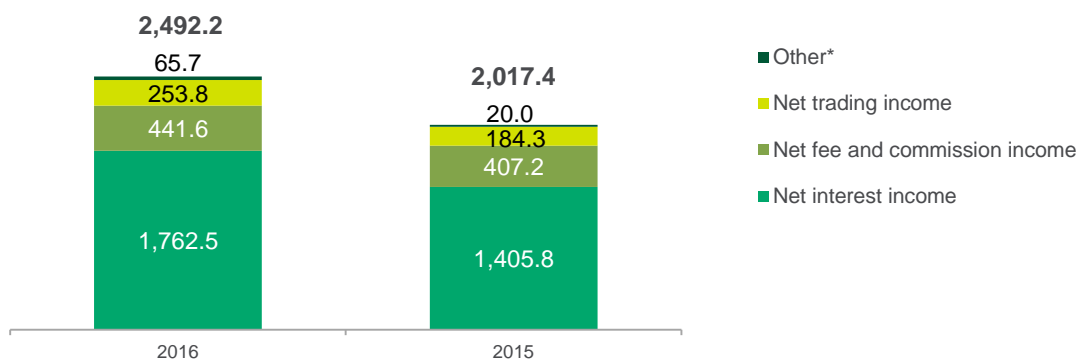
The net banking income generated in 2016 was PLN 2,492,248 thousand and was 23.5% higher than in 2015. It resulted mostly from the improved interest income.

The main factors that determined the comparison of the performance in the reporting periods under discussion were the mergers of banks BGŻ, BNPP Polska and Sygma Bank Polska in 2015 and 2016. Data comparability was upset by the prospective recognition of the result of BNPP Polska in the profit or loss of the Bank in the 2015, i.e. from 30 April 2015, and the performance of Sygma Bank Polska being included in that of the Bank as from 31 May 2016.

Additionally, in 2015 and 2016, the Bank incurred substantial expenses related to the merger processes. Had the effects of integration in the above periods been eliminated, Bank's net profit in 2016 would amount to PLN 189,885 thousand, denoting a 8.3% growth YoY. In 2016, the cost of integration of the banks dropped by 15.9% YoY and amounted to PLN 173,453 thousand.

In 2015 and 2016 the performance of the Bank was affected by events beyond its control. In 2016, the Act on tax on certain financial institutions of 15 January 2016 introduced an additional tax on bank assets, calculated at the monthly rate of 0.0366%. The resulting total charge on the gross banking income was PLN 185,876 thousand.

To events that significantly impact comparability of financials of two periods must be included additional costs charges pertaining to 2015, i.e. the statutory payment to the Banking Guarantee Fund to be used to pay guaranteed funds to depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin (PLN 90.2 million), recognizing a provision for contribution to the Borrowers' Support Fund (BSF, PLN 38.2 million) and a fine charged by Office for Competition and Consumer Protection in relation to interchange fees on Visa and MasterCard cash card transactions in Poland (PLN 10.6 million), as well as the settlement of the transaction of acquiring Visa Europe Limited by Visa Inc. (PLN 41,817 thousand), which positively impacted the gross banking income for 2016.

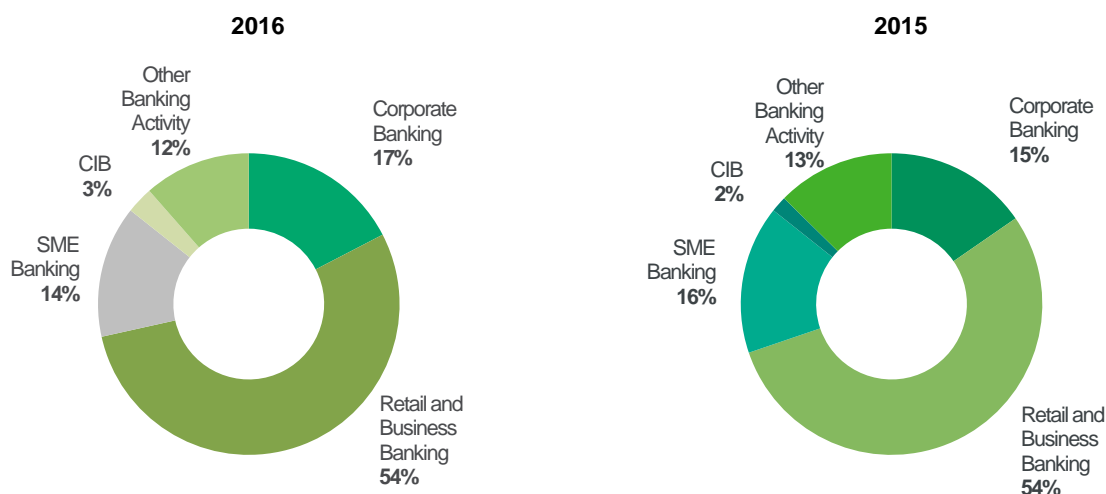
Chart 7. Net banking income in PLN million

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

Table 11. Statement of profit or loss

PLN '000	12 months ended	12 months ended	Change YoY	
	31.12.2016	31.12.2015	PLN '000	%
Net interest income	1 762 532	1 405 762	356 770	25.4%
Net fee and commission income	441 633	407 241	34 392	8.4%
Dividend income	14 561	6 837	7 724	113.0%
Net trading income	253 845	184 346	69 499	37.7%
Net investment income	28 761	47 390	(18 629)	(39.3%)
Result on hedge accounting	(77)	-	(77)	x
Other operating income and expenses	(9 007)	(34 191)	25 184	(73.7%)
Net banking income	2 492 248	2 017 385	474 863	23.5%
Net impairment losses on financial assets and provisions for contingent liabilities	(385 930)	(304 220)	(81 710)	26.9%
General administrative expenses	(1 589 377)	(1 540 803)	(48 574)	3.2%
Depreciation and amortization	(196 716)	(147 086)	(49 630)	33.7%
Operating result	320 225	25 276	294 949	1 166.9%
Tax on financial institutions	(185 876)	-	(185 876)	x
Profit before income tax	134 349	25 276	109 073	431.5%
Income tax expense	(84 961)	(17 013)	(67 948)	399.4%
Net profit for the period	49 388	8 263	41 125	497.7%
Integration costs	(173 453)	(206 354)	32 901	(15.9%)
Net profit for the period excluding integration costs	189 885	175 410	14 476	8.3%

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

Chart 8. Net banking income by segments


Net interest income

In 2016, the net interest income, which represents the major source of the Bank's income, went up by PLN 356,770 thousand, i.e. 25.4%, which was driven by a rise in interest income of PLN 445,760 thousand, i.e. 21.8% YoY, while interest expense saw a smaller rise of PLN 88,990 thousand, i.e. 13.9% YoY. The level of interest income and expense in 2016 was affected both by external factors and the growth rate of commercial volumes arising mostly from the merger of Bank BGŻ with BNPP Polska and Sygma Bank Polska.

Table 12. Net interest income

PLN '000	12 months ended 31.12.2016	12 months ended 31.12.2015	Change YoY	
			PLN '000	%
Loans and advances to banks	29 355	24 543	4 812	19.6%
Overdrafts to customers	367 980	326 144	41 836	12.8%
Loans and advances to customers	1 753 099	1 462 022	291 077	19.9%
Hedging instruments	78 754	15 197	63 557	418.2%
Reverse repo transactions	-	7 559	(7 559)	(100.0%)
Debt securities	260 682	208 645	52 037	24.9%
Interest income	2 489 870	2 044 110	445 760	21.8%
Amounts due to banks	(74 120)	(57 187)	(16 933)	29.6%
Debt securities issued	(12 781)	(16 938)	4 157	(24.5%)
Amounts due to customers	(560 641)	(544 324)	(16 317)	3.0%
Hedging instruments and hedged items	(79 796)	(12 206)	(67 590)	553.7%
Repo transactions	-	(7 693)	7 693	(100.0%)
Interest expense	(727 338)	(638 348)	(88 990)	13.9%
Net interest income	1 762 532	1 405 762	356 770	25.4%

External factors include the policy of the National Bank of Poland regarding base rates involving their stabilization on a record low level (the reference rate of 1.5%).

Interest income on loans and advances to customers, the value of which increased by PLN 291,077 thousand (i.e. 19.0%) YoY, is the major item in the structure of the Bank's interest income (70.4%). In addition to interest on loans and advances, a rise was observed in interest on overdrafts to customers (by PLN 41,836 thousand, i.e. 12.8% YoY). The aforesaid increases resulted from the growth in the scale of operations of the Corporate Banking and Retail and Business Banking segments.

The volume of gross loans in the Bank increased by 6.9% YoY.

Among others, the rise in interest expense was driven by an increase in amounts due to banks as a result of merger processes (in 2015, no costs of financing BNP Paribas Polska S.A. received in the period from 30 April 2015 and an increase in 2016 expenses after the merger with Sygma Bank Polska S.A. as of 1 May 2016). For both banks, the share of liabilities to banks in financing sources was very high.

At the end of 2016, the Bank applied hedge accounting. Hedged items included current accounts maintained in EUR with fixed interest rate, and hedging instruments were plain vanilla IRS transactions, denominated in EUR, with the face value of PLN 4,019,360 thousand. The change in the fair value measurement of hedging transactions is recognized in the Result on hedge accounting; interest on IRS transactions and hedged items is recognized in the net interest income.

In 2016, the net interest income on hedge relationships (the sum of interest income on hedging instruments and interest expense on hedged items) was negative and amounted to PLN -1,042 thousand vs. a positive result of PLN 2,991 thousand for 2015.

Net fee and commission income

In 2016, net fee and commission income amounted to PLN 441,633 thousand and denoted a YoY growth by PLN 34,392 thousand (8.4%) as a result of an increase in the fee and commission income by PLN 75,345 thousand (15.9%) YoY, accompanied with a growth of commission expenses by PLN 40,953 thousand (61.5%).

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

- settlement transactions by PLN 23,221 thousand (i.e. 49.3%), mostly due to an increase in the number of settlement transaction, and changes in the Fee and Commission Table;
- loans and advances by PLN 28,008 thousand (i.e. 19.8%);
- payment cards – up PLN 6,664 thousand (i.e. 9.5%);
- guarantee liabilities by PLN 6,081 thousand (i.e. 27.8%).

An increase in fee and commission expense was mainly driven by:

- higher (by PLN 8 113 thousand, i.e. 17.5%) commission expenses on payment cards, paid to card operators due to a higher number of transactions carried out by the customers;
- higher (by PLN 6 158 thousand, i.e. 386.6%) commission expenses on sale of insurance products;
- an increase of PLN 4 578 thousand, i.e. 90.6%, in costs of the partner network.

Table 13. Net fee and commission income

PLN '000	12 months ended 31.12.2016	12 months ended 31.12.2015	Change YoY	
			PLN '000	%
Fee and commission income				
- loans and advances	169 521	141 513	28 008	19.8%
- settlements	70 280	47 059	23 221	49.3%
- account maintenance	110 132	112 100	(1 968)	(1.8%)
- guarantees	27 957	21 876	6 081	27.8%
- brokerage operations	19 945	24 992	(5 047)	(20.2%)
- payment cards	76 791	70 127	6 664	9.5%
- insurance activity	26 940	26 159	781	3.0%
- asset management	2 391	260	2 131	819.6%
- other	45 221	29 747	15 474	52.0%
Fee and commission income	549 178	473 833	75 345	15.9%
Fee and commission expense				
- loans and advances	(1 702)	(3 443)	1 741	(50.6%)
- payment cards	(54 407)	(46 294)	(8 113)	17.5%
- insurance activity	(7 751)	(1 593)	(6 158)	386.6%
- related to the partner network	(9 632)	(5 054)	(4 578)	90.6%
- other	(34 053)	(10 208)	(23 845)	233.6%
Fee and commission expense	(107 545)	(66 592)	(40 953)	61.5%
Net fee and commission income	441 633	407 241	34 392	8.4%

Dividend income

In 2016, dividend income resulted from 2015 profit of companies in which the Bank held minority interest, i.e.: Krajowa Izba Rozliczeniowa S.A. (KIR, PLN 911 thousand), Biuro Informacji Kredytowej S.A. (BIK, PLN 3,201 thousand), PONAR Silesia S.A. (PLN 1,647 thousand), VISA (PLN 43 thousand) and from subsidiaries: BNP Paribas Group Service Center S.A. (PLN 6,016 thousand) and BGŻ BNP Paribas Faktoring (PLN 2,744 thousand).

Net trading income and net investment income

The net trading income for 2016 amounted to PLN 253,845 thousand, denoting a YoY growth by PLN 69,499 thousand, i.e. by 37.7%. The level of and changes in net trading income were mainly shaped by the valuation of derivatives and result on foreign exchange transactions.

Net investment income in 2016 amounted to PLN 28,761 thousand and was PLN 18,629 thousand lower than in 2015.

The major factor affecting the income for 2016 was the income from settlement of a transaction involving the acquisition of Visa Europe Limited by Visa Inc. As a result, the Bank received EUR 6.9 million (PLN 30,518 thousand as translated at the rate of 20 June 2016 i.e. EUR 1 = PLN 4.3945) in cash and 2,521 preference C series shares in Visa Inc. The total profit on the transaction was PLN 41,817 thousand. The net profit for 2015 includes realized gains on the sale of a portfolio of securities available for sale in the first, second and fourth quarter of 2015 in the total amount of PLN 47,390 thousand. In December 2015, the Bank realized capital gains on shares and convertible bonds of PLN 13.8 million.

Additionally, in the fourth quarter of 2016, the Bank recognized in impairment loss on shares in a subsidiary of PLN 16,916 thousand.

Other operating income

In 2016, other operating income amounted to PLN 107,021 thousand and was PLN 50,159 thousand (88.2%) higher than in 2015, mainly due to:

- improving by PLN 13,401 thousand the balance of derecognized provisions for disputes and other liabilities, including partial derecognition (in the first quarter of 2016) of the provision for the fine imposed by Office for Competition and Consumer Protection in 2012, related to the use of a specific template of agreement for individual pension accounts, considered to constitute a breach of collective consumer interest, in the amount of PLN 687 thousand;
- income of leasing operations, resulting from their integration in the operating structure of the Bank from the date of legal merger with BNPP Polska, being recognized in other operating income;
- the annual adjustment of input VAT for 2015 of PLN 8,820 thousand being recognized in the item "other";
- higher gain on sale/liquidation of fixed assets.

Table 14. Other operating income

PLN '000	12 months ended 31.12.2016	12 months ended 31.12.2015	Change YoY	
			PLN '000	%
Sale or liquidation of property, plant and equipment and intangible assets	10 045	1 952	8 093	414.6%
Sale of goods and services	12 439	5 389	7 050	130.8%
Release of provisions for litigation and claims and other liabilities	16 350	2 949	13 401	454.4%
Recovery of debt collection costs	7 820	4 921	2 899	58.9%
Recovery of overdue debts, redeemed receivables, non-collectible debts and payment of receivables that were excluded from the separate statement of financial position	7 295	9 742	(2 447)	(25.1%)
Income on leasing operations	24 726	13 452	11 274	83.8%
Other	28 346	18 457	9 889	53.6%
Total other operating income	107 021	56 862	50 159	88.2%

Other operating expenses

In 2016, other operating expenses amounted to PLN 116,028 thousand and were PLN 24,975 thousand (27.4%) than in 2015, mainly due to:

- increased debt collection costs;
- costs of leasing operations, resulting from their integration in the operating structure of the Bank from the date of legal merger with BNPP Polska, being recognized in other operating expenses;

Additionally, costs related to integration of the banks, mainly regarding full impairment and liquidation of assets not to be used in the target structure of the Bank and additional expenses incurred in relation to terminating cooperation with a company providing cashless settlement services, totaling to PLN 18.9 million, were included in other operating expenses for 2016. In 2015, the total integration costs included in other operating expenses amounted to PLN 32.7 million.

In 2015 *Other operating expenses* included the amount of PLN 10.6 million of fine imposed by a decision related to the manner of calculating the interchange fee on Visa and MasterCard payment transactions in Poland by banks acting in agreement and the amount of PLN 6.9 million of a branch liquidation provision pertaining to restructuring processes related to the merger of BGŻ with BNPP Polska.

Table 15. Other operating expenses

PLN '000	12 months	12 months	Change YoY	
	ended 31.12.2016	ended 31.12.2015	PLN '000	%
Loss on sale or liquidation of property, plant and equipment and intangible assets	(28 596)	(20 149)	(8 447)	41.9%
Impairment charges on other receivables	(690)	(711)	21	(3.0%)
Provisions for restructuring of assets, litigation and claim and other liabilities	(8 812)	(18 075)	9 263	(51.2%)
Debt collection	(26 374)	(15 917)	(10 457)	65.7%
Donations made	(3 561)	(2 243)	(1 318)	58.8%
Costs of leasing operations	(23 104)	(12 816)	(10 288)	80.3%
Other operating expenses	(24 891)	(21 142)	(3 749)	17.7%
Total other operating expenses	(116 028)	(91 053)	(24 975)	27.4%

Net impairment losses on financial assets and provisions for contingent liabilities

Total net impairment losses on financial assets and provisions for contingent liabilities in 2016 was PLN -385,930 thousand and its effect was PLN 81,710 thousand (26.9%) higher than in 2015.

The key contributing factors included exposures of BNPP Polska included in the Bank's loan portfolio since May 2015 (as at 30 April 2015, the acquired portfolio amounted to PLN 18.1 billion) and, to a less extent, the merger with Sygma Bank Polska as of 31 May 2016.

In 2016 the annualized cost of credit risk exposure, i.e. net impairment losses on loans and advances relative to the average balance of net loans and advances to customers (calculated on the basis of quarter-end balances) was 0.7%, i.e. was almost the same as in 2015.

As regards the key operating segments¹:

- the Retail and Business Banking Segment recorded a decrease in impairment losses of PLN 912 thousand YoY;
- the SME Segment recorded an increase of PLN 41,760 thousand YoY;
- the Corporate Banking Segment (including CIB) recorded an increase of PLN 58,703 thousand YoY.

General administrative expenses, personnel expenses, amortization and depreciation

The Bank's general administrative expenses for the period from 1 January to 31 December 2016 (including amortization/depreciation) went up by PLN 98,204 thousand, i.e. 5.8%, year-on-year. Both in 2015 and 2016, the merger processes affected the expense level:

- since May 2015, costs of exBNPP have been recognized;
- since June 2016, costs of exSygma Bank have been recognized.

The total costs of integration incurred by the Bank in 2016 amounted to PLN 173.4 million (vs. PLN 206.4 million in 2015) out of which:

- PLN 154.5 million recognized as general administrative expenses (PLN 173.7 million in 2015);
- PLN 18.9 million recognized as other operating expenses (PLN 32.7 million in 2015).

The costs of integration included in other general administrative expenses (PLN 154.5 million) include mainly:

- projects carried out in relation to the integration of PLN 63.6 million (operational merger - PLN 28.8 million; restructuring of network – PLN 8.1 million; synergy support - PLN 7.5 million; rebranding - PLN 4.9 million; other projects related to i.a. standardization of policies, procedures and tools used in merged bank);

¹ Information based on the segment note of the Separate Financial Statements of BGŻ BNP Paribas for the year ended 31 December 2016.

- recognition of a provision for employment restructuring of PLN 26.0 million;
- accelerated amortization of intangible assets decommissioned after the operating merger of PLN 24.4 million;
- retention program of PLN 12.1 million;
- merger of Bank BGŻ BNP Paribas with Sygma Bank Polska of PLN 10.6 million.

Costs related to integration, recognized in other operating expenses (PLN 18.9 million), mainly regarding full impairment and liquidation of assets not to be used in the target structure of the Bank and additional expenses incurred in relation to terminating cooperation with a company providing cashless settlement services.

Other factors affecting the comparison of operating expenses in the analyzed years:

- In 2015: (i) contribution to the Borrowers' Support Fund (PLN 38.2 million) and (ii) 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;
- In 2016: An increase in payments to the Bank Guarantee Fund as a result of an increase in the scale of activity following the merger with BNPP Polska and a change in the rates effective from 2016 and additional BGF costs relating to liquidity process of Bank Spółdzielczy in Nadarzyn.

Table 16. General administrative expenses, personnel expenses, amortization and depreciation

PLN '000	12 months	12 months	Change YoY	
	ended 31.12.2016	ended 31.12.2015	PLN '000	%
Personnel expenses	(850 632)	(724 007)	(126 625)	17.5%
Marketing	(88 142)	(93 417)	5 275	(5.6%)
IT and telecom costs	(136 060)	(126 267)	(9 793)	7.8%
Rental expenses	(175 560)	(145 526)	(30 034)	20.6%
Other non-personnel expenses	(171 877)	(200 573)	28 696	(14.3%)
Business travels	(8 923)	(4 870)	(4 053)	83.2%
ATM and cash handling costs	(3 544)	(3 639)	95	(2.6%)
Costs of outsourcing in leasing operations	(23 497)	(11 119)	(12 378)	111.3%
Bank Guarantee Fund fee	(126 624)	(97 987)	(28 637)	29.2%
Statutory payment from entities included in the guarantee system	-	(90 214)	90 214	(100.0%)
Polish Financial Supervision Authority fee	(4 518)	(5 016)	498	(9.9%)
Payment to the Borrowers' Support Fund	-	(38 168)	38 168	(100.0%)
Total general administrative expenses	(1 589 377)	(1 540 803)	(48 574)	3.2%
Depreciation and amortization	(196 716)	(147 086)	(49 630)	33.7%
Total expenses*	(1 786 093)	(1 687 889)	(98 204)	5.8%

* For purposes of calculation of the expense to income ratio, adjusted by integration costs of PLN 154.5 million.

Table 16a. Personnel expenses

PLN '000	12 months ended 31.12.2016	12 months ended 31.12.2015	Change YoY	
			PLN '000	%
Payroll expenses	(666 966)	(561 903)	(105 063)	18.7%
Payroll charges	(102 255)	(77 094)	(25 161)	32.6%
Employee benefits	(23 879)	(7 517)	(16 362)	217.7%
Costs of restructuring provision	(26 000)	(48 488)	22 488	(46.4%)
Costs of provision for unused annual leave and retirement benefits	(9 498)	(3 673)	(5 825)	158.6%
Appropriations to the Social Benefits Fund	(8 539)	(5 781)	(2 758)	47.7%
Other	(13 495)	(19 551)	6 056	(31.0%)
Personnel expenses	(850 632)	(724 007)	(126 625)	17.5%

In the reporting period, the costs of amortization and depreciation went up by PLN 49,630 thousand, i.e. 33.7% year-on-year as a result of accelerated amortization of intangible assets decommissioned after the operational merger completion.

9.2. Statement of other comprehensive income

In 2016, the Bank's comprehensive income was PLN 98,156 thousand lower than a year before. An adverse change in measurement of financial assets available for sale (an adverse effect of PLN 171,206 thousand), partly offset with an increase in net profit generated in comparative years, was the direct cause of the observed deterioration.

Table 17. Statement of other comprehensive income

PLN '000	12 months ended 31.12.2016	12 months ended 31.12.2015	Change YoY	
			PLN '000	%
Net profit for the period	49 388	8 263	41 125	497.7%
Other comprehensive income				
Items to be subsequently reclassified to profit or loss when specific conditions are met	(202 628)	(64 025)	(138 603)	216.5%
Net change in valuation of available for sale financial assets	(250 249)	(79 043)	(171 206)	216.6%
Deferred tax	47 621	15 018	32 603	217.1%
Items to not be subsequently reclassified to profit or loss	4 469	5 147	(678)	(13.2%)
Actuarial valuation of employee benefits	4 874	6 355	(1 481)	(23.3%)
Deferred tax	(405)	(1 208)	803	(66.5%)
Other comprehensive income (net of tax)	(198 159)	(58 878)	(139 281)	236.6%
Total comprehensive income for the period	(148 771)	(50 615)	(98 156)	193.9%

9.3. Statement of financial position

Assets

At the end of December 2016, the Bank's balance sheet total amounted to PLN 70,381,933 thousand and was PLN 7,372,804 thousand (11.7%) higher than at the end of December 2015. The increase resulted among others from the merger of Bank BGŻ BNP Paribas with Sygma Bank Polska S.A. effected as of 31 May 2016. The book value of assets of Sygma Bank Polska as at 31 May 2016 was PLN 1,846,619 thousand (including net loans of PLN 1,530,414 thousand).

The key changes in the structure of Bank's assets during 2016 included a growth in the share of financial assets available for sale, accompanied with a decrease in the share of loans and advances to customers and cash and balances at Central Bank.

Loans and advances to customers, which accounted for 75.6% of total assets as at the end of December 2016 vs. 79.1% at the end of 2015, were the key item in the structure of assets. In terms of value, net loans and advances increased by PLN 3,348,259 thousand, i.e. 6.7%.

Assets available for sale were the second largest asset item and constituted 17.8% of the balance sheet total at the end of 2016 (vs. 12.3% a year before). In 2016 their value increased by PLN 4,734,556 thousand, i.e. by 61.0%, mostly as a result of extension of the treasury bonds portfolio (an increase by PLN 3,767,761 i.e. by 49.5%) and a purchase of NBP money bills of PLN 999,959 thousand as at the end of 2016.

Changes in earning assets were accompanied by a reduction in cash and balances at Central Bank by PLN 1,523,560 thousand (53.9%).

Table 18. Assets

PLN '000	31.12.2016	31.12.2015	Change YoY	
			PLN '000	%
Cash and balances at Central Bank	1 302 847	2 826 407	(1 523 560)	(53.9%)
Loans and advances to banks	1 225 912	544 012	681 900	125.3%
Derivative financial instruments	324 005	368 138	(44 133)	(12.0%)
Hedging instruments	18 671	2 711	15 960	588.7%
Loans and advances to customers	53 179 717	49 831 458	3 348 259	6.7%
Available for sale financial assets	12 497 233	7 762 677	4 734 556	61.0%
Investments in subsidiaries	70 828	248 848	(178 020)	(71.5%)
Intangible assets	244 571	250 691	(6 120)	(2.4%)
Property, plant and equipment	545 480	528 230	17 250	3.3%
Deferred tax assets	522 392	428 931	93 461	21.8%
Other assets	450 277	217 026	233 251	107.5%
Total assets	70 381 933	63 009 129	7 372 804	11.7%

Loan portfolio

Structure and quality of the loan portfolio

At the end of 2016, gross loans and advances to customers amounted to PLN 56,176,632 thousand and increased by PLN 3,607,982 thousand (6.9%), among others as a result of including the consumer loan portfolio of Sygma Bank Polska to the Bank's portfolio as of 31 May 2016.

Table 19. Loan portfolio structure

PLN '000	31.12.2016		31.12.2015	
	PLN '000	Percentage share	PLN '000	Percentage share
Gross loans and advances	56 176 632	100.0%	52 568 650	100.0%
Corporate	17 528 482	31.2%	17 180 845	32.7%
Individual customers – home loans	15 005 546	26.7%	14 722 641	28.0%
- in PLN	8 190 068	14.6%	7 710 797	14.7%
- in foreign currencies	6 815 478	12.1%	7 011 844	13.3%
Cash advances	4 323 496	7.7%	3 679 362	7.0%
Other retail loans	2 740 156	4.9%	1 128 254	2.1%
Individual entrepreneurs	2 680 285	4.8%	2 847 698	5.4%
Farmers	10 644 765	18.9%	10 132 313	19.3%
Public sector	185 572	0.3%	180 865	0.3%
Other entities	391 989	0.7%	457 980	0.9%
Lease receivables	2 676 341	4.8%	2 238 692	4.3%

Loans and advances to enterprises rose 2.0% and represent 31.2% of the gross loan portfolio (32.7% at the end of 2015). Loans and advances to households (including individual entrepreneurs and farmers) increased by PLN 2,883,980 thousand, i.e. 8.9%. Mortgage loans totaling PLN 15,005,546 thousand represent almost a half (42.4%) of loans and advances to households.

Chart 9. Structure of gross loans and advances

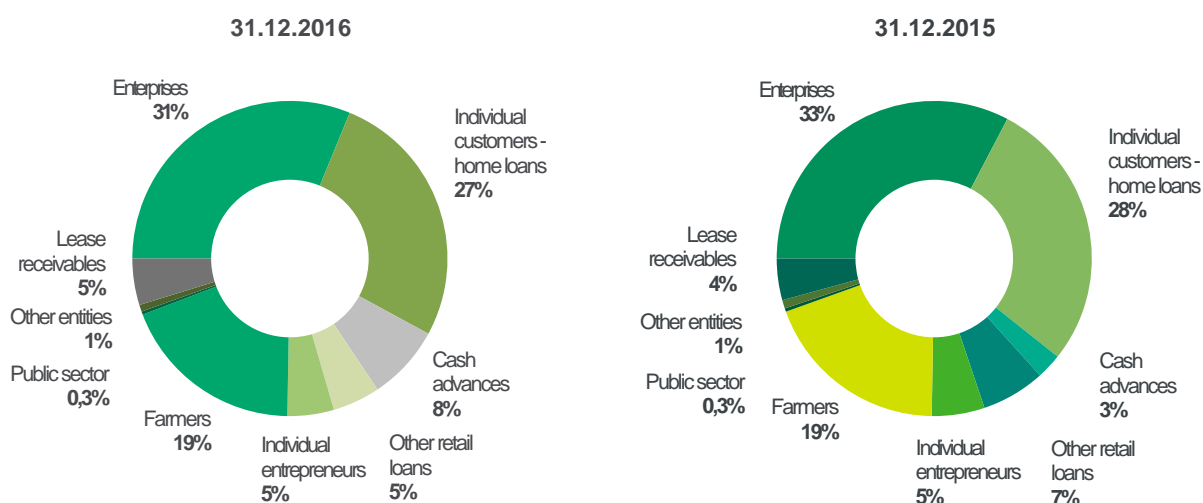


Table 20. Quality of the loan portfolio

PLN '000	31.12.2016			31.12.2015		
	Total gross value	including: impaired	Percentage share	Total gross value	including: impaired	Percentage share
Gross loans and advances	56 176 632	4 482 959	8.0%	52 568 650	3 923 333	7.5%
Individual customers - home loans	15 005 546	657 624	4.4%	14 722 641	626 922	4.3%
- in PLN	8 190 068	203 155	2.5%	7 710 797	202 055	2.6%
- in foreign currencies	6 815 478	454 469	6.7%	7 011 844	424 867	6.1%
Cash advances	4 323 496	631 552	14.6%	3 679 362	423 136	11.5%
Other retail loans	2 740 156	224 471	8.2%	1 128 254	118 044	10.5%
Farmers	10 644 765	442 187	4.2%	10 132 313	311 287	3.1%
Institutional customers, excluding farmers	20 786 328	2 410 177	11.6%	20 667 388	2 316 082	11.2%
Lease receivables	2 676 341	116 948	4.4%	2 238 692	127 862	5.7%

The share of impaired exposures in gross loans and advances to the Bank's customers increased to 8.0% at the end of 2016 vs. 7.5% at the end of 2015.

Table 21. Loan portfolio quality ratios

PLN '000	31.12.2016	31.12.2015	Change	
			PLN '000	%
Total gross loans and advances to customers	56 176 632	52 568 650	3 607 982	6.9%
Impairment losses	(2 996 915)	(2 737 192)	(259 723)	9.5%
Total net loans and advances to customers	53 179 717	49 831 458	3 348 259	6.7%
Exposures without indications of impairment				
Gross carrying exposure	51 693 673	48 645 317	3 048 356	6.3%
IBNR provision	(312 218)	(297 994)	(14 224)	4.8%
Net exposure	51 381 455	48 347 323	3 034 132	6.3%
Impaired exposures				
Gross carrying exposure	4 482 959	3 923 333	559 626	14.3%
Impairment allowances	(2 684 697)	(2 439 198)	(245 499)	10.1%
Net exposure	1 798 262	1 484 135	314 127	21.2%
Indicators				
Share of impaired exposures in gross portfolio	8.0%	7.5%		0.5 p.p.
Impairment allowances on impaired exposures	(59.9%)	(62.2%)		2.3 p.p.

Liabilities and equity

As at the end of December 2016, the Bank's total liabilities amounted to PLN 64,260,719 thousand and were PLN 7,414,768 thousand, i.e. 13.0% higher compared with the end of 2015.

Table 22. Liabilities and equity

PLN '000	31.12.2016	31.12.2015	Change	
			PLN '000	%
Amounts due to banks	5 291 459	7 617 946	(2 326 487)	(30.5%)
Hedging instruments and hedged items	(4 080)	1 605	(5 685)	(354.2%)
Derivative financial instruments	271 757	351 539	(79 782)	(22.7%)
Amounts due to customers	55 297 324	46 620 848	8 676 476	18.6%
Debt securities issued	397 909	468 933	(71 024)	(15.1%)
Subordinated liabilities	1 768 458	847 568	920 890	108.7%
Other liabilities	1 116 905	756 161	360 744	47.7%
Current tax liabilities	4 593	37 547	(32 954)	(87.8%)
Provisions	116 394	143 804	(27 410)	(19.1%)
Total liabilities	64 260 719	56 845 951	7 414 768	13.0%
Share capital	84 238	84 238	0	0.0%
Supplementary capital	5 127 899	5 092 196	35 703	0.7%
Other reserve capital	860 241	780 874	79 367	10.2%
Revaluation reserve	(552)	197 607	(198 159)	(100.3%)
Retained earnings	49 388	8 263	41 125	497.7%
- net profit for the period	49 388	8 263	41 125	497.7%
Total equity	6 121 214	6 163 178	(41 964)	(0.7%)
Total liabilities and equity	70 381 933	63 009 129	7 372 804	11.7%

At the end of 2016, the share of liabilities in liabilities and equity was 91.3%, i.e. 1.1 p.p. more than a year before. An increase in the share of amounts due to customers, accompanied in a decrease in amounts due to banks was the most important change in liabilities in 2016.

At the end of 2016 amounts due to customers grew by PLN 8,676,476 thousand (18.6%) vs. the end of December 2015 and amounted to PLN 55,297,324 thousand. They accounted for 86.1% of total liabilities as compared to 82.0% at the end of 2015.

The substantial increase in liabilities to clients allowed a reduction of debt arising from loans and advances received from the BNP Paribas Group, which resulted in a drop in the share of liabilities to banks in the total liabilities, which amounted to 8.2% at the end of 2016 compared to 13.4% at the end of 2015. At the end of 2016, liabilities to banks amounted to PLN 5,291,459 thousand and were PLN 2,326,487 thousand (i.e. 30.5%) lower than a year before.

Subordinated liabilities increased by 108.7% as a result of the subordinated loans acquired from the BNP Paribas Group in the balance sheet; they amounted to PLN 440 million and EUR 40 million, respectively, in accordance with the decisions issued by PFSA on 29 January 2016 and to EUR 60 million in accordance with the PFSA decision of 23 December 2016.

Amounts due to customers

At the end of December 2016, amounts due to customers reached PLN 55,297,324 thousand and rose by 18.6% YoY as a result of a substantial improvement in acquisition in the corporate customers sector and maintaining a competitive interest rate for retail customers.

The share of current accounts in total deposits dropped slightly from 52.5% at the end of December 2015 to 50.0% at the end of December 2016. The value of funds deposited in current accounts increased by PLN 3,205,608 thousand, i.e. 13.1%. On the other hand, the share of term deposits in total amounts due to customers grew from 42.0% at the end of December 2015 to 45.6% at the end of 2016. In terms of value, term deposits increased by PLN 5,646,033 thousand, i.e. 28.9% vs. December 2015. Loans and advances received decreased by PLN 217,272 thousand, while other liabilities increased by PLN 42,107 thousand.

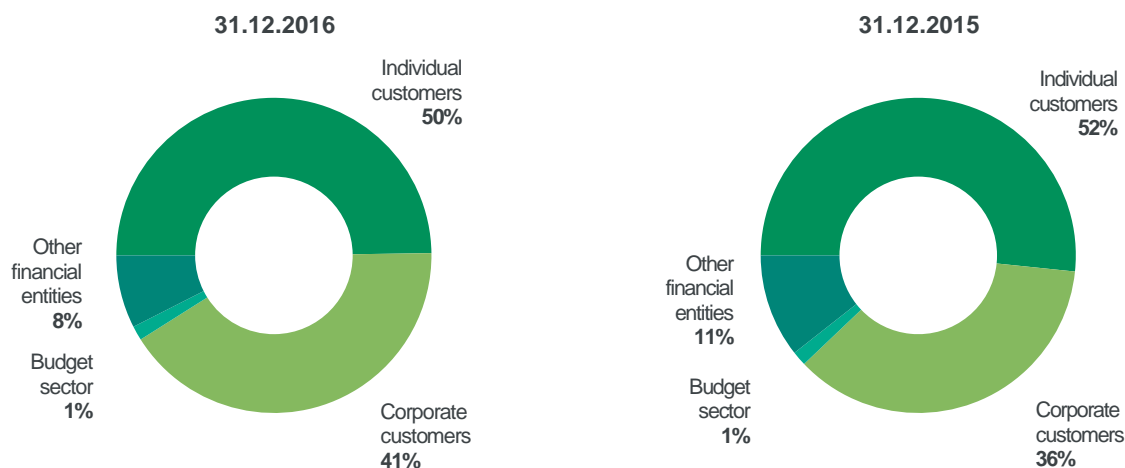
Table 23. Amounts due to customers by products

PLN '000	31.12.2016		31.12.2015	
	PLN '000	Percentage share	PLN '000	Percentage share
Amounts due to customers	55 297 324	100.0%	46 620 848	100.0%
Current accounts	27 666 519	50.0%	24 460 911	52.5%
Term deposits	25 209 162	45.6%	19 563 129	42.0%
Loans and advances received	2 023 662	3.7%	2 240 934	4.8%
Other liabilities	397 981	0.7%	355 874	0.7%

Individual customer deposits, which rose by PLN 3,450,266 thousand, i.e. 14.3%, accounted for 49.8% of all amounts due to customers at the end of December 2016 vs. 51.6% at the end of December 2015.

Corporate customer deposits increased by PLN 5,913,073 thousand, i.e. 35.0%. Their share in total amounts due to customers grew from 36.3% at the end of December 2015 to 41.3% at the end of 2016.

Chart 10. Structure of amounts due to customers



Equity

As at the end of December 2016, the Bank's equity amounted to PLN 6,121,214 thousand and was PLK 41,964 thousand lower than at the end of 2015. The change resulted mostly from a drop in the value of revaluation reserve (from PLN 197,607 thousand at the end of 2015 to PLN -552 thousand at the end of 2016) as a result of charging losses on revaluation of financial assets available for sale to equity.

At the same time, following the merger of BGŻ BNP Paribas S.A. and Sygma Bank Polska effected as of 31 May 2016, as at 31 December 2016, the Bank's equity included the amount of PLN 35,703 thousand of supplementary capital and PLN 71,104 thousand of other reserve capital.

Retained earnings grew from PLN 8,263 thousand at the end of 2015 to PLN 49,388 thousand at the end of 2016.

9.4. Equity and capital ratios

At the end of 2016, the total capital ratio of the Bank amounted to 14.94% and was 1.16 p.p. higher than at the end of December 2015.

Table 24. Equity and capital ratios of the Bank

PLN '000	31.12.2016	31.12.2015	Change	
			PLN '000	%
Tier I capital				
Share capital	84 238	84 238	0	0.0%
- supplementary capital	3 272 502	3 272 502	0	0.0%
- reserve capital	2 137 873	2 102 170	35 703	1.7%
- general risk reserve	577 765	498 399	79 366	15.9%
- intangible assets	(244 571)	(250 690)	6 119	(2.4%)
- other items of equity included in Tier I capital	41 241	94 722	(53 481)	(56.5%)
Total Tier I capital	5 869 048	5 801 341	67 707	1.2%
Tier II capital				
- subordinated liabilities classified as equity	1 765 435	796 600	968 835	121.6%
Total equity	7 634 483	6 597 941	1 036 542	15.7%
Risk exposure due to:				
- credit risk	46 359 046	43 208 615	3 150 431	7.3%
- market risk	207 745	228 147	(20 402)	(8.9%)
- operational risk	4 477 691	4 336 954	140 737	3.2%
- credit valuation adjustment	54 045	94 789	(40 744)	(43.0%)
Total risk exposure	51 098 527	47 868 505	3 230 022	6.7%
Separate capital ratios of the Bank				
Total capital requirement	14.94%	13.78%		1.16 p.p.
Tier I ratio	11.49%	12.12%		(0.63 p.p.)

Following the merger of Bank BGŻ BNP Bank Polska with Sygma Bank Polska on 31 May 2016, the amount of Tier I capital increased.

As at 31 December 2016, total equity went up by PLN 1,036,542 thousand as compared to 31 December 2015, primarily due to:

- Legal merger of the banks BGŻ BNP Paribas and Sygma Bank Polska - an increase in the reserve capital and general risk reserve;
- Retaining profit of Bank BGŻ BNP Paribas for 2015 in the amount of PLN 8,263 thousand to be appropriated to the general risk reserve following a resolution of the Ordinary General Shareholders' Meeting of Bank BGŻ BNP Paribas of 30 June 2016;
- Recognizing Bank's net profit of PLN 42,140 thousand, generated in the period from 1 January 2016 to 30 June 2016 under Tier I capital, pursuant to the PFSA decision of 21 December 2016 on approving the recognition of the net profit for the first half of 2016 under Tier I capital;
- Recognizing subordinated loans of PLN 440 million and EUR 40 million in Tier II capital in accordance with the PFSA decisions issued on 29 January 2016;
- Recognizing a subordinated loan of EUR 60 million in Tier II capital in accordance with the PFSA decision issued on 23 December 2016.

On 19 October 2016, the Management Board of Bank BGŻ BNP Paribas received a recommendation from the Polish Financial Supervision Authority concerning the Bank's maintenance of equity necessary to satisfy an additional capital requirement at the level of 0.71 p.p. in order to hedge the risk resulting from foreign currency mortgage loans granted to households, with Tier I capital accounting for at least 75% (i.e. 0.53 p.p.) of such equity.

On 4 November 2016, pursuant to Article 39, item 1 of the Act on Macroprudential Supervision over the Financial System and Crisis Management in the Financial System, PFSA identified the Bank as a systemically-important institution and imposed on a buffer equal to 0.25% of the total risk exposure amount, calculated pursuant to Article 92, item 3 of EU Regulation no 575/2013.

In the analyzed period, the total risk exposure rose by PLN 3,230,022 thousand, mainly as a result of the banks' merger.

9.5. Financial ratios

In 2016 ROE calculated upon elimination of the integration expenses would amount to 3.0%. The synergy effects and results of restructuring initiatives should be seen in a rise in the said ratio in the future. Upon elimination of the integration expenses, ROA would amount to 0.3% and remain unchanged compared to 2015.

Presentation of ratios based on the statement of profit or loss, upon elimination of the integration expenses (defined as additional costs related to the merger of BGŻ S.A., BNP Paribas Polska S.A. and Sygma Bank Polska S.A.) is to provide additional information that allows evaluation of the current potential of the merged banks.

Net interest margin remained on the level of 2.6% despite the Bank's focus on maintaining competitive interest as the interest rates in Poland reached a record low level (the NBP reference rate of 1.5%).

The Expense to Income ratio improved significantly, mostly due to a substantial income increase (by 22.5%) accompanied with a three times lower growth in expenses. If the cost of integration were excluded, the Expense to Income ratio would be 65.0%, which is 8.9 p.p. lower than the level observed at the end of 2015, i.e. 73.9%. For the purposes of the above ratio calculation, the denominator contains income from banking activity which constitutes sum of net interest income, net fee and commission income, dividend income, net trading income, net investment income, result on hedge accounting and other operating income and expenses.

Cost of risk remained the same as in 2015 and amounted to 0.7%.

Net loans to deposits and gross loans to total debt ratios have improved as compared to the end of 2015 due to a growth in the share of customer deposits in the financing of Bank's operations.

Table 25. Financial ratios

	31.12.2016	31.12.2015	31.12.2014	Change 2016/2015 p.p.
Return on equity ⁽¹⁾	3.0%*	3.3%*	3.5%*	(0.2 p.p.)
Return on assets ⁽²⁾	0.3%*	0.3%*	0.4%*	0.0 p.p.
Net interest margin ⁽³⁾	2.6%	2.6%	2.9%	0.0 p.p.
Expense to Income ⁽⁴⁾	65.0%*	73.9%*	67.4%*	(8.9 p.p.)
Cost of credit risk ⁽⁵⁾	(0.7%)	(0.7%)	(1.1%)	0.0 p.p.
Net loans to Deposits ⁽⁶⁾	99.8%	112.3%	97.2%	(12.5 p.p.)
Gross loans to Total source of funding ⁽⁷⁾	90.0%	97.4%	88.3%	(7.4 p.p.)

* Standardized figures except for integration costs. Effects of integration costs on net profit have been estimated using the standard income tax rate of 19%. For the expense category, the figure disclosed in the financial statements has been reduced by the cost of integration as recorded under general and administrative expenses and as depreciation/amortization. For the income category, the figures disclosed in the statement of profit or loss, contributing to the net banking income have been adjusted by integration costs as recorded under other operating expenses.

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

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

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

(4) Total general administrative expenses, amortization and depreciation relative to total net banking income, calculated as the total of net interest income, net fee and commission income, dividend income, net trading income, net investment income, result on hedge accounting 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 for last five quarters.

(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.

9.6. Average interest rates used by the Bank

Table 26. Average interest rates used by the Bank in 2016*

Product	PLN	EUR
Deposits	0.81%	0.03%
Households and non-commercial institutions	0.73%	0.06%
current	0.00%	0.06%
term	1.74%	
Corporate	0.95%	0.02%
current	0.34%	0.02%
term	1.59%	
Loans and advances	5.11%	1.18%
Households and non-commercial institutions	5.61%	1.28%
credit cards	9.70%	
consumer credit	6.78%	
home loans	3.53%	
other loans	6.23%	
Corporate	4.00%	1.17%
current account	4.41%	1.17%
credit account	3.72%	

* 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 NEXT QUARTER

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

- Foreign currency mortgage loan portfolios at banks, which remain the key area of uncertainty for the banking sector and the economy as a whole. If the Sejm adopts the draft proposed by the President, which assumes, among other things, that customers will be returned the so-called currency spreads, banks will need to incur additional costs, estimated by the Chancellery of the President at PLN 3.6-4.0 billion and by NBP at more than double the rate. In order to encourage banks to convert their foreign currency mortgage loan portfolios under voluntary agreements concluded with their customers, on 13 January 2017 the Financial Stability Committee (KSF) recommended that the risk weights and minimum LGD values be increased, systemic risk buffer be established, risks associated with foreign currency mortgage loans be taken into account in the method of determining contributions to the guarantee fund within the BGF and in the process of supervisory review of PFSA (SREP). The details and timetable of the implementation of the above PFSA's recommendations are not yet known.
- Stabilization of the interest rates of the National Bank of Poland at a record low level reduces banks' 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.
- Pursuant to Recommendation S, since January 2017 the amount of down-payment requirement regarding mortgage loans has increased from 15% to 20% of the value of real property. Despite the capabilities used by banks lower 10% requirement covered with insurance, the increased requirement may negatively impact demand for mortgage loans in 2017.
- The ability to change the amount of contributions paid by banks to the BGF. The new law on the Bank Guarantee Fund - the deposit guarantee scheme and a forced restructuring - introduces a new method of calculation of the contributions to the mandatory deposit guarantee scheme since 2017. The amount of contributions for a given quarter will be calculated by BGF individually for a bank and paid quarterly. When determining the amount of the contribution the risk profile of the Bank will be taken into account. The basis for assessing contributions to finance forced restructuring (replacing the prudential fee) will be the value of the Bank's liabilities decreased in particular by the amount of own funds and guaranteed funds. The new law also takes into account the risk profile of the bank. The contribution to the financing of forced restructuring will be paid once a year, and the obligation to pay rise from the first day of the second quarter of the year.
- The acceleration of economic growth in the last quarter of 2016 (an increase of 1.7% on a quarterly basis) and the observed improvement in upstream economic indicators seem to confirm expectations for higher GDP growth in the coming months. Given the robust growth of household income and the expected acceleration of absorption of EU funds, final domestic demand (consumption and investment) should become the major factor in the acceleration of GDP growth above 3% YoY in the first half of 2017.
- Potential rapid rise in inflation resulting from both the supply-side factors, as well as an increasing wage pressure and demand, which could result in, among other things, the emergence of expectations of significant interest rate increases in Poland. These expectations may be based on the rising market interest rates in the major economies of the world, resulting, among other things, from the tightening of the monetary policy in the US. Consequently, the Monetary Policy Council may take a decision to raise the interest rates in the second half of 2017 to prevent the appearance on the market of excessive inflation expectations among households, in the face of the observed tightening of the labor market, including a rapid decline in the unemployment rate. In the absence of increases in the interest rates and consequently, elevated inflation, the rate of growth in consumer spending and total GDP may weaken significantly in the end of 2017 and the following year, especially, since the impact of higher social spending on an increase in nominal households income will be expiring in the second half of 2017.
- Potential depreciation of exchange rates polish zloty to global currencies – as result of increase inflation - may cause a decrease in real interest rates in Poland and limit their difference to USA and Eurozone.
- Risk of reduction Polish credit rating by the rating agencies as a result of a risk of exceeding the deficit target of 3% of GDP, in the context of lowering the retirement age and a possible surge in the number of pensioners at the end of this year and in the following years.

- Possible changes in trade policy the United States and the introduction of barriers to global trade. Poland, being strongly linked to the export sectors in the euro area may suffer economic loss (lower GDP growth and higher inflation) as a result of growing protectionism.
- Possible slowdown in economic activity in the UK for the launch of exit from the EU and the negative impact on the euro area economy which may contribute to the deterioration of the economic situation in Poland.
- Potential increases in volatility in sentiment and risk aversion on the European financial markets linked with the issue of the election results in the largest countries of the EU and the euro zone (France, Germany, and Italy).
- Increase in global market interest rates as a potential risk factor related to value of polish bonds and exchange rate of polish zloty.

11. OPERATIONS OF BANK BGŻ BNP PARIBAS S.A. IN 2016

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

- **Retail and Business Banking** providing comprehensive services to:
 - retail customers and
 - business customers (microenterprises), including:
 - 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 2 million and Standard Output² in the preceding financial year was less than EUR 75 thousand or EUR 100 thousand, depending on the region.

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 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 2-25 million or the Standard Output³ in the preceding financial year was equal or higher than EUR 75 thousand or EUR 100 thousand, depending on the region;
 - Agro entrepreneurs with full financial reporting and sales income of PLN 10-60 million or the Bank's credit exposure of PLN 2-25 million, including agricultural producer groups.
- **Corporate Banking** providing services to institutional customers with net annual income for the preceding financial year equal to or exceeding PLN 60 million or the Bank's credit exposure of PLN 25 million or more.
- **Corporate and Institutional Banking (CIB)** supports sales of products of the Capital Group of BNP Paribas dedicated to the largest Polish enterprises; It comprises services to strategic customers and the Financial Markets Division.
- **Other Operations** carried out mainly through the ALM Treasury.

11.1. Branches and ATM Network

Branches

As at 31 December 2016, the Bank had 488 retail and business banking branches. Seven external cash desks handling both cash and cashless transactions and seven Private Banking Centers have been added to the network.

As of the date of the legal merger of Bank BGŻ and BNPP Polska, i.e. 30 April 2015, the retail sales network was reorganized. New division was made in Poland, i.e. into eight Regions with 71 leading branches and 417 branches. 132 Customer Service Desks (formerly part of Sygma Bank Polska S.A.) were added to the retail chain.

In the 2016, 25 branches were liquidated, 5 branches were opened and 10 relocated. One external cash desk was closed. Banking products and services dedicated to corporate customers were sold by 44 SME Business Centers, operating within 7 SME Banking Regional Branches, and by 9 Corporate Business Centers.

ATM Network

As at 31 December 2016, the Bank's branches operated 510 ATMs owned by IT Card. The ATMs carried the logo of Bank BGŻ BNP Paribas.

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

³ See above

11.2. Alternative distribution channels

Online banking

In November 2016 the integration of information systems of the Bank - the last step of combining the BGZ Bank and BNP Paribas Bank Poland - took place.

Internet systems of the former Bank BGZ - respectively eBGŻ and eBGŻ Company - have been migrated to the PI@net and BiznesPI@net, while the system eBGŻ Lite was replaced by mobile application.

Additionally, in the system PI@net was launched functionality express transfers.

Table 27. Information on the PI@net/BiznesPI@net system

Name of system		31.12.2016
Number of customers with access	PI@net	928 825
	BiznesPI@net	135 791
Number of active users	PI@net	452 794
	BiznesPI@net	95 431
Average monthly number of transactions	PI@net	677 610
	BiznesPI@net	1 297 345
Number of customers with access	Mobile PI@net	35 636
	Mobile BiznesPI@net	73 258

In February 2016, BGŻOptima customers received access to a new website. In addition, the previous online banking service used by BGŻOptima customers was replaced with PI@net, which has been adapted to the customers' requirements.

Bank cards

As regards issuing and management of payment cards, Bank BGŻ BNP Paribas S.A. partners with such organizations as MasterCard and Visa. The card portfolio includes debit, credit and deferred payment cards. As at 31 December 2016, the number of cards issued amounted to 1,440.4 thousand and was over 541 thousand more than a year before. The reported increase (i.e. mainly credit card retail clients) primarily due to the merger of Bank BGZ BNP Paribas S.A. with Sygma Bank Poland S.A., relates primarily to credit cards retail customers.

Table 28. Number of bank cards issued by Bank BGŻ BNP Paribas S.A.

Thousand	31.12.2016	31.12.2015	change YoY	
			Thousand	%
Debit cards – retail customers	708.6	706.9	1.7	0.2%
Credit cards – retail customers	636.9	103.7	533.2	514.2%
Debit cards – business	78.0	76.6	1.4	1.8%
Deferred payments cards – business	6.0	6.1	(0.1)	(1.6%)
Credit cards – business	1.0	1.0	0.0	0.0%
Prepaid cards	9.9	5.3	4.6	86.8%
Total number of cards issued	1 440.4	899.6	540.8	60.1%

Cooperation with intermediaries

At the end of the 2016, the Bank cooperated actively with 15 network intermediaries: Open Finance, Notus, Expander, and seven 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 Bank offers advisory services involving any day-to-day banking transactions, savings, investment and loan products. The following customer segments are the focus of Retail and Business Banking:

- Retail Customers:
 - Mass;
 - Personal Banking, i.e. customers investing their assets of at least PLN 600 thousand through the Bank or with proceeds min. 7,500 PLN per month;
 - Private Banking, i.e. customers investing their assets of at least PLN 600 thousand through the Bank.
- Business Customers (microenterprises):
 - Professionals: entrepreneurs with limited financial reporting, in conformity with the principles laid down in the Accounting Act, and following occupations defined in a separate document;
 - Entrepreneurs:
 - with limited financial reporting, in conformity with the principles laid down in the Accounting Act;
 - with full financial reporting, in conformity with the Accounting Act, and those whose net annual income for the preceding financial year is lower than PLN 10 million, while the Bank's exposure is lower than PLN 2 million;
 - Agro entrepreneurs (whether with full financial reporting or not), the activities of which are classified based on selected PKD 2007 codes;
 - farmers, where the Bank's credit exposure to a customer is less than PLN 2 million and Standard Output⁴ in the preceding financial year was less than EUR 75 thousand or EUR 100 thousand, depending on the region;
 - Non-profit organizations (e.g. foundations, associations);
 - Flat owners associations.

Product offering

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

In terms of personal accounts and cards with dual currency functionality (the ability to move card between the account in PLN and euros) as well as exchange rates and deposit offer, the offer for customers of Personal Banking has been unified.

Further, since June 2016 Bank started service new entrepreneurs, which have complete financial reporting (Non-Agro) in the target systems of the Bank, based on the offer dedicated to the merged bank. In the next step - in August - the Bank started service the next group of Business Customers in the target systems. In this way the Bank, from August, handled every new Business customers in the target systems of the Bank. This step was preceded by implementation of the package Agro leader dedicated to farmers in the Bank's system.

In 2016 the Bank actively continued to advertise its flagship products, i.e. cash loans and a comprehensive offer for entrepreneurs. The Bank also conducted a social campaign supporting local business that encouraged customers to use services provided by local businesses - „**Wspieramy Sąsiedzki Biznes**”, which was the first such initiative in the history of Polish banking. The campaign included creation of a special website www.sasiedzkibiznes.pl where firms and consumers could learn about the initiative, its benefits, as well as join in the initiative. Almost 7,500 businesses joined; the high point of the initiative was the Neighborly Business Week at the beginning of June. The initiative was accompanied by the Local Business Academy program launched in 10 Polish cities.

⁴ See Footnote p. 45

Table 29. Retail and Business Banking Deposits and Loans⁵

PLN'000	31.12.2016	31.12.2015	Change YoY	
			Thousand	%
Current accounts	v7 745 397	6 367 866	1 377 531	22%
Savings accounts	10 390 023	9 783 776	606 247	6%
Term deposits	14 055 853	11 680 775	2 375 078	20%
Overnight deposits	704 442	566 004	138 438	24%
Accounts and deposits	32 895 716	28 398 421	4 497 295	16%
<i>Including: BGŻOptima</i>	<i>8 715 740</i>	<i>6 557 984</i>	<i>2 157 756</i>	<i>33%</i>
Consumer credit	5 755 656	4 341 966	1 413 689	33%
Investment loans	4 488 287	4 924 534	(436 247)	(9%)
Overdrafts	2 836 950	3 139 709	(302 759)	(10%)
Mortgage loans	14 769 947	14 412 829	357 118	2%
Lease receivables	539 065	313 120	225 945	72%
Credit cards	710 564	160 148	550 416	344%
Short-term loans	201 880	140 478	61 402	44%
Other loans	67 346	202 519	(135 173)	(67%)
Factoring	0	1 694	(1 694)	(100%)
Net loans and advances	29 369 694	27 636 998	1 732 696	6%

In 2016 the Bank also repeated a campaign advertising iKonto Aktywater targeting online users, and carried out regular motivation campaigns encouraging personal account holders to have their salaries transferred to their bank accounts and to use debit cards for making cashless payment, offering them:

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

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

Deposits

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

- "new" and "old" funds for savings accounts (*Konto z zyskiem* and *Konto Dobrze Oszczędnościowe*);
- Progressive deposits and Inwestor Ekstra deposits;
- Silna Lokata deposits.

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

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

The integration of the two banks included ensuring uniformity of the interest rates on all the products wherever it was technically possible. In the second half of 2016, on the target IT system have been made available solutions and products for the merged Bank, i.e. :

- independence of savings accounts from personal accounts;
- new way of charging for converting savings accounts (ie. the counter transfers);
- new deposits types: progressive, promotional and personal;
- new method of determining the interest rate depending on the deposit amount;
- autooszczędzanie – enabling automatic transfer of surplus on current account interest-bearing savings account.

The Bank regularly launched attractive special offers to its Personal and Private Banking customers for selected maturities of the Lokata bardzo osobista deposit and promotional account interest “Autooszczędzanie”.

In 2016 were taken steps to increase awareness of customers about feasibility of collecting savings for future pensions, in order to obtain exemption from capital gains tax (subject to the conditions laid down by law). The portfolio IKE Bank gained nearly 17 000 new customers.

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

- about 200 investment funds managed by 14 investment fund management companies, available on PI@net;
- Profit Plus deposits – combined deposits with investment fund; until August 2016 bore interest at a rate to 8% (current interest rate is 4%). In October 2016 it was also offered the possibility of parole fee for the fund units;
- four investment deposits;
- two subscriptions for structured certificates, offering in subscriptions for Personal and Private Banking customers
- four subscriptions for close-ended investment funds (in collaboration with TFI KBC and TFI BGŻ BNP Paribas) for Personal and Private Banking customers.

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

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

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

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

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

The Bank cooperates with Elavon in the provision of POS terminals to Business Customers. Since April 2016, promotional pricing terms for the lease of POS terminals have been offered to the Bank's customers. The POS terminal has been provided fee-free for two out of twelve months of the agreement to each business entity that decided to use it and held or opened an account with the Bank. Promotional activities have been supported by meetings in the various Regions, at which they discussed the principle of offering customers POS and the resulting benefits.

As at 31 December 2016, Retail and Business Banking deposits amounted to PLN 32,895.7 million and were PLN 4,497.3 million, i.e. 16% higher than at the end of December 2015. Double-digit growth was recorded in both current accounts and term deposits.

Table 30. Number of retail customer deposits accounts

Thousand	31.12.2016	31.12.2015	Change YoY	
			Thousand	%
Number of accounts* at branches	1 642.9	1 867.7	(224.8)	(12.0%)
Current accounts	754.1	961.0	(206.9)	(21.5%)
Saving accounts	466.3	499.7	(33.5)	(6.7%)
Term deposits	422.5	406.9	15.5	3.8%
Number of BGŻOptima accounts	297.0	243.1	53.9	22.2%
Saving accounts	225.9	202.8	23.0	11.4%
Term deposits	71.2	40.3	30.9	76.7%
Total number of accounts	1 939.9	2 110.8	(170.9)	(8.1%)

* Excluding auxiliary accounts

BGŻOptima

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

As at 31 December 2016, the number of customers using BGŻOptima services was 189.6 thousand, which denotes a growth of 12.7 thousand (i.e. by 7.2 %) compared to 31 December 2015.

Loans

To meet customers' expectations, in 2016 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, application of negative LIBOR rates, reduction of the currency spread for CHF, allowing to change the loan currency to PLN using the average National Bank of Poland exchange rate and waiving the right to demand additional collateral to be provided by the customer.

In January 2016, an offer of mortgage loans with an attractive margin was introduced, addressed to holders of personal accounts with Cardif insurance. At the beginning of the year, documents regarding insurance (including GCI) have been updated. This was caused by adoption of the amendments to the Act of 5 August 2015 on examining of complaints by financial market entities and on Financial Ombudsman (in the chapter 4 - Extrajudicial proceedings on resolving disputes between client and financial market entity).

At the beginning of May, the Bank also introduced new credit products that comply with the requirements of the amended law on the shaping of the agricultural system.

In December 2016 new offer designed to the customers with mortgage products in Swiss francs has been introduced. The offer allows a margin reduction provided early repayment of at least 20% of the current balance of the loan.

Aiming to provide a high quality services to retail customers a sale of revolving loans in the current accounts through the Rat@tu system have been continued. In order to support attractiveness of the personal accounts offer, in 2016 the Bank introduced two editions of public offer allowing obtaining a revolving loan with 0 PLN commission for granting.

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

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

In August the Bank implemented in the Rat@tu system an investment loan and thereby allowing granting these loans in the target system designed for entrepreneurs non-conducting a full financial reporting in accordance to the principles set out in the Accounting Act.

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

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

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

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

In April 2016, the Bank launched a special financing offer addressed to medical sector customers, such as doctors, dentists, independent health care institutions, clinics and medical practices (business customers). Bank BGŻ BNP Paribas offers loan products tailored to the needs of business entities from the medical sector and it is planning to launch a dedicated business account and transactional solutions that will facilitate the operations and ensure sustainable growth of medical sector entities in the future.

In the second half of 2016 promotional activities to other business clients groups such as: Bailiff Offices, Housing Community Managements and Mayors.

As the end of December 2016, the net value of the Retail and Business Loan portfolio was PLN 29,369.7 million, which represents 6% percent rise as compared to the end of the previous year. The sharpest rise in value was recorded in consumer loans and amounted to PLN 1,413.7 million. In the analyzed period, the gross volume of home loans denominated in foreign currencies (withdrawn in 2008-2009) amounted to PLN 6,815.6 million with CHF loans accounting to almost 99% of the total.

Bank guarantees

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

In 2016, the Bank issued 103 bank guarantees at the request of Business Segment customers, which totaled PLN 4.64 million.

Net banking income – retail and business banking

The net banking income on Retail and Corporate Banking for 2016 amounted to PLN 1,349.0 million and which constituted a 23% year-on-year increase. It represented 54.1% of the total net banking income for 2016. Almost 32.8% of the net banking income was attributable to Personal Finance.

Table 31. Net banking income – Retail and Business Banking⁶

PLN'000	12 months ended 31.12.2016	12 months ended 31.12.2015	Change YoY	
			PLN '000	%
Net interest income	1 053 135	831 645	221 490	27%
Net fee and commission income	246 869	243 468	3 401	1%
Net trading and other income	48 954	22 190	26 764	121%
Net banking income	1 348 958	1 097 303	251 655	23%

⁶ Information based a note to the Standalone Financial Statement of Bank BGŻ BNP Paribas S.A for the period ended 31 December 2016.

11.4. Personal Finance

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

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

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

It also assumes responsibility for the following key processes:

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

Product offering

Cash loans

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

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

Installment loans

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

Car loans

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

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

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

Leases

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

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

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

Lease-loan

From the fourth quarter of 2016, the offer for corporate clients been extended to include a lease-loan, provided in cooperation with BNP Paribas Leasing Services Sp. z o.o. and available at used car dealers and authorized car dealers. The offer is designed both to finance the purchase of new and used vehicles such as: cars, trucks, buses, tractors, scooters, motorcycles, quads, boats and motorboats.

Long-term vehicles rental

The product was launched in the fourth quarter of 2016 and is offered to corporate customers by selected authorized car dealers in cooperation with Arval Service Lease Polska Sp. z o.o. The product is offered for the period from 24 to 60 months, in the amount from PLN 20 thousand to PLN 1 million and applies only to new cars.

Credit cards

As a result of the merger with Sygma Bank Polska on 31 May 2016, of Bank BGŻ BNP Paribas S.A. has become one of the largest issuers of credit cards in Poland with a 11% market share. Today, the Bank offers credit cards in all of its branches and 132 Customer Service Points located in shopping centers and retail chains cooperating with the Bank. Another important element of the acquisition process is cross selling of credit cards whereby cards are sent to customers who have signed a cash advance agreement, car loan agreement or installment loan agreement. The available limits range from PLN 2,000 to PLN 6,000.

At the end of 2016, the Bank offered credit cards designed to all segments of clients, both individual and corporate and seven co-branded cards issues in cooperation with leading retail chains or leading known brands in their industry.

In 2016 the Bank also continued the following:

- The development of mamBONUS loyalty program offered previously by Sygma Bank with new features and benefits for the credit cards holders.
- Further development of pre-approved and proactive card selling offer addressed to regular customer of the Bank, available in branches, through Contact Center and Internet Banking; and
- Modification of credit card and insurance products linked to them as a result of unification of the Bank's offer.

11.5. Operations of the Brokerage Office of BGŻ BNP Paribas S.A.

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

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

The Brokerage Office offers a wide range of investment funds managed by recognized Polish Investment Fund Management Companies. As at the end of December 2016, the Brokerage Office had sold units in more than 300 funds managed by 18 Investment Fund Management Companies. As at 31 December 2016, the value of Investment Fund Management Company assets sold by Bank BGŻ BNP Paribas totaled PLN 2.29 billion.

Fee and commission income on sales of units in Investment Fund Management Companies (through the Bank's branches) amounted to PLN 18,596 thousand as compared to PLN 23,712 thousand in 2015. The broker fee income in 2016 amounted to PLN 6,668 thousand vs. PLN 6,222 thousand in 2015.

The total fee and commission income of the Bank's Brokerage Office fell by PLN 4,470 thousand YoY.

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

PLN'000	12 months	12 months	Change YoY	
	ended 31.12.2016	ended 31.12.2015	PLN '000	%
Broker fees and charges	6 668	6 222	446	7,2%
Fees on sales of units in Investment Fund	18 596	23 712	(5 116)	(21.6%)
Fee and commission income	25 264	29 934	(4 670)	(15.6%)

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

		31.12.2016		31.12.2015	
		Volume	Share	Volume	Share
Shares	PLN '000,000	884.76	0.23%	931.45	0.23%
Bonds	PLN '000,000	39.75	1.46%	19.14	1.08%
Contracts	number	54 609	0.37%	83 965	0.55%
Investment certificates	PLN '000,000	1.20	0.98%	1.44	0.94%
Options	number	5 360	0.75%	6 449	0.79%

11.6. SME Banking

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

- **SME Farmers** are customers with full financial reporting and sales income of less than PLN 60 million or farmers without full financial reporting and the Standard Output (SO)⁷, in the preceding financial year, depending on the region, of EUR 75 thousand, 100 thousand or more. As regards loan customers, the SME segment includes farmers with the Bank's credit exposure of PLN 2-25 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 sub-segment includes also public finance sector entities that do not fulfil the criteria allowing their classification to another segment, as well as foundations and associations with net income of PLN 10-60 million.

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

Product offering

The Bank offers a wide variety of products to its Small and Medium Enterprises (SME) customers. The offering developed for SME clients 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);

⁷ See Footnote p. 45

- 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. Performed in November 2016 operational merger allows the full harmonization of products and services for all customers of the Bank. In 2016 an extraordinary macroeconomic factor affecting the sales level were record low interest rates in Poland which caused a significant increase in sell of IRS Derivatives hedging the risk of rising interest rates on loans taken by customers.

New products and business line development in 2016

A new solution offered to SME customers is a Global Limit in 2016 as a pilot project – a possibility to obtain working capital financing under new, fast and competitive credit process with the decision within 2 days. Further works on the solution will be continued in 2017.

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

In November 2016 the Bank launched new trading platform FX PI@net which benefits also SME clients. The Platform allows, among others, carrying out a conversions between currency accounts (FS Spot transactions), making hedging FX Forward transactions with deferred settlement and submitting a bid or sell of currency offers.

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

As at the end of 2016, the SME segment acceded 16,633 customers, of which 7,179 (43%) are farmers, 2,350 (14%) are companies from the Agro sector and 7,104 (43%) are companies from other sectors.

Table 34. Deposits and Loans - SME Banking⁸

PLN'000	31.12.2016	31.12.2015	Change YoY	
			PLN'000	%
Current accounts	3 644 228	3 876 044	(231 816)	(6%)
Savings accounts	363 600	406 573	(42 973)	(11%)
Term deposits	1 014 368	1 090 930	(106 107)	(9%)
Overnight deposits	588 277	535 153	53 124	10%
Accounts and deposits	5 610 472	5 908 700	(327 772)	(6%)
Customer credit	791	1 699	(908)	(53%)
Investment loans	7 154 189	6 958 849	195 339	3%
Overdrafts	2 210 189	2 134 283	75 905	4%
Lease receivables	541 182	461 065	80 117	17%
Credit cards	657	1 378	(721)	(52%)
Short-term loans	1 161 959	1 095 864	66 095	6%
Other loans	0	19 140	(19 140)	(100%)
Factoring	0	342 260	(31 700)	(100%)
Loans and advances (net)	11 068 968	11 014 539	364 989	3%

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

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

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

Beside own offer, the Bank, in cooperation with external companies, offers additional services dedicated to farmers.

Preferential loans

In 2016, the Bank continued granting preferential loans on the terms and conditions introduced in 2015. Loans were limited to farming and inland fishing, for purchase of agricultural land, for investments in processing of agri products, fish, crustaceans and snails, purchase of shares, and loans for recovery from the effects of natural disasters. The Agency for Restructuring and Modernization of Agriculture (ARMA) did not offer loans with partial principal repayment for purchase of agricultural land, intended for young farmers. One entity may obtain: a loan for investments in the agricultural holding of up to PLN 5 million, a loan for investments in specialized agricultural production of up to PLN 8 million and a loan for processing of up to PLN 16 million.

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

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

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

⁸ See Footnote p.48

New edition of the *Rzeczówka* loan

The Bank launched a modification of working capital loan intended for the purchase of tangible fixed assets for agricultural production.

Cooperation with Mitsubishi Motors

As from 1 June to 31 December 2016, Mitsubishi Motors together with Bank BGŻ BNP Paribas had prepared a special offer addressed exclusively to those clients of the Bank, who are engaged in agricultural activity.

The offer is associated with an extremely favorable financial offer of the Bank (leasing, loans). If the customer buy selected car and finance it in the Bank (loan/leasing), the customer receives an additional discount of 7% to 12% above the current special offer available in the car dealer office.

Cooperation with Arval Service Lease Poland

As from 18 July to 31 December 2016, Arval Service Lease Poland Sp. z o.o. belonging to the BNP Paribas Group had prepared an offer for customers of Bank BGŻ BNP Paribas, who are engaged in agricultural activity. The offer applies to long-term car rental with a package of additional services including (within the monthly instalment): maintenance, purchase, replacement and maintenance of tires, liability, comprehensive and accident insurance, replacement car and settlement of a claim.

Trade Finance products for SME segment customers

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

Bank guarantees and LCs.

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

In 2016, the Bank issued 596 bank guarantees at the request of SME customers, which totaled PLN 72.4 million.

In 2016, the Bank opened 149 import LCs in the total amount of PLN 36.7 million at the request of SME customers and handled 90 export LCs totaling PLN 19.6 million, issued by third-party banks for the benefit of those customers.

Offering related to public programs**Unia+ loan**

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

PolSEFF2 Program

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

As a continuation, in October 2016 the Bank launched EKO Leasing PolSEFF providing financing for energy efficiency enterprises. Financing under Leasing PolSEFF involves financial benefits of reduced financial margin for the customers. In addition, companies benefiting from the Program PolSEFF have opportunities for using free technical support, which is provided by engineers and consultants from POLSEFF.

EIB Energo Leasing GI

In May 2016 the Bank stopped selling Energo Leasing GI as part of the EIB Line for energy efficiency projects.

EIB

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

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

Technological loan

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

CEB

In August 2016 the Bank signed a contract with Council of Europe Development Bank for credit line of EUR 50 million. The agreement is intended for the entities from SME sector (as defined by the EU) seeking funding for development.

Lease-loan

In December 2016, in cooperation with BGŻ BNP Paribas Leasing Services, the Bank introduced a Lease-loan- a financial product aimed at entrepreneurs who wish to purchase a specific asset by the entrepreneur. The loan allows for taking out a lease along with EU subsidies, but also works well as a way of financing for entrepreneurs who are not VAT payers, farmers and professionals. The offer includes two types of leasing loan:

- Lease-loan – an investment funding method secured on the financed asset;
- European Lease-loan – secured on the financed asset and transfer of receivables due to EU subsidies (aimed to finance projects co-financed from EU funds).

Net banking income – SME Banking

In 2016, net banking income in SME Banking was PLN 352.5 million, which denotes a 10% increase year-on-year. It represents 14.1% of the total net banking income of the Bank.

Table 35. Net banking income – SME Banking⁹

PLN'000	12 months ended 31.12.2016	12 months ended 31.12.2015	Change YoY	
			PLN '000	%
Net interest income	230 511	199 607	30 904	15%
Net fee and commission income	87 834	84 837	2 997	4%
Net trading and other income	34 113	36 353	(2 240)	(6%)
Net banking income	352 458	320 797	31 661	10%

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

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

In order to improve international customer service quality in Corporate Banking, the Bank has dedicated teams providing services to customers from Germany, Italy, the Benelux and Asia and Pacific. The teams win new customers and tighten relations with the existing ones in their dedicated areas on the local level as well as the BNP Paribas Capital Group level.

⁹ See: Footnote p.51

Distribution channels

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

Product offer

Products and services

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

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

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

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

- **deposits** – from overnight to term deposits, indexed using the WIBOR rate;
- **trade finance** – the trade finance products offered to Corporate Banking customers include export and import documentary LCs, export and import documentary collection, LC discounting, receivables financing as well as nostro and loro guarantees;
- **corporate financing** – overdrafts, revolving loans and investment loans;
- **mid-cap structured finance** – financing acquisitions, high capital expenditure as well as structured bilateral or syndicated loans of PLN 20-200 million;
- **real estate financing** – financing office, retail and warehouse space for customers:
 - planning the construction or extension of commercial property with the use of a construction loan;
 - planning the purchase or refinancing of commercial property with the use of an investment loan or lease;
- **investment banking services** – provided by experts, including advisory services related to mergers and acquisitions, project finance as well as capital markets and debt securities;
- **financial market products** – including spot and forward FX transactions made by the Bank's dealers or via a price competitive FX platform (Deal on 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.

Internet Banking

The Bank provides its corporate customers with extended access to online banking through the BiznesPI@net and Connexis platforms suited to the needs of large, medium-sized and small enterprises. *BiznesPI@net* platform allows effective management of all banking products: accounts, cards, loans, deposits, LCs and may be integrated with the company's accounting systems through web services. The Bank also offers an Electronic Currency Platform enabling customers to process foreign exchange transactions.

Mobile Banking

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

Table 36. Corporate Banking Deposits and Loans¹⁰

PLN'000	31.12.2016	31.12.2015	Change YoY	
			PLN'000	%
Current accounts	5 644 611	4 344 454	1 300 157	30%
Saving accounts	5 455	2 744	2 711	99%
Term deposits	6 452 894	3 858 965	2 593 929	67%
Overnight deposits	2 425 608	1 922 407	503 201	26%
Account and deposits	14 528 568	10 128 571	4 399 998	43%
Consumer credit	117	202	(85)	(42%)
Investment loans	5 850 991	5 234 846	616 145	12%
Overdrafts	2 632 005	2 229 248	402 757	18%
Lease receivables	1 487 051	1 369 824	117 227	9%
Credit Cards	2 003	2 016	(13)	(1%)
Short-term loans	2 352 338	2 356 685	(4 347)	0%
Other loans	7 170	27 978	(20 808)	(74%)
Factoring	18 547	91 617	(73 070)	(80%)
Net loans and advances	12 350 221	11 312 416	1 037 805	9%

Trade finance products for Corporate Banking customers

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

Bank guarantees and LCs

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

In 2016, the Bank issued 3 238 bank guarantees at the request of Business Segment customers with a total value of PLN 1,554.6 million.

In 2016, the Bank opened 1 210 import LCs with a total value of PLN 553.9 million at the request of customers from this segment, and handled 321 export LCs with a total value of PLN 287.9 million issued by third-party banks for the benefit of those customers.

Net banking income - Corporate Banking

In 2016, the net banking income of Corporate Banking was PLN 433.5 million and was higher by 40% compared to the income earned in the previous period. The current income represented 17.4% of the total net banking income of the Bank, as compared with 15.4% in the previous period.

¹⁰ See: Footnote p.48

Table 37. Net Banking income - Corporate Banking¹¹

PLN'000	12 months ended 31.12.2016	12 months ended 31.12.2015	Change YoY	
			PLN'000	%
Net interest income	237 752	158 313	79 439	50%
Net fee and commission income	106 992	77 179	29 813	39%
Net trading other income	88 749	74 780	13 969	19%
Net banking income	433 493	310 272	123 221	40%

11.8. Corporate and Institutional Banking - CIB

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

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

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

CIB offers world-class quality expertise to customers by combining the knowledge of the Polish market with experience gained on international markets as well as top-class industry experts' competence. CIB supports development of Polish enterprises and implementation of projects of strategic importance to Poland, to include construction of power plants, green energy or fuel sector funding as well as securing financing for cross-border acquisitions of listed companies.

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

ALM Treasury Division combines the function of a business line and competence center responsible for current and structural liquidity management at the Bank, management of the interest rate risk inherent in the Bank's balance sheet as

¹¹ See: Footnote p.51

well as the structural currency risk, setting and managing reference prices for all prices offered by the Bank. 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 2016, the Bank was a correspondent bank of ca. 1,500 other banks, and held 45 nostro accounts for 25 major currencies with foreign banks.

In the analyzed period, the Bank maintained 20 loro accounts in 2 currencies for 18 foreign banks. 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.

11.11. Human resource management

Headcount

At the end of December 2016, Bank BGŻ BNP Paribas had 7,978 FTEs (including employees on maternity leave, childcare leave and longer sick leave) as compared to 7,588 FTEs at the end of December 2015. The increase in employment in the Bank is mainly the effect of the merger of the Bank with Sygma Bank Polska S.A. on 31 May 2016.

The table below presents the Bank's employment structure in FTEs.

Table 38. Headcount in the Bank

	31.12.2016	31.12.2015
Bank, including:	7 978	7 588
Head Office	3 627	3 189
Branches	4 204	4 242
Mobile Relationship Managers	95	88
Brokerage Office	38	54
Training Center	10	11
Trade Unions	4	4

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

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

Employee compensation policy

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

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

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

Incentive schemes

The Bank has introduced incentive (bonus schemes), which are designed to support the Bank's strategy by rewarding the employees for achieving the objectives set. The bonus schemes are based on the MbO (Management by Objectives) formula, which means that the employee's individual bonus depends on his/her goal achievement level- both quantitative and qualitative. Furthermore, a combination of individual and collective goals gives the employee a picture of his/her expected performance, considering the Bank's risk profile and actions in the interest of the customer.

The Bank has implemented:

- bonus schemes for direct sales staff, which were brought into line with the tasks assigned to each business line of the Bank: Retail and Corporate Banking, Personal Finance, SME Banking, Corporate Banking;
- bonus schemes for support staff (including bonus schemes for specific group of employees excluding direct sales in areas such as: Retail and Corporate Banking, Personal Finance Banking);
- bonus scheme defining 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 2016 supported the achievement of the business objectives of the Bank through a close liaison with the business lines as regards development of the employees' skills and competencies, but mainly in relation to the merger and integration of three financial institutions with a view to preparing employees for provision of premium quality services to customers.

The total number of training participants was 267,865, out of which 250,290 completed e-learning courses.

Major training initiatives in 2016

- courses on the new product range and use of the applications of the merging organizations;
- courses increasing leadership competencies of managers, focusing in particular on salesforce management - Akademia Menadzera Banku BGŻ BNP Paribas;
- training programs supporting new organizational culture and knowledge 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 and compliance 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.

Furthermore, a new standard for cooperation with Compliance regarding monitoring and reporting the status of compulsory training completion has been implemented.

Development programs implemented in 2016:

- Prestiz Potential Development Program – the Program is aimed at ensuring that managers have the key competencies necessary to realize the Bank's strategy today and in the future. The Program is dedicated to employees who are high achievers and have a management potential. Courses have been devised for three Talent groups with different levels of professional experience and competencies. The courses are tailored to address individual needs of the participants and to support realization of the Bank's strategy.
- The Leaders for Tomorrow initiative – a development program of the Capital Group of BNP Paribas aimed at leadership development. Participants can make the most of development sessions conducted in different companies of the group, get to know how companies operate in other countries and share best practices.
- Rozwój naszą siłą Program – the aim of the program is to strengthen the managerial competencies through a variety of training and coaching activities.
- The Bank continued the Internal Labor Market initiative launched in 2014 with a view to enhancing the occupational mobility of the employees inside the organization.
- The Occupational Mobility Days is an initiative supporting the occupational mobility of employees, who could familiarize themselves with the nature of work in specific business areas or attend meetings (in classroom and online) focusing on professional development. The Occupational Mobility Days included training courses and a conference on building professional career.
- Development Center Sessions – aimed at supporting newly-appointed managers in developing their competencies which are important for their new roles. This one-day program includes development sessions and one-to-one feedback sessions which provide the basis for creating development plans.
- HR Library – the newly-opened library offers literature on: motivation, sales, personal development, management and leadership.

Internship and traineeship programs

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

11.12. Information Technology

In 2016, the IT initiatives focused on implementation of the Bank's strategy, where the priority was integration and synergies realization by 2018. The main aim was the operational merger of Bank BGŻ and BNP Paribas Bank Polska, as well as legal and brand merger Sygma Bank.

The expenditures on IT initiatives in 2016 were PLN 211.4 million. During this period 122 projects were completed (including 71 related to BGŻ and BNPP Polska integration, and 25 related to the merger with Sygma Bank, 15 business projects and 11 adopting the Bank to new requirements). As at the end of 2016 59 projects are in progress.

An operational merger with exSygma Bank Polska is planned in 2017.

Major IT initiatives

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

The key IT tasks completed in 2016 as part of the banks' full integration process:

- February - migration of BGŻOptima customers to the target architecture and infrastructure of Bank BGŻ BNP Paribas. The migration process had been prepared for 10 months and was completed in February 2016.
- March - corporate customers of the former Rabobank Polska were migrated to the target systems of Bank BGŻ BNP Paribas.
- May - Legal merger of BGŻ BNP Paribas and Sygma Bank Polska. Two banks of the international Capital Group of BNP Paribas operating in Poland merged into one of the most universal banks on the market.

- May - first portion of changes to the target systems of Bank BGŻ BNP Paribas were made. 100 changes and functionalities were made to 45 systems in the Bank. This was the first stage of the process of preparation for the Bank's data migration and operational merger.
- August - overview of the changes in terms of closing functionality gaps in the information systems necessary for the migration. Changes were made to 126 applications by 370 employees of the Bank and 120 persons from external companies. It was the largest deployment in the history of the Bank.
- November - migration of exBGŻ data and systems to target IT infrastructure, closing the operational merger process of both banks.
- Infrastructural projects for the merged Bank:
 - Introduction of consistent e-mail addresses at the merged Bank;
 - Introduction of the new website of the Bank – the implementation of the new website finalizing the first phase of optimizing a website as not only information, but also as an effective distribution channel;
 - Implementation of IP telephone system – the new AVAYA system and telephone;
 - Unification of the telephone numbers in all locations – renumbering of internal 5-digits numbers for 3300 fixed telephones;
 - Launch of a new data and backup data center;
 - Increase in speed of the two central WAN networks up to 400 Mbps;
 - Implementation of a common bgzbnpparibas.pl mail domain for 3 organizations: exBGŻ, exBNPPP, exSygma along with address books synchronization tools;
 - Extension of Active Directory – installation and activation of the domain controllers basing on ten physical servers;
 - Implementation of innovative storage solutions based on a servers cluster of 400TB placed in four locations;
 - New redundancy locations in Krakow and Warsaw for Critical Processes Team;
 - Replacement of network infrastructure of the Data Center;
 - WAN integration;
 - Implementation of a single file server for all employees of the Bank;
 - Preparation of Citrix infrastructure for all branches of the Bank.

In addition to the integration work, business critical projects were implemented:

- Mobile BiznesPI@net – the application allows the corporate customers of the Bank, who are BiznesPI@net users, using online banking services from their mobile devices;
- BGŻ Firma application users were transferred to internet banking platform BiznesPI@net;
- Internet banking – the preceding exBGŻ application has been replaced by platform PI@net;
- Mobile banking – eBGŻ Lite application has been disabled and replaced by the Mobile PI@net designed for Android and iOS phones;
- SmartCash – a new system for cash and cashless transactions in branches;
- Rodzina 500+ – the Bank enables its customers to apply for the child benefit online;
- Migration of debt collection processes – completion of the two first stages of the migration to the target system. Since April 2016, all new debt collection cases of retail and micro-customers have been handled by the Tallyman application.

Projects related to customer service unification

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

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

11.13. Agreements concluded with central banks and supervisory authorities

Agreements concluded with the National Bank of Poland:

- Amendment No 6 of 15 March 2016 to the Agreement of 18 February 2015 on the rules of Polish currency supply to banks and related activities. The changes concerns the charges for SESCO system cards.
- Amendment no 7 of 21 December 2016 to the Agreement of 18 February 2015 on Polish currency supply to banks and related activities changes resulting from the adjustments to the provisions of the Agreement so that it complies with Resolution no. 32/2016 of the President of the National Bank of Poland (regarding details rules and method of exchanging banknotes and coins which as a result of wear and tear cease to be a legal tender in the Republic of Poland) effective as of 1 January 2017.

12. 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:

- credit risk;
- counterparty risk;
- market risk;
- 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;
- insolvency 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.

12.1. 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 take account of the risk involved in such a transaction,
- credit risk is diversified on such dimensions as geographical regions, industries, products and customers,
- credit decisions may only be taken by competent employees,
- the customer and the transactions made with the customer are monitored transparently from the perspective of the customer, in a manner that strengthens the relationship between the Bank and the customer.

Debt restructuring and collection

In 2016, Bank obtained a total of PLN 304 million charges, of which PLN 230 million (Personal Finance – PLN 126 million, micro – PLN 70 million, mortgage loans – PLN 34 million) was legally recovered, and PLN 74 million as a result of the sale of NPL portfolio.

The total number of collection titles issued by the Bank in 2016 was 21,400.

12.2. 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 Bank satisfies the applicable supervisory requirements at a secure and optimum level;
- 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.

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

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

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

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

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

Liquidity risk

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

The following types of liquidity are distinguished by the Bank:

- immediate liquidity (intraday) – 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, the European Investment Bank and the Council of Europe Development Bank (CEB).

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

Loan financing structure

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

Table 39. Loan portfolio financing structure

PLN million	31.12.2016
Net loans	53 180
Total sources of funding	62 380
Customer deposits, including:	53 274
- individual customers	27 523
- corporate	23 637
- other financial institutions	2 114
Long-term lines of credit	8 712
Debt securities issued	394

The Bank's loans in foreign currencies are financed with the use of customer deposits and - in their absence - medium- and long-term loans from the BNP Paribas Group, which provides stable funding to address such shortages in EUR, USD and CHF. This concerns, in particular, the CHF home loan portfolio, for which a stable level of funding has been secured by the Bank. As at 31 December 2016, the structure of open long-term lines of credit was as follows:

Table 40. Structure of loans from the BNP Paribas Group

million	31.12.2016
CHF	1 241
EUR	239
PLN	1 588

Table 41. Structure of loans from EBRD and EIB

million	31.12.2016
EUR	133
PLN	368

Currency risk

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

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

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

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

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

Interest rate risk in the banking portfolio

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

For the purpose of interest rate risk management, the banking portfolio is divided in two sub-portfolios:

- standard portfolio, in which the interest rate risk arises from these instruments/items that do not generate uncertainty or variability, i.e. their exposure to the interest rate risk arises entirely from the parameters specified in the contract, e.g. a loan that cannot be prepaid;
- structural portfolio containing instruments/items:
 - whose parameters may vary depending on the client behavior, economic environment, competition as well as items that may be only partially hedged, i.e. a loan that can be prepaid, savings accounts with interest that is not based on market rates, interest-bearing current accounts and deposits on demand;
 - non-interest bearing liabilities such as non-interest bearing current accounts and deposits on demand as well as equity;
 - capital investments and derivatives hedging the interest rate risk in this portfolio.

The following basic types of interest rate risk analyses are defined in the policy adopted by the Bank:

- a mismatch between the repricing dates of assets and liabilities ("gapping"), collectively and by the main currencies for standard portfolio;
- a mismatch between the repricing dates of assets and liabilities ("gapping"), collectively and by the main currencies for total ALM Treasury portfolio;
- 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 2016.

Utilization of set limits is significantly below the maximum values.

Table 42. Interest rate gap (PLN million)

Term	Gap
1M	-3 428
3M	111
6M	746
1Y	-50
2Y	-589
3Y	-1 222
5Y	-917
10Y	199

12.3. Counterparty risk

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

As at 31 December 2016, the counterparty risk was calculated for the following types of transactions contained in the trading portfolio of the Bank: foreign exchange transactions, interest rate swap transactions, FX options, interest rate options and commodity derivatives.

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

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

In the second half of 2016, the Bank's exposure to counterparty risk in the corporate segment went up by 6% while the exposure to banks increased by 44%.

12.4. 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 2016, treasury transactions (including deposits and derivatives) represented 48.1%, foreign lending operations of the Bank accounted for 31.5%, international trade transactions for 20.3% and derivative transactions entered into with foreign corporate customers represented 0.1% of the Bank's country risk exposure. France accounted for 47%, Belgium for 16% Germany for 11% and the Netherlands for 9% of the exposure each. The remaining exposure was related to Senegal, Switzerland, Turkey, Luxembourg and UK.

12.5. Operational risk

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

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

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

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

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

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

As part of the legal risk management process, the Legal Division monitors, identifies and performs analyses of changes to laws of general application and their effect on the operations, in addition to court and administrative proceedings which affect the Bank. The Compliance Department is responsible for day-to-day compliance risk analysis as well as development of appropriate risk control techniques and their improvement.

Considering the elevated level of external and internal risks related to fraud and offence against the assets of the Bank and its customers, the Bank has extended the scope of and improved its processes aimed at counteracting, detecting and examining such cases, which is the responsibility of the Fraud Management Department.

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

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

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

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

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

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 Basic Indicator Approach (BIA) for the Bank BGŻ BNP Paribas S.A. and its subsidiaries.

12.6. Legal risk

As at 31 December 2016, no proceedings had been instituted before courts, arbitration or public administration bodies with respect to the Bank's receivables or liabilities, the value of which would exceed 10% of the Bank's equity.

As at 31 December 2016, the total value of the litigation initiated against the Bank (except adverse claims and proceedings for annulment of the effected legal actions) was PLN 137,318,497. The total value of the litigation initiated by the Bank was PLN 320,437,976.

Court decision regarding calculation of the interchange fee

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

The total fine levied on Bank BGŻ BNP Paribas amounted to PLN 12,544 thousand and included: i) a fine for the practice of Bank Gospodarki Żywnościowej in the amount of PLN 9,650 thousand; and ii) a fine for the practice of Fortis Bank Polska S.A. (FBP) in the amount of PLN 2,895 thousand. The penalty was paid by the Bank on 19 October 2015.

The Bank brought a last resort appeal against the aforesaid court decision on 25 April 2016.

Entrepreneurs' claims against the Bank (interchange fee)

Till 31 December 2016 Bank has received 24 applications for a summons to a conciliation hearing from entrepreneurs, who use card payments. Total value of claims amounts to PLN 985.68 million, including PLN 975.99 million regarding joint and several liability with other banks. These claims concern interchange fee, established as a result of agreements related to the restriction of competition. What is more, these claims are also connected with the execution by the Bank the decision issued by President of Office of Competition and Consumer Protection.

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

As at 31 December 2016, the Bank was a defendant in eleven court cases (including one case, where 79 people were claimants) for acknowledgment of invalidity of CHF denominated mortgage loan agreements on the grounds that the loan granted by the Bank was in PLN without denomination in a foreign currency or for damages on grounds of the Bank's abuse of the subjective right, including the rules of social co-existence and misinforming the customer or deprivation feasibility of a writ of execution .

The total value of the claims is PLN 28.49 million. It should also be emphasized that in two similar cases against the Bank, which have been closed, the petitions filed by the customers have been dismissed by courts with the force of law.

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

13.1. Statement of compliance with corporate governance principles in 2016

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 2016.

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

In 2016, 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

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 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 2016:

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

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 board 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 2016:

The principle related to compensation of board members is applied to all Supervisory Board members.

Information on applied principles by the Management Board and Supervisory Board and departures from the Principles of Corporate Governance for Supervised Institutions is available on the Bank's website:

<https://www.bgzbnpparibas.pl/relacje-inwestorskie/lad-korporacyjny/zasady-ladu-korporacyjnego-knf>

The Management Board of the Bank represents that the Bank and its governing bodies complied with the adopted Principles of Corporate Governance in 2016. In the reporting period, the Principles of Corporate Governance 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 Bank has applied internal control management policy, approved by the Management Board of the Bank and accepted by the Supervisory Board.

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 mechanisms 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.

In addition to these committees, the Bank has a Risk Management Committee, whose primary task is to monitor and supervise the main risks arising from the Bank's operations, including strategic aspects of credit risk, cross-cutting aspects of market risk and liquidity risk, counterparty risk and operational risk

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 2016, 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 2016, 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 2016: 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 2016, item 1988, 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, issue of convertible bond or bond with priority to take-up shares of the Bank, as well as subscribe warrants, as well as liquidation or dissolution of the Bank, sale of all or part of the bank, require the majority of 3/4 of votes cast. Resolution regarding merger of the Bank with other bank or other credit institution requires 2/3 of votes cast of General Shareholders' Meeting (Section 13.2 of the Statute).

In accordance with Section 20.1.1m) 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 Bank's 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 of the Bank's Statute).

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 Bank's 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 BGŽ BNP Paribas S.A.*

The Supervisory Board of Bank BGŽ 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 2016, the Supervisory Board held 8 meetings and adopted 120 resolutions.

The Supervisory Board appoints internal committees out of its members:

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

The Bank's Internal Audit Committee (Committee) is responsible for supporting the Supervisory Board in monitoring of financial information reliability, monitoring of internal control system effectiveness, monitoring of external audit function as well as ensuring effectiveness of the Bank's internal audit function by supervising Internal Audit Department operations.

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 2016 the Committee became acquainted with i.a. financial statements of the Bank and the Group for 2015, interim financial statements for 2016 quarters and half-year periods, operations plans of Compliance and Antifraud Department, reports from review of process of internal capital assessment (ICAAP), risk management strategy in Bank BGŽ BNP Paribas S.A., update of Emergency Capital Plan of Bank BGŽ BNP Paribas S.A., reports from audit function in Brokerage Office and compliance function in Brokerage Office, Operational Risk Map report and assessment of internal control mechanisms and processes effectiveness as well as changes implemented by IFRS 9.

Moreover, the Committee approved services provided by the entities belonging to the group of the financial statements auditor relating to Recovery Plan preparation and tax and legal services relating to analysis of compliance of the Bank with FATCA regulations.

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

Composition of the Bank's Internal Audit Committee in 2016

- Jarosław Bauc – Chairman (to 30 June due to expiration of mandate of Supervisory Board of previous tenure after General Shareholders' Meeting), Member (appointed from 21 July during Supervisory Board meeting due to appointment by General Shareholders' Meeting to Supervisory Board of new tenure from 30 June 2016)
- Mariusz Warych – Member (to 30 June due to expiration of mandate of Supervisory Board of previous tenure after General Shareholders' Meeting), Chairman (appointed from 21 July during Supervisory Board meeting due to appointment by General Shareholders' Meeting to Supervisory Board of new tenure from 30 June 2016)
- Monika Nachyła – Member (to 30 June due to expiration of mandate of Supervisory Board of previous tenure after General Shareholders' Meeting and appointed from 21 July during Supervisory Board meeting due to appointment by General Shareholders' Meeting to Supervisory Board of new tenure from 30 June 2016)
- Jean-Paul Sabet – Member (to 30 June due to expiration of mandate of Supervisory Board of previous tenure after General Shareholders' Meeting and appointed from 21 July during Supervisory Board meeting due to appointment by General Shareholders' Meeting to Supervisory Board of new tenure from 30 June 2016)

The HR and Compensation 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.

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 2016, the HR and Compensation Policy Committee i.a. discussed changes in the Management Board composition, became acquainted with employment conditions of new Management Board members, discussed conditions and level of remuneration of new Management Board members, became acquainted with remuneration policies (success fee) and assessment of fulfilment of conditions to pay success fee, drafts of resolutions regarding bonuses for 2015 for Management Board members of Bank BGŻ BNP Paribas S.A and admitting "good leaver" status for former Management Board members, information on employment and remuneration levels, matters regarding bonuses, remuneration matters and remuneration policy of employees having significant impact on risk profile of Bank BGŻ BNP Paribas S.A. and Regulations of assignment and payment of variable remuneration, agreement changing employment contracts of Management Board members, new "Remuneration policy for employees having significant impact on risk profile of Bank BGŻ BNP Paribas S.A."

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

Composition of the HR and Compensation Committee in 2016:

- Jean-Paul Sabet – Chariman (to 30 June due to expiration of mandate of Supervisory Board of previous tenure after General Shareholders' Meeting and appointed from 21 July during Supervisory Board meeting due to appointment by General Shareholders' Meeting to Supervisory Board of new tenure from 30 June 2016)
- Stefaan Decraene – Member (to 30 June due to expiration of mandate of Supervisory Board of previous tenure after General Shareholders' Meeting and appointed from 21 July during Supervisory Board meeting due to appointment by General Shareholders' Meeting to Supervisory Board of new tenure from 30 June 2016)
- Józef Wancer – Member (to 30 June due to expiration of mandate of Supervisory Board of previous tenure after General Shareholders' Meeting and appointed from 21 July during Supervisory Board meeting due to appointment by General Shareholders' Meeting to Supervisory Board of new tenure from 30 June 2016)

The Risk Committee responsibility is to support the Supervisory Board in its fulfilment of supervisory duties in the risk management area, particularly including: giving opinion on the Bank's current and future ability to take risk, giving opinion on the risk management strategy in the Bank's operations prepared by the Management Board and on information from Management Board concerning execution of this strategy, supporting the Supervisory Board in supervision over implementation of risk management strategy in the Bank by executive employees, verifying whether prices of liabilities and assets offered to clients reflect in full business model of the Bank and its risk strategy, and if not, presenting to the Management Board recommendations how to ensure adequacy of prices of liabilities and assets with risk categories.

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

In fulfilment of its duties in 2016, the Committee discussed i.a.: credit and operational risk dashboard, ALMT risk dashboard with market, liquidity, counterparty and capital requirements risk information, update of Methodology of stress test analysis on interest rate, FX rate, liquidity and capital sensitivity, approved tolerance level for risk models.

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

Composition of the Risk Committee in 2016:

- Jean-Paul Sabet – Chairman (appointed from 21 July)
- Monika Nachyła – Member (appointed from 21 July)
- Mariusz Warych – Member (appointed from 21 July)

13.2. 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 of 20 January 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*.

At the beginning of 2017, analysis of applying in 2016 Best practice for WSE listed companies 2016 was carried out by the Bank. According to actual status of applying Best practice for WSE listed companies 2016, the Bank does not apply recommendations 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, III.Z.6 and recommendation IV.R.3 did not apply to the Bank.

Information policy and communication with investors

[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.

Comment: 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.

Comment: 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.1.17. reasoning to General Shareholder's meetings' resolutions projects concerning matters and decisions that are significant or may raise concerns to shareholders – in period enabling participants of the General Shareholders' Meeting to become acquainted with them and make resolution with due care.

The Bank applies principle II.Z.1.17 with comment.

Comment to the above: Until now the resolution projects did not include reasoning except for circumstances when it results directly from KSH rules.

I.Z.1.18 *Information on reasons for withdrawal of General Shareholders' Meeting, change of date or agenda as well as information on break during meeting and reasons for break*

The Bank applies principle II.Z.1.18 with comment.

Comment to the above: In 2016 the break in General Shareholders' Meeting was announced once. The Bank informed about the break on 9 June 2016 via current report no. 22/2016 of 9 June 2016, attaching report on internet website of the Bank. As a reason of break motion filed by shareholder BNP Paribas SA was enclosed.

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

The Bank does not apply principle I.Z.1.20.

Comment: see Principle I.Z.1.16. Transmitting and recording meetings necessitates application of appropriate technical solutions, which translates additionally into additional costs of organization of general shareholders' meetings.

Internal functions and systems

III.Z.6. *If in the company internal audit function was not established, audit committee (or supervisory board if it is fulfilling audit committee function) makes assessment every year whether it is necessary to establish such function.*

The principle III.Z.6 does not apply.

Comment: In organizational structure of the Bank internal audit function was established and Audit Committee was also appointed.

General shareholders' meeting and shareholders relations

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.

Comment: 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.

Comment: 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.

Comment: 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.

IV.Z.7. *Break during general shareholders' meeting may occur only due to special circumstances, each time reflected in reasoning for resolution on break, prepared based on reasons described by the shareholder filing for break.*

Bank applies principle IV.Z.7 with comment

Comment: In 2016 the break in General Shareholders' Meeting was announced once. Break in General Shareholders' Meeting on 9 June 2016 was caused by motion filed by shareholder BNP Paribas SA.

Conflict of interest and related parties transactions

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 with comment.

Comment: 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.

14. INFORMATION ON 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 22 in Warsaw (00-133), 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

PLN '000 (inclusive of VAT)	Year ended 31 December 2016	Year ended 31 December 2015
Statutory audit/review of financial statements	996	903
Other assurance services	423	597
Tax services	75	506
Other services	50	52
Total	1 544	2 058

15. CORPORATE SOCIAL RESPONSIBILITY (CSR)

A responsible bank in the changing world

By executing statutory activities and business targets, aware of influence on environment, we are including in our business strategy social, ethical and ecological aspects of our operations. 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 almost 60 business entities.

Ethical responsibility

In the Bank we follow 11 principles of Employees' Code of Conduct. We promote and raise our employees' ethical awareness using trainings. 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 14,000 social entities.

Within loyalty program mamBONUS, Bank's clients may support operations of BGŻ BNP Paribas Foundation. During finance transactions made by credit cards clients are gathering points which may be exchanged for different discounts/prizes or vouchers supporting participants of scholarship program "Klasa", executed by the Foundation. During the international Central European Electronic Card 2016 conference, the Bank obtained award for "Best loyalty card in Poland in 2016".

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.

Diversity

One of key values of the Bank, recorded in Management Rules and corporate social responsibility strategy, is to promote openness and respect for diversity. Diversity refers to many areas of the Bank's operations and concerns employees, shareholders, clients and activities resulting from local conditions, including culture diversity. We believe that in organization where diversity is respected and promoted, risk of discrimination is minimized, high level of cooperation is maintained, creativity is enhanced which results in achieved results. We promote diversity aspects within projects such as: Woman in Business, Diversity & Inclusion Week – Job Shadowing, Professional Mobility Days, Standards of disabled persons service, as well as different sectors initiatives, i.e. SheXO or monitoring program for women in IT area carried out by Vital Voices Foundation.

We have signed Diversity Card, introduced Diversity Policy and Diversity Management Rules. Diversity Officer is responsible for execution of purposes resulting from guidelines within diversity management

BNP Paribas Group is signatory of ILO Global Business & Disability Network Charter.

Employer branding initiatives

In 2016, 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, with detailed analysis and discussion of results with executive directors and employees.

Additionally, the Bank conducted two 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.

Additional information about working climate in all areas of the Bank was provided thanks to analysis of leadership style and organizational climate for executive directors.

Results of above mentioned surveys initiated numerous activities aimed to increase level of involvement, satisfaction and motivation of employees.

Additionally, due to best practices applied in human resources, internal communication and CSR management processes, Bank BGŻ BNP Paribas was awarded again as Top Employer Polska 2016, thus making effort in obtaining Top Employer Europe 2016 certificate for BNP Paribas group.

In 2016, the Bank took place in career fairs in Warszawa, Kraków, Katowice, Wrocław, Poznań, Szczecin, Gdańsk and Łódź. These events aimed to promote job and internship offers among students and graduates.

Simultaneously, the Bank became partner for conference organized by Business Center Club and Warsaw School of Economics Banking Academic Society – Banking Summit – Finance Intelligence during which our employee gave a lecture on: *Does the modern banking reflects firm needs which, in order to be competitive on dynamic innovative global market, have to efficiently manage its working capital?*

Additionally, for employer branding purposes, the Bank's profile was available on such websites as Goldenline and LinkedIn.

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. Aim of the program is to increase local society's life quality and enhancing Bank's position as trustworthy local partner. Frequently, such relationships turn into long-term cooperation between the Bank and a local organization. Our employees are making grants for selected society organizations which are actively operating to change society. In the 6th edition of the Program and grants of PLN 1,000 to PLN 5,000 were awarded to 31 local projects.

BGŻ BNP Paribas Foundation Programs

The Foundation from 2006 is involved in socially responsible projects in such fields as education, culture or social solidarity. Those activities are social investments with aim to solve important local problems and to support development of civil society. Within its statutory goals, the Foundation carries out its own programs and supports selected projects and organizations which are playing important role in building and maintaining civil society.

Class – Own Scholarship Program

The *Class* scholarship program is the most important initiative launched by the BGŻ BNP Paribas Foundation itself. 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. Warszawa, Wrocław, Krakow, Gdynia and Szczecin. Since 2003, close to 600 junior high school graduates have received grants totaling PLN 18,5 million. In 2016 the Foundation started XIV edition of *Class*, accepting to the Program 40 new scholarship students.

Agro-talents

Since 2011 the Foundation carries out second scholarship program – Agro-talents. 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. 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. Since 2011 227 ambitious young farmer talents have received support within Agro-talents program. In 2016, the Foundation awarded grants to 50 pupils and students as part of the 5th edition of the Program.

Dream Up Educational Program

Since 2015, the Foundation carries out 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 and Towarzystwo Przyjaciół Dzieci (TPD). Its scope includes music education, including regular instrument classes for the most interested and motivated participants. Due to musical activity combined with educational classes, almost 100 children in TPD's charge are taught respect for one another, develop their creativity and cultural competence, shape their personality and foster 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.

English Club

English Club project is a result of multisector partnership: involvement of JMP Flowers, Bank BGŻ BNP Paribas client, local society organization – "Towarzystwo Przyjaciół Steżycy" and BGŻ BNP Paribas Foundation into development of education in local society. In order to meet local society needs, English lessons were organized for secondary school pupils. The purpose of this initiative was to equal educational changes of young people by enabling them to learn necessary language competencies. During the school year 26 pupils participate in e-learning classes supported by traditional classes and trips. Particular emphasis is put on developing practical language and communication skills. Most motivated participants have chance to take part in summer language camp.

Meeting with music

Since 2011, 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 seven 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 2015/2016, 1,619 concerts were performed in schools across Poland, attended by 319,276 listeners.

Szalone Dni Muzyki Festival

In line with the idea of promotion of culture, the BGŻ BNP Paribas Foundation lent for second time its patronage to the Szalone Dni Muzyki Festival organized by the Sinfonia Varsovia Orchestra in Warsaw between 23 and 25 September 2016 and entitled Nature. It was the seventh Polish edition of the international La Folle Journee Festival popularizing classical music around the world. Due to low ticket prices and various concert program, over 38 000 people took part in concerts. The event received the financial support of the BNP Paribas Foundation in France.

Volunteerism 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 2016:

- 40 volunteers taught 101 classes as part of the **BAKCYL** Program, an initiative launched by the Warsaw Institute of Banking, as part of which the employees of 37 banks (including Bank BGŻ BNP Paribas) act as volunteer trainers and teach finance classes addressed to junior high school students;
- In second edition of **Dobre Kilometry** initiative, employees covered over 20,000 kilometers in one month by various activities like jogging, bike riding, swimming activity. Each kilometer was translated into Polish zlotys to be spent on a charitable purpose of the participants' choice which is "Klinika Budzik" Fundacji Akogo?;
- 111 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. 30 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;
- 150 employees from Head Office and branches registered in marrow donors base of Fundacja DKMS during coordinated by the Foundation three-day event **Marrow Donor Days**;
- Final 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 carried out by 79 volunteers and addressed to more than 2,000 beneficiaries. 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 340 employees have carried out their own volunteer projects (71) in liaison with local NGOs.

Membership of BGŻ BNP Paribas Foundation in coalitions and partnerships

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 2016 the Foundation took part in "Działamy dla zmiany" project.

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.

Partnership in „Pomostowy” Scholarship Program (Fundacja Edukacyjna Przedsiębiorczości).

Chapter of Młody Ekonomista competition (Towarzystwo Ekonomistów Polskich).

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

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.

E-waste

We are regularly conducting collection of e-waste. Since 2011 we have collected over 12 tons of e-waste.

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 200 employees had blood tests to check their cholesterol or glucose levels; over 70 of them met with diabetic; (iii) over 100 employees from Krakow and Warsaw took a relaxing break with professional instructors. We have also carried out workshops on helping people with disabilities. At the same time, a number of quizzes, contests and pieces of advice were available on the Intranet.

Responsible planning of business trips

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

BGŻ BNP Paribas as most responsible bank in Poland

Bank BGŻ BNP Paribas took first place in Responsible Companies Ranking in the category banking, insurance and finance. Ranking is published by Dziennik Gazeta Prawna, and substantive partners are Forum Odpowiedzialnego Biznesu and Deloitte.

Srebrny listek CSR award

Bank BGŻ BNP Paribas received for second time Srebrny Listek CRS POLITYKI, awarded by editorial office of weekly magazine POLITYKA and Deloitte to most responsible firms socially involved and responsible.

Top Employer

The Bank BGŻ BNP Paribas received title Top Employer Polska 2016 for HR policy being in line with market best practices.

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

Partner of Nienieodpowiedzialni conference

The main aim of conference organized within the project NIENIEODPOWIEDZIALNI is to draw finance sector's attention on its modern challenges, including need to reevaluate its market practices, new look on finance sector and need to create responsible society behaviors, aimed to build relationships based on trust and credibility.

Partner of „Etyka w finansach” contest organized by ZBP

Etyka w finansach contest's aim is to encourage to think about ethics in finance of professionals and academic environment. The contest gives young employees, students and scientists chance to share their passion to work as well as ideas how to improve system. Basic requirement of competition essay is to present innovative proposition of changes aimed to protect or use ethics value in finance world.

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.

Partner of project „SDGs w praktyce. Przewodnik dla firm”

The guide contains hints and good practices related to execution of Sustainable Development Goals by the companies, announced by UN. It is a guide for companies in Poland of how to translate global sustainable development goals into local business strategies and CSR with particular emphasis on sector specifics in which the companies are operating.

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 methodology.

16. SPONSORSHIPS 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 2016 the Bank was organizer of regional events under name: *Dzieciaki do rakiet*. This project aimed to increase the popularity of this discipline by local events for youngest children as well as families not interested with tennis up to this time. The purpose of this project was also to change of perception of tennis as elite sport and available to selected ones. Thanks to these events, relationships with local authorities and society were made. Meetings took place in: Warsaw, Ciechanów, Bydgoszcz, Legnica, Zamość, Gorzów Wielkopolski, Tarnów, Piotrków Trybunalski, Płock and Kalisz.

In addition, in 2016 the Bank was a sponsor of local tournaments such as:

- Tennis tournament BGŻ BNP Paribas Cup in Toruń,
- Solecki Tennis Day,
- Tennis tournament Solec Open,
- First Tennis Tournament „Gwiazdy Nocą” in Wrocław,
- Tennis tournament of Białkopodlaskiej Amatorskiej Ligi Tenisa Ziarnego in Biała Podlaska,
- XIV Memorial of Bogdan Gajewski in Stalowa Wola,
- XI Rotarian Memorial of Tadeusz Sowiński in Olsztyn.

Additionally, the Bank was involved in organization of Fed Cup by BNP Paribas and Davis Cup by BNP Paribas tennis matches taking place in Poland but sponsored by BNP Paribas Group. They took place in Gdańsk and Inowrocław.

Within sponsoring activities of program *“We Love Cinema”* in 2016 the Bank:

- become partner of Star Festival in Międzyzdroje and
- organized Movie Child Day in Pediatric Hospital in Warsaw.

Charity policy

The Bank undertakes philanthropic activities and socially responsible initiatives, mainly through the BGŻ BNP Paribas Foundation. The Foundation's priorities are educational activities - supporting access to education to young people running the risk of exclusion and social solidarity - 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.

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

In accordance with approved strategy of BNP Paribas Group development, in order to integrate services provided on the Polish market, three banks were merged in last two years: Bank BGŻ – leader in agri-food segment on the Polish market with nearly 100-years tradition, BNP Paribas Bank Polska – bank with extensive experience in servicing large companies and international firms and Sygma Bank Polska – one of leaders on consumer loans market, specializing in active support of retail chains by providing of finance services, credit cards, instalment loans and cash loans.

Merger of three supplementary organizations allowed to create financial institution with aspirations to become 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 reached 5% on loan market and exceeds 4.6% on deposits market. As of end of September 2016, the Bank was the sixth largest banking group in Poland in terms of asset value.

In April 2016, the Management Board approved updated development Strategy of the Bank for years 2016-2018. Assuming steady growth of Polish economy, the Strategy assumes achieving following goals within 2018 perspective:

- Share in loans and deposits market of over 5%;
- Increase of effectiveness which will result both from cost synergies due to integration of the Banks as well as from increase in revenues;
- Increase of result from banking activities measured by CAGR by 14% between 2015 and 2018 through implementation of new initiatives in all business lines;
- Decrease of cost to income ration from 74% in 2015 (without integration costs) to ca. 55% in 2018;
- Increase of return on equity (ROE) to ca. 10%.

Bank intends to base its development on 4 pillars:

- **focus on client** – being close to clients due to branch network, particularly in small and medium cities. Focus on specified client groups from retail banking and selected sectors and industries of corporate and SME clients. Reinforcement of leader in agri-food sector;
- **corporate clients support** in their foreign expansion due to use of potential of BNP Paribas Group presence in 74 countries all over the world;
- **transformation** of universal bank into integrated bank increasing cross-selling, having ability to service each aspect of activities, both in respect of particular clients and selected industries;
- **development of electronic and mobile banking** enabling competition with best banks on the market.

Completion of operational integration of merged institutions constitutes base to efficiently realize the strategy. Within area of client service the Bank is operating under one brand – BGŻ BNP Paribas, however only full operational merger, including migration of all clients to one system and standardization of extended product offer, will close the integration process, enabling the Group to execute its strategic targets. Migration of client data of BGŻ S.A. and BNP Paribas Polska S.A. to one common IT system performed on 11 November 2016 was the most important step finishing operational merger of those two institutions (migration of Sygma Bank Polska clients' data is planned on 2017).

Synergy effects resulting from merger of BGŻ and BNPP Polska are estimated in 2017 to be at level of PLN 350 million (including PLN 258 million of cost synergies), whereas total restructuring costs amounted to ca. PLN 440 million over 3 years. Simultaneously, the Bank is planning to reach in 2018 synergy effect connected with merger of BGŻ BNPP with Sygma Bank Polska amounting to PLN 86 million (including PLN 31 million of cost synergies).

Efficient clients' data migration execution and operational merger closure enabled the Group to move to next phase of its development on the Polish market. The ability to work on the same systems, with standardized offer and standardized processes, allows to optimize expenditures and focus available resources on business and banking activities development. In 2017, the Group plans to focus particularly on development and modernization of its solutions within internet and banking area as well as verification and modernization of organizational processes.

Optimization of the range of products offered and elimination of redundant distribution chain links will contribute to increased profitability and enable the Bank to expand its operations onto new areas and new customers, leading to sustainable growth of the company. This will be supported by efficient knowledge management as well as effective use of the synergies and diversity brought by the employees of the BNP Paribas Group.

In accordance with the adopted Strategy, the Bank will continue to expand its presence and increase its share in all major areas of its activities. Reinforcing the current leading position in the agri-food sector 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 Group in 2017.

Based on completed operational merger of BGŻ and BNP Paribas Bank Polska and planned closure of operational merger with Sygma Bank Polska, in 2017 the Group plans to focus on using cross-selling possibilities and increase of number of products of to current clients and gaining new clients. It will concern both individual clients (consumer finance loans, current account, investment funds) and SME (increase of clients' transactions number). In case of corporate clients, the Bank sees the opportunity in better use of capabilities of international cooperation, factoring and leasing services.

Whilst describing prospects and possibilities of the Group development it is worth highlighting how important factor, from the view of strategy execution, was incorporation in May 2016 of Sygma Bank Polska in the structures of Bank BGZ BNP Paribas S.A. The merger resulted in increased Bank's offer on "consumer finance" market. Integrated "consumer finance" product offer (instalment loans, cash loans, car loans, credit cards and partnership and loyalty programs) enables comprehensive clients service in this area, thus increasing scale of bank's operations and strengthening competitive position of the Bank. Share of BGŻ BNP Paribas in credit cards market increased as a result of merger to 11%.

Ex-Sygma Bank Polska client obtained access to increase pool of banking products as well as to distribution network of BGŻ BNP Paribas. On the other side, the Bank gained possibility to use within its sales network 132 Points of Customer Service of ex-Sygma Bank Polska.

Due to the merger, by achieving expected synergy effects resulting from complementarity, increased activities scale and improvement of processes, the Bank is expecting improvement of main operational ratios and increase of finance effectiveness. From one side, achievement of above mentioned benefits is dependent upon internal factors, i.e. ability to achieve expected operational integration process effects, on the other side it is also dependent upon external factors, including mainly economic business cycle as well as regulatory conditions.

The market sees the opportunity in decreased uncertainty level both in Poland and in international market after end of elections in the US, referendum in Great Britain as well as changes in legal and economic environment in Poland. It should be favorable to economic activity and as result to demand for services provided by the banking sector. The end of deflation period and increase of long-term interest rates is perceived also as favorable factor, which, along with low short-term interest rates, will result in increased effectiveness of the banking sector.

Unfortunately, although many of unfavorable for banking sector events are partially behind us, their effects will impact profitability all over the time (e.g. banking tax). The issue of FX portfolio is still uncertain and it impacts not only the banks but also the whole economy. The unknown factor (so considered as opportunity as well as threat) is the issue of dynamics of investments increase in Poland, highly dependent from absorption capabilities of the EU funds. The US new economy policy, geopolitical situation on Middle East are still treated as uncertain factors, additionally atmosphere may be deteriorated by political calendar in Europe connected with elections in France, Netherlands and Germany. In some Eurozone countries there is also uncertainty about condition of banking sector related to deteriorated credit quality.

Due to the challenges faced by finance sector, in response to external factors and new regulatory requirements, one of strategic priorities of the Group is to actively manage its capital, ensuring sustainable and profitable growth whilst maintaining cautious risk profile.

18. MAJOR EVENTS AFTER THE END OF THE REPORTING PERIOD

10.03.2017 **Polish Financial Supervision Authority individual recommendation on the dividend for 2016 and recommendation of the Bank Management Board on non-payment of 2016 dividend.**

The Management Board of Bank BGŻ BNP Paribas S.A. informed that it has received a letter from the Polish Financial Supervision Authority with an individual recommendation that the Bank's own funds be increased by retaining the entire profit earned by the Bank between 1 January 2016 and 31 December 2016.

Therefore, the Bank Management Board on 10 March 2017 decided to recommend the General Meeting to pass a resolution on the allocation of the entire 2016 net profit for the Bank's own funds.

In current report no. 36/2016 dated 30 November 2016, the Bank's Management Board informed that it did not intend to recommend any dividend payment from the 2016 net profit.

19. REPRESENTATIONS OF THE MANAGEMENT BOARD OF BANK BGŻ BNP PARIBAS S.A.

Fairness and reliability of the presented financial statements

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

- the Consolidated Financial Statements of Bank BGŻ BNP Paribas S.A. Group for the year ended 31 December 2016 and the comparative data have been prepared in conformity with the applicable accounting principles and they reflect, truly, fairly and clearly, the economic and financial position of the Group 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. Group for 2016 gives a true view of the development and achievements as well as the capital position of the Group, 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 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 2016 and 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.

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

14.03.2017	Tomasz Bogus <i>President of the Management Board</i>	signature
14.03.2017	Daniel Astraud <i>Vice-President of the Management Board</i>	signature
14.03.2017	François Benaroya <i>Vice-President of the Management Board</i>	signature
14.03.2017	Philippe Paul Bézieau <i>Vice-President of the Management Board</i>	signature
14.03.2017	Blagoy Bochev <i>Vice-President of the Management Board</i>	signature
14.03.2017	Jan Bujak <i>Vice-President of the Management Board</i>	signature
14.03.2017	Wojciech Kemblowski <i>Vice-President of the Management Board</i>	signature
14.03.2017	Magdalena Legęć <i>Vice-President of the Management Board</i>	signature
14.03.2017	Jaromir Pelczarski <i>Vice-President of the Management Board</i>	signature
14.03.2017	Jerzy Śledziewski <i>Vice-President of the Management Board</i>	signature
14.03.2017	Bartosz Urbaniak <i>Member of the Management Board</i>	signature