

**BANK BGŻ BNP PARIBAS S.A.  
WARSAW, KASPRZAKA 10/16**

**FINANCIAL STATEMENTS  
FOR THE 2016 FINANCIAL YEAR**

**WITH  
AUDITOR'S OPINION  
AND  
AUDIT REPORT**

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**FINANCIAL STATEMENTS OF THE BANK FOR THE 2016 FINANCIAL YEAR**

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**REPORT ON THE ACTIVITIES OF THE BANK FOR THE 2016 FINANCIAL YEAR**

## AUDITOR'S OPINION

### To the Shareholders and Supervisory Board of Bank BGŻ BNP Paribas S.A.

#### *Auditor's report*

We have audited the attached financial statements of Bank BGŻ BNP Paribas S.A. (hereinafter: the "Bank") with its registered office in Warsaw at Kasprzaka 10/16, including income statement and statement of comprehensive income from 1 January 2016 to 31 December 2016, statement of financial position prepared as at 31 December 2016, statement of changes in equity, statement of cash flows for the financial year from 1 January 2016 to 31 December 2016 and notes comprising a summary of significant accounting policies and other explanatory information.

#### *Responsibility of the Bank's manager and persons supervising the preparation of the financial statements*

The Management Board of the Bank is responsible for the preparation of the financial statements, based on properly kept accounting records, and their fair presentation in accordance with the International Accounting Standards, International Financial Reporting Standards, related interpretations published as European Commission regulations and applicable laws. It is also obliged to ensure internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Under the Accounting Act of 29 September 1994 (Journal of Laws of 2016 item 1047 as amended), hereinafter referred to as the "Accounting Act" the Management Board of the Bank and members of its Supervisory Board are obliged to ensure that the financial statements meet the requirements of the Accounting Act.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit works.

We conducted our audit in accordance with Section 7 of the Accounting Act and the National Auditing Standards in line with the wording of the International Standards on Auditing adopted by Resolution No. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015 as amended. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board of the Bank, evaluating if accounting books based on which financial statements are prepared, are properly kept, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion on the financial statements*

In our opinion, the attached financial statements:

- give a true and fair view of the economic and financial position of the Bank BGŹ BNP Paribas S.A. as at 31 December 2016 and its financial performance for the financial year from 1 January 2016 to 31 December 2016 in accordance with the International Accounting Standards, International Financial Reporting Standards, related interpretations published as European Commission regulations and the adopted accounting principles (policies),
- have been prepared based on properly kept accounting books,
- comply, with respect to their form and content, with the applicable provisions of law and the articles of association of the Bank.

### **Report on other legal and regulatory requirements**

#### *Opinion on the report on the activities*

We do not express an opinion on the report on the activities.

It is the responsibility of the Management Board of the Bank to prepare the report on the activities in accordance with the Accounting Act and other applicable laws. Moreover, the Management Board of the Bank and members of the Supervisory Board are obliged to ensure that the financial statements and the report on the activities meet the requirements of the Accounting Act.

When auditing the financial statements we were obliged to examine the report on the activities and indicate whether the information contained therein complies with Article 49 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133 as amended) and is consistent with underlying information disclosed in the attached financial statements. Additionally, according to the Article 111a paragraph 3 of the Banking Law (Journal of Laws of 2016 item 1988 as amended, "Banking Law") our responsibility was to audit financial information presented in specific paragraphs of the Report on the activities. The audit was performed in accordance with the scope presented in the paragraph Auditor's responsibility. Additionally, it was our responsibility to indicate whether we have detected any material misstatement in the report on the activities based on our knowledge of the Bank and its business environment obtained in the course of the audit.

In our opinion, the information contained in the report on the activities complies with Article 49 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133 as amended) and is consistent with underlying information disclosed in the attached financial statements. Moreover, based on our knowledge of the Bank and its business environment obtained in the course of the audit, we have not detected any material misstatements in the report on the activities. Additionally, information presented in the specific paragraphs of the Report on the activities are compliant with the requirements of the Article 111a, paragraph 1 and 2 of the Banking Law.

*Statement of compliance with corporate governance principles*

In relation to our audit of the financial statements of the Bank BGŻ BNP Paribas S.A., it was our responsibility to examine the Bank's statement of compliance with corporate governance principles, which constitutes a separate part of the report on the activities. In our opinion, the Bank's statement provides all information required by the secondary legislation issued under Article 60.2 of the Act on public offering, conditions governing the introduction of financial instruments to organized trading, and public companies of 29 July 2005 (Journal of Laws of 2016 item 1639 as amended) and regulations issued under Article 61 thereof. The information is compliant with the applicable laws and information presented in the financial statements.

Dariusz Szkaradek  
Key certified auditor  
conducting the audit  
No. 9935

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Dariusz Szkaradek – Vice-President of the Management Board of Deloitte Polska Sp. z o.o. – which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 14 March 2017

**The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.**

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS  
OF BANK BGŻ BNP PARIBAS S.A. FOR THE 2016 FINANCIAL YEAR**

**I. GENERAL INFORMATION**

**1. Details of the audited Bank**

The Company operates under the business name Bank BGŻ BNP Paribas S.A. (hereinafter: the "Bank"). The Bank's registered office is located in Warsaw at Kasprzaka 10/16.

The Bank operates as a joint stock company. The Bank is recorded in the Register of Entrepreneurs kept by the District Court in XII Commercial Division of National Court Register under KRS number 0000011571.

The Bank operates based on the provisions of the Code of Commercial Companies and Banking Law.

As of 31 December 2016, the Bank's share capital equaled PLN 84,238 thousand and was divided into 84,238,318 shares with a face value of PLN 1 each.

In the audited period, the Bank conducted activities mainly in the area of accepting cash as demand deposits or term deposits and keeping deposit accounts as well as granting credits and loans.

Composition of the Management Board as of the date of the opinion:

- |                         |   |
|-------------------------|---|
| - Tomasz Bogus          | - Chairman 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 Legęć       | - 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 composition of the Management Board during the audited period and until the date of the opinion:

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

## **2. Information on the financial statements for the previous financial year**

The activities of the Bank in 2015 resulted in a net profit of PLN 8,263 thousand. The financial statements of the Bank for the 2015 financial year were audited by a certified auditor. The audit was performed by authorized entity Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. The certified auditor issued an unqualified opinion on those financial statements.

The General Shareholders' Meeting which approved the financial statements for the 2015 financial year was held on 30 June 2016. The General Shareholders' Meeting decided to distribute the net profit for 2015 in the fund for general banking risk.

The financial statements for the 2015 financial year were submitted to the National Court Register (KRS) on 18 July 2016.

The consolidated financial statements for the 2015 financial year were submitted to the National Court Register (KRS) on 18 July 2016.

## **3. Details of the authorized entity and the key certified auditor acting on its behalf**

The entity authorized to audit the financial statements was appointed by the Supervisory Board. The audit of the financial statements was performed based on the agreement of 12 June 2015 concluded between the Bank and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with registered office in Warsaw, al. Jana Pawła II 22, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of the financial statements was conducted under the supervision of Dariusz Szkaradek, key certified auditor (No. 9935), in the registered office of the Bank, in its branches, as well as outside the Bank from 2 November 2016 until the opinion date.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor conducting the audit confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the Act on certified auditors and their self-government, entities authorized to audit financial statements and public supervision (Journal of Laws of 2016 item 1000 as amended) to express an unbiased and independent opinion on the financial statements of the Bank.

## **4. Availability of data and management's representations**

The scope of our audit was not limited.

During the audit, necessary documents and data as well as detailed information and explanations were provided to the authorized entity and the key certified auditor, as confirmed e.g. in the written representation of the Management Board of 14 March 2017.

**II. ECONOMIC AND FINANCIAL POSITION OF THE BANK**

Presented below are the main items from the income statement, statement of comprehensive income and statement of financial position as well as financial ratios describing the financial performance of the Bank and its economic and financial position compared to the prior year.

<u>Main items from the income statement and comprehensive income statement (PLN `000)</u>	<u>2016</u>	<u>2015</u>
Net interest income	1,762,532	1,405,762
Net fee and commission income	441,633	407,241
Dividend income	14,561	6,837
Net trading income	253,845	184,346
Result on investment activities	28,761	47,390
Net impairment losses on financial assets and contingent liabilities	(385,930)	(304,220)
Other operating income	107,021	56,862
Other operating expenses	(116,028)	(91,053)
Income tax expense	(84,961)	(17,013)
Net profit for the period	49,388	8,263
Total comprehensive income for the period	(148,771)	(50,615)
<u>Main items from the statement of financial position (PLN `000)</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
Total assets	70,381,933	63,009,129
Cash and balances with the Central Bank	1,302,847	2,826,407
Loans and advances to banks	1,225,912	544,012
Loans and advances to customers	53,179,717	49,831,458
Hedging instruments (assets)	18,671	2,711
Derivative financial instruments	324,005	368,138
Available for sale financial assets	12,497,233	7,762,677
Investments in subsidiaries	70,828	248,848
Intangible assets	244,571	250,691
Property, plant and equipment	545,480	528,230
Deferred tax assets	522,392	428,931
Other assets	450,277	217,026
Amounts due to banks	5,291,459	7,617,946
Derivative financial instruments	271,757	351,539
Amounts due to customers	55,297,324	46,620,848
Subordinated liabilities	1,768,458	847,568
Debt securities issued	397,909	468,933
Current tax liabilities	4,593	37,547
Provisions	116,394	143,804
Other liabilities	1,116,905	756,161
Total equity, including:	6,121,214	6,163,178
Share capital	84,238	84,238
<u>Ratio analysis</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
Return on equity ratio (ROE)	0.80%	0.16%
Return on assets ratio (ROA)	0.07%	0.02%
Cost to income ratio	72.93%	84.37%
Capital ratio	14.94%	13.78%
Equity ratio	8.70%	9.78%



An analysis of the above figures and ratios indicated the following trends in 2016:

- return on equity ratio (ROE) calculated as a relation of net profit for the period to equity estimated as an average of the balances as at 31.12.2015 and at 31.12.2016 increased as at the end of 2016 and amounted to 0.80% in comparison to 0.16% as at the end of 2015;
- return on assets ratio (ROA) calculated as a relation of net profit for the period to total assets estimated as an average of the balances as at 31.12.2015 and 31.12.2016 increased as at the end of 2016 and amounted to 0.07% in comparison to 0.02% as at the end of 2015;
- cost to income ratio calculated as a relation of total costs estimated as a sum of administrative expenses, depreciation and amortization, impairment allowances of property plant and equipment and intangible assets less refund of administrative expenses to total income estimated as sum of net interest in, net fee and commission income, dividend income, result on financial assets and liabilities held for trading, result on fair value hedge accounting, gains (losses) on disposal and other operating income (less refund of administrative expenses) decreased from 84.37% for 2015 to 72.93% for 2016;
- capital ratio calculated in accordance with the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investments firms as at the end of 2016 amounted to 14.94% in comparison to 13.78% as at the end of 2015;
- equity ratio calculated as a relation of total equity to the sum of total equity and total liabilities decreased as at the end of 2016 and amounted to 8.70% in comparison to 9.78% at the end of 2015.

#### *Application of prudence principles*

During our audit we have not identified significant discrepancies indicating lack of application in 2016 of prudence principles determined by Polish Law, resolutions of Management of National Bank of Poland and resolutions of Polish Financial Supervision Authority.

#### *Capital ratio*

During our audit we have not identified significant discrepancies in the area of calculation of capital ratio as at 31 December 2016 in accordance with the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investments firms.

### **III. DETAILED INFORMATION**

#### **1. Evaluation of the accounting system**

The Bank has valid documentation describing the adopted accounting principles, complying in all material respects with Article 10 of the Accounting Act. The principles have been applied consistently and did not change compared to the principles applied in the prior year. The opening balance resulting from the approved financial statements for the prior financial year has been properly introduced into the accounting records of the audited period.

Based on tests performed during the audit procedures, we have verified the adopted accounting system and found no misstatements that would affect the financial statements. Our audit did not include, though, the entire accounting system used by the Bank.

The Bank performed a physical count of assets, equity and liabilities within the scope necessary to confirm the existence of the presented assets, equity and liabilities.

#### **2. Information identifying the audited financial statements**

The audited financial statements were prepared as of 31 December 2016 and include:

- statement of financial position prepared as of 31 December 2016, with total assets and liabilities plus equity of PLN 70,381,933 thousand;
- income statement for the period from 1 January 2016 to 31 December 2016, with a net profit of PLN 49,388 thousand;
- statement of comprehensive income for the period from 1 January 2016 to 31 December 2016 with a total negative comprehensive income of PLN 148,771 thousand;
- statement of changes in equity for the period from 1 January 2016 to 31 December 2016, disclosing an increase in equity of PLN 41,964 thousand;
- statement of cash flows for the period from 1 January 2016 to 31 December 2016, showing a cash outflow of PLN 800,138 thousand;
- notes, comprising a summary of significant accounting policies and other explanatory information.

#### **3. Information about selected material items of the financial statements**

The structure of assets, equity and liabilities as well as items affecting the financial result have been presented in the financial statements.

##### Financial assets and liabilities

The bank classifies its financial instruments into the following categories:

- financial assets or financial liabilities measured at fair value through profit or loss;
- loans and receivables;
- financial assets held to maturity;
- available-for-sale financial assets;
- other financial liabilities.

The structure by terms and types of financial assets and liabilities has been presented in details in the respective explanatory notes to the statement of financial position.

Structure of loans and advances from banks and customers

The structure by terms and types of loans and advances from banks and customers has been presented details in the respective explanatory notes to the statement of financial position.

In Bank BGŻ BNP Paribas S.A. impairment allowances are recognized in accordance with the IAS/IFRS. The allowances reflect impairment, which is recognized if the Bank has objective evidence that the receivables cannot be recovered in line with the signed loan agreement. Objective evidences of impairment were defined in accordance with recommendation of Basel Committee and with the International Accounting Standards (IAS 39).

The impairment allowance is calculated based on the estimated recoverable amount. Impairment is analyzed using both the individual (for individually significant impaired exposures) and collective approach (individually insignificant exposures with impairment, and exposures with incurred but not reported losses).

The Bank systematically on an annual basis compares the assumptions and parameters used for loss calculations with the actual situation, including loss identification period. The comparison takes into account changes of economic conditions, amendments to Bank's credit policies and loans collection process. The process provides assurance that the level of impairment allowances is adequate. Credit Committee of the Bank is responsible for adequate level of impairment allowance.

The disclosures regarding management of credit risk and exposure to credit risk were presented in explanatory notes to the financial statements.

Structure of deposits from banks and customers

The structure by terms and types of deposits from banks and customers has been presented details in the respective explanatory notes to the financial statements.

Accrued income and expense

The explanatory notes describe the structure of accrued income and expense.

Significant accrued income and expense were properly included in the financial year. The items have been recognized correctly in all material respects in relation to the financial statements as a whole.

**4. Completeness and correctness of notes and explanations and the report on the activities of the Bank**

The Bank confirmed the validity of the going concern principle in the preparation of the financial statements. The notes and explanations give a correct and complete description of measurement principles regarding assets, equity, liabilities, financial result and principles of preparation of the financial statements.

The notes to the financial statements give a correct and complete description of the reporting items and clearly present other information required under IFRS.

The financial statements have been supplemented with the Management Board's report on the activities of the Bank in the 2016 financial year. The report contains information required under Article 49.2 of the Accounting Act, Article 111a paragraph 1 and 2 of the Banking Law (Journal of Laws of 2016 item 1988 as amended, "Banking Law") and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133 as amended). In accordance with the Article 111a,

paragraph 3 of the Banking Law, we have audited the report with respect to the disclosed information derived directly from the audited financial statements and with respect to the information required under Article 111a paragraph 2 of the Banking Law we have audited correctness and compliance with the mentioned above regulations.

#### **IV. FINAL NOTES**

##### Management Board's Representations

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor received a representation letter from the Bank's Management Board, in which the Board stated that the Bank complied with the laws in force.

Dariusz Szkaradek  
Key certified auditor  
conducting the audit  
No. 9935

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Dariusz Szkaradek – Vice-President of the Management Board of Deloitte Polska Sp. z o.o. – which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 14 March 2017