

Report

on the approval of the Appraisal Report of the Supervisory Board on the Financial Statements of BGŻ BNP Paribas S.A. including the Brokerage House, Management Board Report on the Bank's activity, including the Brokerage Office, the Consolidated Financial Statements of the Capital Group of BGŻ BNP Paribas S.A., and of the Management Board Report on the activity of the Capital Group of BGŻ BNP Paribas S.A for the fiscal year from 1st January 2015 to 31st December 2015, and on the motion of the Management Board on the distribution of profit for the fiscal year 2015 together with the assessment of adequacy and effectiveness of the internal control system in the Bank



BGŻ BNP PARIBAS

Bank zmieniającego się świata

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Financial statements of the Bank and the activity report of the Management Board of the Bank

Pursuant to Article 382 §3 of the Code of Commercial Companies and § 20 paragraph 1 item 2) letter a), of the Articles of Association the Supervisory Board of Bank BGŻ BNP Paribas S.A. conducted an assessment of the financial statements of the Bank for the year ended 31 December 2015, the Management Board Report on the activities of Bank BGŻ BNP Paribas S.A., and the recommendation of the Management Board on the allocation of the profit for the year ended 31 December 2015.

The aforementioned assessment has been made based on:

1. The financial statements covering:
 - profit and loss account for the period from 1 January 2015 to 31 December 2015, showing a net profit of PLN 8 263 thousand,
 - statement of total income for the period from 1 January 2015 to 31 December 2015, showing a total income of PLN - 50 615 thousand,
 - statement of financial position prepared as at 31 December 2015 showing total assets of PLN 63 009 129 thousand,
 - statement of changes in total equity for the period from 1 January 2015 to 31 December 2015, disclosing an increase in equity by PLN 2 011 303 thousand,
 - cash flow statement for the period from 1 January 2015 to 31 December 2015, disclosing a positive net cash in the amount of PLN 1 071 892 thousand; and
 - accounting principles (policies) and additional explanatory notes.
2. Management Board Report on the activities of Bank BGŻ BNP Paribas S.A. in 2015.
3. Motion of the Management Board on the profit distribution for the year ended 31 December 2015.
4. Opinion and report of the independent statutory auditor – Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa. – appointed to audit the financial statements based on the resolution of the Supervisory Board No. 79/2015 of 11 June 2015.

The Supervisory Board states as follows:

Financial Statements

Based on the assessment of the financial statements of Bank BGŻ BNP Paribas S.A. for the year ended 31 December 2015, the Supervisory Board has concluded that these financial statements, in all material aspects, have been prepared:

- in accordance with the International Financial Reporting Standards approved by the European Union;
- based on properly maintained accounting records;
- in accordance with the provisions of the law governing preparation of the financial statements and provisions of the Bank's Articles of Association influencing the form and content of the financial statements;

and give a fair and clear view of all information material for the evaluation of the financial result of business activities for the period from 1 January 2015 to 31 December 2015, as well

as the economic and financial position of Bank BGŻ BNP Paribas S.A. as at 31 December 2015.

Selected financial data and ratios

tPLN	31.12.2015	31.12.2014	Change y/y	
Profit (loss) before tax	25 276	179 376	(154 100)	(85.9%)
Net profit (loss)	8 263	137 730	(129 467)	(94.0%)
Integration costs	(206 354)	(35 258)	(171 095)	485.3%
Net profit for the period except for integration costs	175 410	166 289	9 121	5.5%
Total equity	6 163 178	4 151 875	2 011 303	48.4%
Total Liabilities and Equity	63 009 129	40 484 204	22 524 925	55.6%

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

* Standardized figures except for integration costs

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

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

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

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

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

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

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

Assets

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

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

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

Liabilities

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

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

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

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

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

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

Equity

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

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

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

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

Profit and loss account

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

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

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

Credit portfolio quality

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

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

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

Capital adequacy

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

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

- the legal merger of the banks – an increase in the share capital to PLN 84,238 thousand as a result of the issue of I series merger shares and recognition of the difference between the carrying amount of the net assets of BNPP Polska, which were transferred, and the par value of the shares issued, totaling PLN 2,033,941 thousand, in the Bank's equity;
- a change in recognition of intangible assets in Tier 1 capital, in accordance with the recommendation of the Polish Financial Supervision Authority formulated in its letter of 26 March 2015;
- allocating the net profit of Bank BGŻ for 2014, in the amount of PLN 137,730 thousand, to the general banking risk reserve (PLN 130,000 thousand) and to the Bank's supplementary capital (PLN 7,730 thousand) pursuant to a Resolution of the General Shareholders' Meeting of Bank BGŻ BNP Paribas of 19 June 2015;

- on 23 October 2015, the Management Board of Bank BGŻ BNP Paribas received a recommendation from the Polish Financial Supervision Authority concerning the Bank's maintenance of equity necessary to satisfy an additional capital requirement at the level of 0.71 p.p. in order to hedge the risk resulting from foreign currency mortgage loans granted to households, with Tier 1 capital accounting for at least 75% (i.e. 0.53 p.p.) of such equity.

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

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

Assessment made by the Supervisory Board

After reviewing the financial statements of Bank BGŻ BNP Paribas S.A. for the year ended 31 December 2015 prepared by the Management Board and the independent registered auditor's opinion and report, the Supervisory Board decides to issue a positive opinion on the financial statements of Bank BGŻ BNP Paribas S.A. for the year ended 31 December 2015 and to recommend the Ordinary General Meeting to approve these financial statements.

Management Board Report on the activities of Bank BGŻ BNP Paribas S.A. in 2015

The Supervisory Board concludes that the Management Board Report on activities of Bank BGŻ BNP Paribas S.A. for 2015 contains information consistent with the information included in the financial statements for the year ended 31 December 2015. The Supervisory Board recommends the Ordinary General Meeting of Bank BGŻ BNP Paribas S.A. to approve the Management Board Report on activities of Bank BGŻ BNP Paribas S.A. in 2015 and to grant a vote of acceptance to the Members of the Management Board in respect of their duties.

Recommendation of the Management Board on 2015 profit allocation

The Supervisory Board would like to express a positive opinion on the recommendation of the Management Board to allocate net profit for the period from 1 January 2015 to 31 December 2015 in the amount of PLN 8 262 756.85 to the general banking risk reserve of Bank BGŻ BNP Paribas S.A. After the General Meeting of Bank BGŻ BNP Paribas S.A.'s approval of the proposed allocation of net profit for 2015, the Bank's general banking risk reserve would equal to PLN 506 661 876.80.

Financial statements of the Bank's Capital Group and Report of the Management Board on activity of Bank's Capital Group in 2015

Pursuant 20 paragraph 1 item 2) letter b) of the Articles of Association, the Supervisory Board of Bank BGŻ BNP Paribas S.A. conducted an assessment of the consolidated financial statements of Bank BGŻ BNP Paribas S.A. Capital Group for the year ended 31 December 2015 and the report on the activity of the Capital Group in 2015.

The aforementioned assessment was conducted on the basis of:

1. Consolidated financial statements covering:
 - consolidated profit and loss account for the period from 1 January 2015 to 31 December 2015, showing a net profit of PLN 13 293 thousand,
 - consolidated statement of comprehensive income for the period from 1 January 2015 to 31 December 2015, showing a total income of PLN - 45 588 thousand,
 - consolidated statement of financial situation drawn up as at 31 December 2015, which shows the total assets in the amount of PLN 65 372 338 thousand,
 - consolidated statement of changes in equity for the period from 1 January 2015 to 31 December 2015, showing an increase in equity of PLN 2 112 050 thousand,
 - consolidated cash flow statement for the period from 1 January 2015 to 31 December 2015, disclosing a positive net cash in the amount of PLN 1 081 354 thousand, and
 - accounting principles (policies) and notes to financial statements.
2. Report of the Management Board on the activity of Bank BGŻ BNP Paribas S.A. Capital Group in 2015.
3. Opinion and report of the independent statutory auditor – KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. – selected for the audit of the financial statements based on the resolution of the Supervisory Board No. 79/2015 of 11 June 2015.

The Supervisory Board states as follows:

Consolidated financial statements

As a result of the assessment of consolidated financial statements of Bank BGŻ BNP Paribas S.A. Capital Group for the year ended on 31 December 2015, the Supervisory Board states that the statements in all relevant aspects:

- have been drawn up in accordance with the International Financial Reporting Standards approved by the European Union,
- are compliant with legal provisions regulating the preparation of financial statements, which affect the form and contents of the financial statements,

and reliably and clearly present all information relevant for the assessment of the financial result on the business activity for the period from 1 January 2015 to 31 December 2015, as well as the economic and financial position of Bank BGŻ BNP Paribas S.A. Capital Group as at 31 December 2015.

Selected financial data and ratios

<i>t</i> PLN	31.12.2015	31.12.2014	Change y/y	
Gross profit (loss)	29 692	178 176	(148 484)	(83.3%)
Net profit (loss)	13 856	138 031	(124 738)	(90.4%)
Integration costs	(206 293)	(35 258)	(171 096)	485.3%
Net profit for the period excluding integration costs	180 440	166 590	13 850	8.3%
Total shareholder's equity	6 268 354	4 156 304	2 112 050	50.8%
Total Liabilities and Equity	65 372 338	40 496 575	24 875 763	61.4%

Financial ratios	31.12.2015	31.12.2014	Change y/y
Return on equity ⁽¹⁾	3.4%*	3.6%	4.6%
Return on assets ⁽²⁾	0.3%*	0.4%	0.4%
Net interest margin ⁽³⁾	2.6%	2.9%	2.7%
Cost to Income ⁽⁴⁾	74.2%*	67.8 %	68.0%
Cost of credit risk ⁽⁵⁾	(0.7%)	(1.1%)	(0.9%)
Net loans to Deposits ⁽⁶⁾	118.0%	97.1%	99.3%
Gross loans to Total sources of funding ⁽⁷⁾	98.2%	88.2%	89.2%

* Standardized figures except for integration costs

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

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

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

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

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

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

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

Assets

The balance sheet total of the Group as at the end of December 2015 was PLN 65,372,338 thousand, which denotes a rise by PLN 24,875,763 thousand, i.e. 61.4% as compared to the end of December 2014, mainly as a result of the merger of Bank BGŻ and BNPP Polska and acquisition of 100% of shares in Sygma Bank Polska and 100% of shares in LaSer Services Polska in December 2015.

Loans and advances to customers, which represented 80% of total assets as at the end of December 2015 vs. 73% at the end of 2014, were the key item in the structure of assets. In terms of value, the net loans and advances increased by PLN 22,637,621 thousand, i.e. 76.4%, mainly due to inclusion of the loan portfolio of BNPP Polska, which totaled PLN 18.1 billion as at 30 April 2015.

Liabilities

As at the end of December 2015, the Bank's total liabilities amounted to PLN 59,103,984 thousand and were higher by PLN 22,763,713 thousand, i.e. 62.6%, as compared to the end of 2014.

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

At the end of 2015, customer deposits went up by PLN 13,722,947 thousand, i.e. 41.8% vs. the end of December 2014, to PLN 46,527,391 thousand. They accounted for 79% of total liabilities as compared to 90% at the end of 2014. The volume of liabilities to customers of BNPP Polska, which increased the deposit base of the merged Bank, was PLN 12.4 billion as at 30 April 2015.

Following the merger of the two financial institutions, a rise was recorded in the balance of liabilities to banks to PLN 9,876,892 thousand at the end of 2015, i.e. by PLN 8,330,153 thousand, which was mainly attributable to the merged Bank's takeover of loans and advances obtained by BNPP Polska from the BNP Paribas Group as well as EBRD and EIB, which totaled PLN 6.7 billion as at 30 April 2015.

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

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

Equity

As at the end of December 2015, the Group's equity amounted to PLN 6,268,354 thousand and was higher by PLN 2,112,050 thousand as compared to the end of 2014. The aforesaid change in equity in the analyzed period was mainly the effect of the merger of Bank BGŻ and BNPP Polska and the resulting issue of I series merger shares as well as retaining the profit generated by Bank BGŻ in 2014 in the amount of PLN 137,730 thousand to be allocated to the general risk reserve and the supplementary capital.

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

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

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

Profit and loss account

In 2015, the Capital Group of Bank BGŻ BNP Paribas generated a net profit of PLN 13,293 thousand, i.e. lower by PLN 124,738 thousand (90.4%) year-on-year.

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

The aforementioned negative factors were partially offset by a higher net banking income.

Had the integration cost been eliminated, the net profit for 2015 would have amounted to PLN 180,440 thousand and would have been 8.3% higher than in 2014. However, after the elimination of all additional regulatory burdens in 4Q SK Bank in Wolomin and BSF) profit for the year would amount to PLN 284,429 thousand (+70,7% YoY).

Credit portfolio quality

At the end of December 2015, gross loans and advances to customers amounted to PLN 55,275,643 thousand and went up by PLN 24,213,331 thousand, i.e. 78.0%, which was mainly attributable to inclusion of the loan portfolios of BNPP Polska and the portfolio of consumer loans of Sygma Bank Polska in December 2015.

Loans and advances to enterprises rose by PLN 79.0%, and represent one-third of the gross loan portfolio (both in 2014 and 2015). Loans and advances to households (including individual entrepreneurs and farmers) increased by PLN 13,660,953 thousand, i.e. by 66.1%. Mortgage loans totaling PLN 14,772,641 thousand represent more than a half of loans and advances to households.

The share of impaired exposures in gross loans and advances to the Bank's customers decreased to 7.6% at the end of 2015 vs. 7.9% at the end of 2014.

Capital adequacy

The total capital requirement of the Group decreased from 13.81% at the end of December 2014 to 13.45% at the end of December 2015.

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

As at 31 December 2015, total equity went up by PLN 2,819,119 thousand as compared to 31 December 2014, primarily due to:

- the legal merger of the banks – an increase in the share capital to PLN 84,238 thousand as a result of the issue of I series merger shares and recognition of the difference between the carrying amount of the net assets of BNPP Polska, which were transferred, and the par value of the shares issued, totaling PLN 2,033,941 thousand, in the Bank's equity;
- a change in recognition of intangible assets in Tier 1 capital, in accordance with the recommendation of the Polish Financial Supervision Authority formulated in its letter of 26 March 2015;
- allocating the net profit of Bank BGŻ for 2014, in the amount of PLN 137,730 thousand, to the unidentified banking risk reserve and to the Bank's supplementary capital.

On 23 October 2015, the Management Board of Bank BGŻ BNP Paribas received a recommendation from the Polish Financial Supervision Authority concerning the Bank's maintenance of equity necessary to satisfy an additional capital requirement at the level of 0.71 p.p. in order to hedge the risk resulting from foreign currency mortgage loans granted to households, with Tier 1 capital accounting for at least 75% (i.e. 0.53 p.p.) of such equity.

In the analyzed period, the total risk exposure rose by PLN 21,746,224 thousand, mainly as a result of the banks' merger.

The total capital requirement of the Group decreased from 13.81% at the end of December 2014 to 13.45% at the end of December 2015.

Assessment made by the Supervisory Board

After becoming acquainted with the consolidated financial statements of Bank BGŻ BNP Paribas S.A. Capital Group for the year ended on 31 December 2015 prepared by the Management Board, and the opinion and report of the independent statutory auditor, the Supervisory Board decides to give a positive opinion to the financial statements of the Group for the year ended on 31 December 2015, and recommend the approval of the financial statements to the Ordinary General Meeting.

Report of the Management Board on activity of Bank BGŻ BNP Paribas S.A. Capital Group in 2015

The Supervisory Board declares that the report on activity of Bank BGŻ BNP Paribas S.A. Capital Group in 2015 is consistent with information contained in the consolidated financial statements for the year ended on 31 December 2015. The Supervisory Board recommends the approval of the report on activity of the Bank BGŻ BNP Paribas S.A. Capital Group in 2015 to the Ordinary General Meeting of Bank BGŻ BNP Paribas S.A.

Assessment of adequacy and effectiveness of the internal control system at the Bank

The organisation of the internal control system is in line with the banking law requirements and resolution of the Polish Financial Supervision Authority No. 258/2011 and it encompasses the risk control mechanisms (including: functional control), checking the compliance of the Bank's activities with the provisions of law and internal regulations, as well as the internal audit. The internal control system is adjusted to the specifics of the conducted activity and takes into consideration the Bank's resources. The Bank performs periodic verification of the risk control mechanisms functioning in the Bank.

The Management Board of the Bank is responsible for the effectiveness of the risk management system, internal control system, internal capital assessment and reviews, the internal capital assessment and maintenance process, and for the supervision over the efficiency of these processes, making necessary adjustments and improvements in case of a change of the risk level in the Bank's activity, economic environment factors, and irregularities in systems and processes functioning. Moreover, the Management Board determines the principles of functioning of the organizational units which participate in the Bank management, and is responsible for the preparation, introduction, and update of the written policies, strategies, and procedures in this respect.

The Supervisory Board performs supervision over the internal control system and evaluates its adequacy and effectiveness via the Bank's Internal Audit Committee. The Committee performs assessment, among others, on the basis of the results of audits conducted by the Internal Audit Line, about which it is informed in periodic reports on the activities of the Internal Audit Line. Besides the Committee becomes familiar with the progress in the realization of the recommendations and findings without recommendations, issued by the Internal Audit Line, external auditor and the supervisory bodies.

The Committee was informed about the changes in the Audit Plan and the level of its realization. The Internal Audit Line monitors the situation in the Bank on the current basis,

and changes in its environment and – if needed – makes necessary adjustments in the Audit Plan.

The Internal Audit Line supports the Bank in achieving its targets by the checking and assessing, in an independent and objective manner, adequacy and effectiveness of the internal control system, including the quality of management of the risk related to the Bank's activity.

Compliance and Operational Risk Line (currently Compliance and Fraud Prevention Line) is an important element of the internal control system next to Internal Audit Line.

Monitoring compliance and anti-fraud encompasses support of the Management Board and the Supervisory Board in the identification and assessment of the following risks:

- 1) the non-compliance risk,
- 2) the reputational risk
- 3) the fraud risk
- 4) anti-money laundering and sanctions risk.

Compliance and anti-fraud includes also employee behaviour, systems and processes within the Bank with scope in requirements of applicable laws as well as regulations by the Bank and the standards of conduct, including market behaviour.

Monitoring and evaluation of compliance is made on the basis of, among others, assessment of key compliance risks, monitoring of Bank's organizational units, the opinion issued by the organizational units included in the Division of Compliance and Operational Risk to the internal regulations and risk assessment carried out in the framework of the implementation of new banking products and services.

The evaluation results are submitted to the Management Board and Supervisory Board members through the presentation of reports on the activities of Division Compliance and Operational Risk in the work of the Committee. Internal Audit of the Bank.

Compliance and Operational Risk Line supports the decision-making processes within the Bank, provides support to the Management and Supervisory Boards in the identification and assessment of compliance risks, acts as an advisor, indicates potential hazards, and submits solutions proposed for effective management compliance risks.

The OPC Department supervises and coordinates the process of implementation of functional control in the Bank, carried out semi-annually, as well as the process of verification of the mechanisms and procedures of internal control in the Bank, realised annually. Functional control is realised semi-annually by managers of all units of the Bank (network and Head Office units), or by persons appointed by them. Periodical functional control covers verification of correctness of operation of individual areas, and risk self-assessment. With respect to the functional control process, the monitoring of post-control recommendations implementation rated as high and medium risk, is undertaken.

The OPC Department also performs supervision over the operational control process in the bank, as a 2. level control, under which it coordinates and supports the process of implementing the Fundamental Monitoring Points (FMP) concept, and also cooperates with the units responsible for operational control in the Bank.

The OPC Department prepares semi-annual reports including the results of functional control, indicating the areas with biggest irregularities identified, and in consultation with the

competent units actions are determined, aiming at elimination of irregularities in the future. The reports are presented to the Management Board for approval.

The process of verification of mechanisms and procedures of internal control is realized every year through self-assessment of risk and control environment by managers supervising individual areas of the Bank's activity (owners of control processes and mechanisms). The purpose of the review is identification of possible gaps in the control environment, including potential ineffectiveness of some controls. The review results in a report indicating cross-sectional data and statistics with respect to currently applied in the Bank control mechanisms, as well as deficiencies in the control process. In case the analysis shows gaps and irregularities, such report indicates actions to be taken to eliminate such gaps/irregularities. The report is presented to the Management and Supervisory Boards for approval.

Assessment of adequacy and effectiveness of risk management with regard to risks essential for the Bank

The system of risk management in the Bank is a formal system governed, i.a., by the policy of managing and reporting capital adequacy of the Bank (ICAAP), credit policy, policy of managing retail exposure risk, strategy of risk management, specifying the Bank's appetite for key risks associated with the Bank's activity, approved by the Supervisory Board. The Bank has a list of essential risks, approved by the Management Board, and the system of their measuring, limiting and reporting. The limits and thresholds for the major risks are specified once a year and reflected in the risk appetite statement of Bank BGŽ BNP Paribas. The Bank regularly monitors and reports compliance with the limits, and if a limit is exceeded, the Bank takes actions to restore the situation where the risks are held within the limits specified by the Management and Supervisory Boards of the Bank. Regular monitoring and reporting cover also the size and type of deviations from the principles and policies applicable in the Bank.

The Management Board of the Bank and the relevant Committees approve detailed policies and principles of risk management and perform daily supervision over the risk management system. The Bank has the Risk Management Committee. The bank has the Internal Control Coordination Committee, which supports the Bank's Management Board in implementing the Bank's operational risk strategy and in particular, performs control of consistency, completeness and effectiveness of the internal control system, and the processes of operational risk management. The Committee also manages major risks connected to the system of internal control in the Bank and its subsidiary entities.

As at 31 December 2015 the following committees operated in the Bank:

- 1) RB Risk Committee,
- 2) PF Risk Committee,
- 3) Credit Committee,
- 4) Bad Loan Committee,
- 5) Capital Investments Committee,
- 6) Information Security and Business Continuity Committee,

- 7) Products, Services, Transactions and Activities Approval Committee (NPAO)
- 8) Customer Approval Committee (CAC),
- 9) Disciplinary Committee,
- 10) Ethics Committee,
- 11) Investment Project Committee,
- 12) Reference Rate Quote Committee
- 13) Real Estate Committee,
- 14) Brokerage House Investment Committee,
- 15) Financial and Compliance Risk Committee,
- 16) Procurement Committee,
- 17) Bonds Committee.

The Supervisory Board of the Bank receives quarterly information on key risks in the activity of the Bank, in the form of report „Risk Dashboard”. The scope of information reported covers assessment of the Bank’s exposure to credit risk (including stress tests and concentration risks), operational risk, market risk, interest rate risk and liquidity risk. The Management Board receives, via Committees, regular complex monthly information on the Bank’s exposure to credit, operational, financial liquidity and market risks and the banking book interest rate risk. The reports and information are presented at meetings of the committees which decide on the actions to be taken if the Bank’s takes excessive risk.

Conclusion

In the opinion of the Supervisory Board the system of internal controls is adequate for the level of activity and complexity of the activities of the Bank. Additionally the key risks are managed adequately in accordance with adopted policies.