



**MANAGEMENT BOARD REPORT  
ON THE ACTIVITIES OF THE CAPITAL GROUP  
OF BANK BGŻ BNP PARIBAS S.A.  
IN THE FIRST HALF OF 2017**

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

The Bank BGŻ BNP Paribas S.A. Capital Group (hereinafter referred to as the “Group”) operates within BNP Paribas, a leading multi-national banking group present in 74 countries with over 190 thousand employees, including more than 146 thousand in Europe. The BNP Paribas Group operates in two key areas:

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

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

In Europe, the BNP Paribas Group operates in four domestic markets (Belgium, France, Italy, Luxembourg) and remains the leader in consumer loans (BNP Paribas Personal Finance). The BNP Paribas Group develops its integrated retail banking model 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 been witnessing a rapid growth in the Asia-Pacific region.

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

## Mission of Bank BGŻ BNP Paribas S.A.

The mission of the Bank is to deliver sustainable, innovative financial solutions to help customers change their world while supporting the local economy.

## Vision of Bank BGŻ BNP Paribas S.A.

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

## Strategy of Bank BGŻ BNP Paribas S.A.

- The most customer-oriented bank in Poland nurturing close, long-term relations with customers through:
  - building neighbourly relations with retail customers and SMEs in small and medium towns;
  - adapting international corporate banking solutions to local customers' needs;
  - providing an offer for every retail customer segment and concentrate on selected SME and corporate banking industries;
  - 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 centres 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, SMEs, farmers, and retail customers; a bank that continues its growth in the Polish market and maintains the No. 1 position in the agri-food segment, the leading position in the consumer credit segment and in services provided to large enterprises and international corporations through:
  - improved cooperation among business lines and Group entities in terms of 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, also residing in small and medium towns, 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 offering such as Optima and iGotówka;
  - streamlining and automation of back-office processes and expansion of the IT platform.

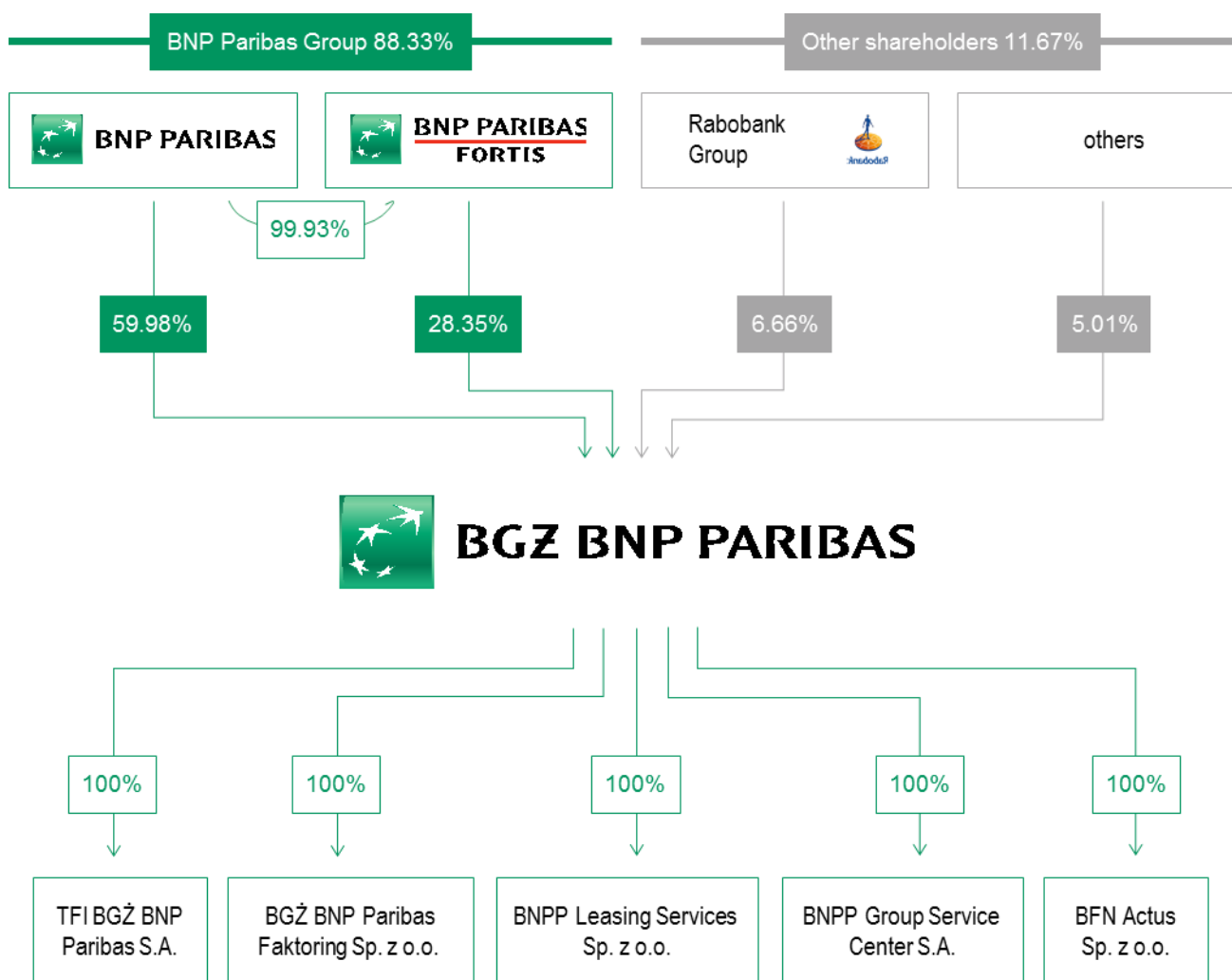
## 1.1. Composition of the Capital Group and consolidated companies

As at 30 June 2017 the Group comprised the following entities:

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

Entity's name	Type of business	Bank's interest in the share capital	Consolidation and measurement method
Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A. (“TFI BGŻ BNPP”)	creating and managing investment funds	100.0%	full method
BGŻ BNP Paribas Faktoring Sp. z o.o. (“Faktoring”)	factoring services	100.0%	full method
Bankowy Fundusz Nieruchomościowy ACTUS Sp. z o.o. (“Actus”)	purchasing and selling real property	100.0%	full method
BNP Paribas Leasing Services Sp. z o.o. (“Leasing”)	leasing services	100.0%	full method
BNP Paribas Group Service Center S.A. (“GSC”)	financial intermediary services	100.0%	full method

Shareholding structure of the Bank and the Capital Group composition:



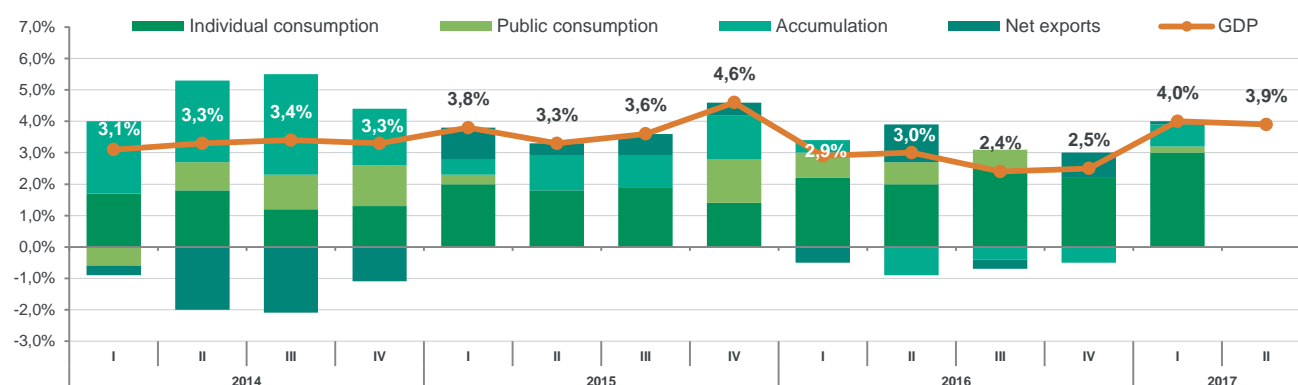
## 2. EXTERNAL FACTORS AFFECTING OPERATIONS OF THE GROUP IN THE FIRST HALF OF 2017

### 2.1. Macroeconomic conditions

#### GDP

In Q1 2017 Poland's GDP growth accelerated to 4.0% YoY from 2.5% YoY in Q4 last year. The monthly data on economic activity in April and May as well as preliminary data for June suggest that the growth rate will remain the same also in Q2. The data of the Central Statistical Office of Poland shows that the primary driver of GDP growth in Poland in the first half of this year was still consumer spending, supported by favourable labour market conditions in Poland (higher employment and salaries) as well as welfare benefits under the *Rodzina 500+ government scheme*. In Q1 2017 the capital expenditure declined at a much slower rate (0.4% YoY from 9.8% YoY in Q4 2016). An increased inflow of EU structural funds and slightly improved market sentiment should contribute to the growth in capital expenditure over the coming months.

Chart 1. GDP growth (YoY)

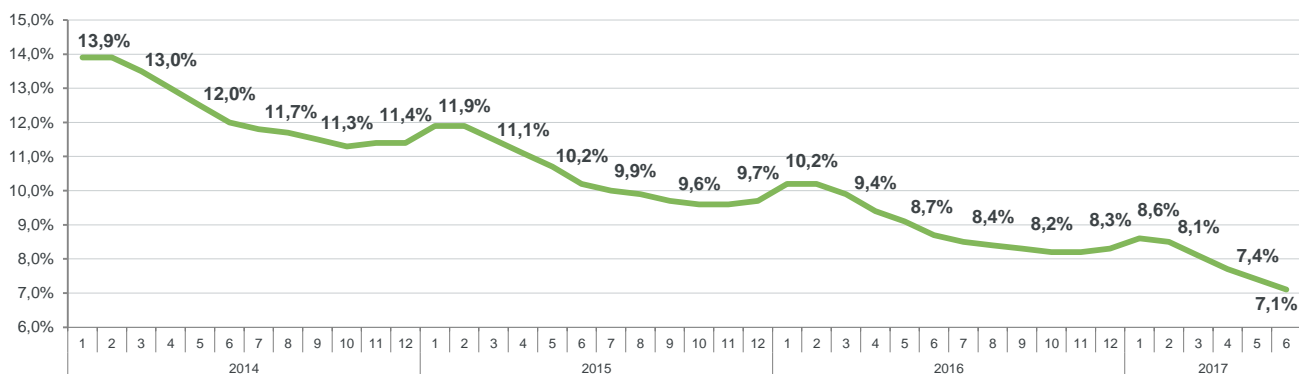


Source: Central Statistical Office of Poland

#### Business activity

In Q1 2017 industrial production increased on average by 7.1% YoY compared to 1.4% YoY in Q4 2016. This was the effect of a higher internal demand as well as an economic upturn of Poland's major trading partners (mainly Germany). We also predict that in Q2 2017 the industrial sector grew on average by 3.4% YoY, however, we believe that the figures are lower mainly due to an unfavourable calendar effect (fewer business days compared to Q2 2016). The average growth rate in the construction industry in the period from January to May was 5.3% YoY as compared to a 13.6% drop YoY in Q4 2016. The recovery in the construction industry was mainly attributed to a higher influx of EU structural funds and the launch of new infrastructural projects under the new financial framework. The expected greater inflow of EU funds should help the construction industry remain strong throughout the remaining part of the year. Retail sales picked up from 6.0% YoY in Q4 2016 to 7.3% YoY between January and May this year, which reflected a strong growth in the household disposable income.

**Chart 2. Registered unemployment rate**



Source: Central Statistical Office of Poland

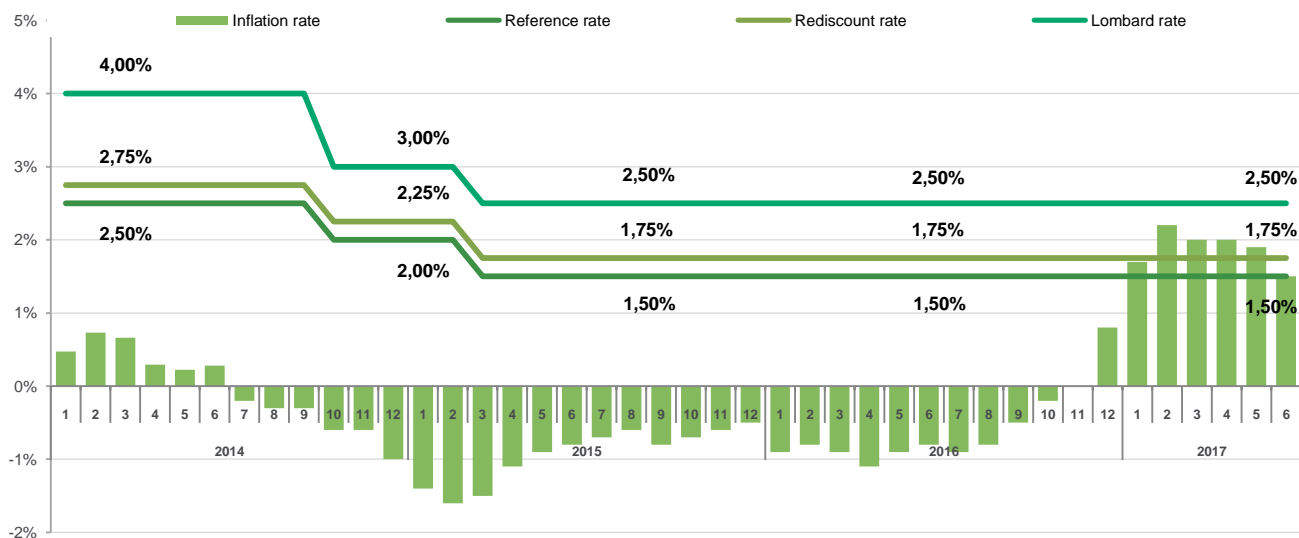
**Inflation**

In the first half of 2017 the CPI inflation in Poland increased on average by 1.9% YoY as compared to the 0.3% drop in the second half of 2016. Consumer prices rose mainly due to supply factors, such as higher prices of food and petrol (due to the fading effect of low prices of oil in 2016). However, the impact of supply factors on the increase in the inflation rates will lessen in the coming months.

**Monetary policy**

In the first half of 2017 the Monetary Policy Council (MPC) decided to hold the interest rate at its current level. In the opinion of MPC, the interest rate in Poland should remain unchanged due to the uncertainty in the macroeconomic environment as well as the supply-driven acceleration in inflation. Lower inflation rates for 2017 presented in the July macroeconomic projection of the National Bank of Poland will — in our opinion — support the “dove” stance in the MPC over the next months.

**Chart 3. Inflation and interest rates**



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

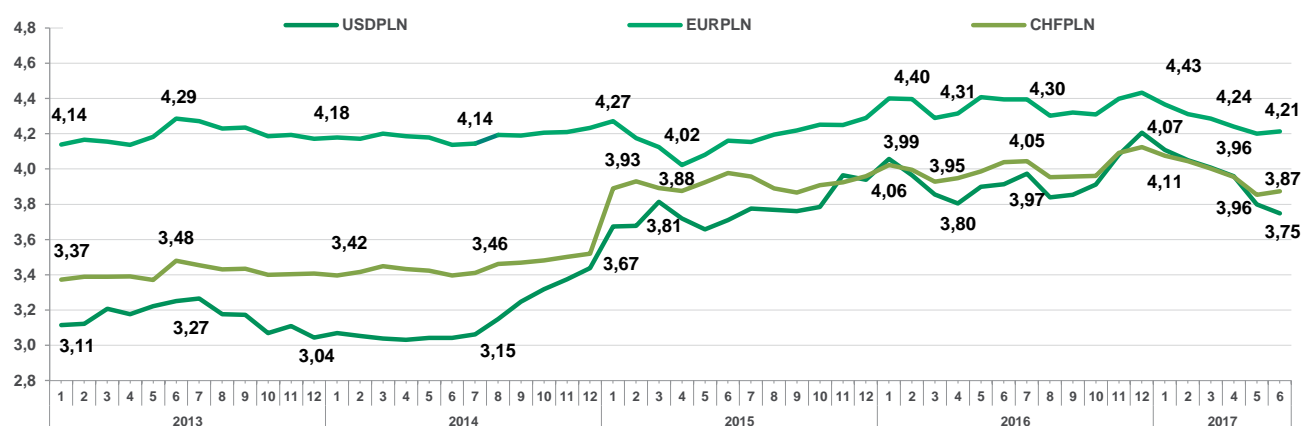
## Bonds market

In the first months of 2017 the yields on domestic bonds fell on the entire yield curve, mainly as a result of falling bond yields and market interest rates in the underlying markets (USA and the Eurozone). Domestic factors (S&P and Moody's upgrade of their outlook on Poland's rating and a high level of the treasury borrowing needs for this year that have been met) played — in our opinion — a much smaller role. Nevertheless, the USA is expected to tighten the monetary policy which, coupled with normalization of the monetary policy in the Eurozone, may help improve the yield of domestic bonds over the next quarters.

## Currency market

In the first half of this year the Polish zloty strengthened against other major currencies due to the global increase in the appetite for risk and a better market sentiment towards the currencies of the Central and Eastern Europe. We believe that over the next months the PLN exchange rates will be influenced primarily by global factors. We also think that the combination of global (increase in market interest rates in the underlying markets) and domestic factors (accelerated core inflation rate and probable decline in public finances) may result in an increased volatility of the national currency over the coming months.

Chart 4. PLN exchange rate (monthly average)



Source: Macrobond

## 2.2. Performance of the banking sector

According to preliminary data published by the Polish Financial Supervision Authority, in the first half of 2017, the net profit of the Polish banking sector dropped by 17.5% YoY to the level of PLN 6.9 billion (as compared to more than PLN 8.3 billion in the first half of 2016).

The year-on-year decrease in the annual net profit resulted from a one-off event, i.e. the sale of shares in the payment facilitator Visa Europe to the American company Visa Inc. in June 2016. As estimated by the Polish Financial Supervision Authority the transaction resulted in a one-off gross income of PLN 2.5 billion, which was impossible to be earned in the first half of 2017. The direct effect was the decrease in the net banking income by 1.9% YoY, i.e. by PLN 0.6 billion. The decrease would have been higher if not for the improved net interest income (by 11.1% YoY, i.e. by PLN 2.1 billion and a considerable increase in the net fee and commission income (by 9.0% YoY, i.e. by PLN 0.6 billion). The net interest income improved because in first quarters of 2017 banks successfully reduced interest expense and deposit volumes growth was decreasing, while at the same time they focused on the sale of high-margin loans. At the same time the increase in the net fee and commission income to a large extent resulted from the improved situation in the capital market.



**Table 1. Selected items of the income statement of the banking sector**

PLN million	30.06.2017	30.06.2016	Change YoY	
			PLN million	%
Net interest income	20 597	18 545	2 052	11.1%
Net fee and commission income	6 839	6 277	562	9.0%
Dividend income	1 079	1 159	(80)	(6.9%)
Other items	1 984	5 124	(3 140)	(61.3%)
<b>Net banking income</b>	<b>30 500</b>	<b>31 104</b>	<b>(605)</b>	<b>(1.9%)</b>
Other operating income	928	1 134	(205)	(18.1%)
Operating expenses, personnel expenses	(8 217)	(7 908)	(308)	3.9%
General and administrative expenses	(8 500)	(7 863)	(636)	8.1%
Depreciation and amortization	(1 453)	(1 450)	(3)	0.2%
<b>Total expenses</b>	<b>(18 169)</b>	<b>(17 222)</b>	<b>(947)</b>	<b>5.5%</b>
Impairment losses on assets and other provisions	(3 963)	(4 261)	299	(7.0%)
<b>Profit before income tax</b>	<b>9 228</b>	<b>10 752</b>	<b>(1 524)</b>	<b>(14.2%)</b>
Income taxes and other statutory reductions in profit	(2 361)	(2 431)	70	(2.9%)
<b>Net profit</b>	<b>6 868</b>	<b>8 321</b>	<b>(1 453)</b>	<b>(17.5%)</b>

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

Apart from the considerable VISA deal, there were other factors which considerably affected change in the net profit of banking sector YoY: a decrease in profit from other operating operations (by 18.1% YoY, i.e. by PLN 0.2 billion), and in particular the continuous growth in total operating expenses (by more than PLN 0.9 billion, i.e. 5.5% YoY). The latter resulted from the change in the nature of the quarterly prudential fee payable to the Bank Guarantee Fund and the payment scheme. The payment scheme was replaced with a one-off annual contribution to the mandatory restructuring fund. Banks are obliged to pay the fee by 20 July 2017, hence most of them recognized the entire amount in the first quarter of 2017. Additionally, a change in the period when the tax on certain financial institutions was due adversely affected the total operating expenses (in the first half of 2017 banks paid the tax for the entire period of first six months, while in the first half of 2016 it had been for 5 months only, i.e. since the date the regulations entered into force in February). The decrease in the net banking income was related to the higher cost basis was limited thanks to a decline in net impairment losses on assets and other provisions.

According to the National Bank of Poland (NBP), **in the first half of 2017 the rate of credit growth slowed down**. At the end of June 2017, the volume of loans to non-banking customers went up by 4.5% YoY, while at the end of December 2016, by 5.0% YoY. Deposits of non-banking customers fell significantly: their annual growth reached 6.8% at the end of June 2017, compared to 9.4% at the end of December 2016.

As at the end of June 2017, private debt went up by 2.7% YoY. At the end of December 2016 it grew by 5.6% YoY. This resulted from a deepening negative rate of growth in private debt due to housing loans in foreign currencies experienced in the first half of 2017 (-11.5% YoY as compared to -2.3% at the end of December 2016). It was connected with clear strengthening of the Polish zloty against CHF (by 4.5% YoY as at the end of June 2017 as compared to the weakening by 3.8% as at the end of December 2016) accompanied by marginal sales of new housing loans in foreign currencies and gradual repayment of the earlier loans.

Despite concerns expressed by analysts, in the first half of 2017 the number of new housing loans in the Polish zloty remained at the same level. According to BIK in the first six months of 2017 banks granted 108 thousand loans for the total amount of PLN 23.9 billion, which implies a 12.7% value growth YoY. The demand for housing loans was supported by further gradual improvement in the labour market and record-low and stable interest rates of the National Bank of Poland as well as a strong housing market. In Q1 2017 a significant support was offered by the governmental scheme "Mieszkanie dla Młodych" (MdM) whose funds for 2017 were exhausted at the end of January.

On the other hand, this considerable rise in housing loans could be hampered by: financing or co-financing of buying houses for cash by a significant number of investors (related to the record-low interest rates translating into unattractive interest rates on savings); gradual increase in margins on housing loans and further restrictions on the maximum housing loan amount available to an average household by some banks. The availability and sales of housing loans in the Polish zloty could also to a small extent be limited by further down payment restrictions imposed by banks at the beginning of 2017 (up by 5 p.p., to 20%, in line with the amended Recommendation S).

The increase in the number of new loans to individuals in the first half of 2017 was also the effect of consumer loans in the Polish zloty 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 a steady demand triggered by positive consumer sentiment.

In the first half of 2017 the growth in new loans offered to businesses accelerated. In nominal terms, corporate debt went up from 5.6% YoY as at the end of December 2016 to 6.1% YoY as at the end of June 2017. This, however, was accompanied by significant strengthening of the Polish zloty against major currencies in the underlying markets as at the end of June 2017 YoY (as compared to the weakening of the Polish zloty as at the end of 2015 YoY). In nominal terms, the adjusted corporate debt — having eliminated this effect — would be over 7.5% YoY. The signs of recovery in corporate lending should definitely be associated with the general improvement of their business activities (reflected by the acceleration in the rate of growth of overdrafts). However, there are no complete and clear data of the Central Statistical Office of Poland that would confirm a year-on-year increase in corporate investments (though it may be suggested by e.g. optimistic monthly data about a pick-up in the construction output) which should contribute to the demand for investment loans. The year-on-year surge in investment loans to businesses in the Polish zloty (resulting in an increase in the loan growth rate for this customer group), which was observed in June 2017, may not reflect the market condition and might not happen again.

**Table 2. Banking sector loans by value**

PLN billion	30.06.2017	31.12.2016	30.06.2016	Change YoY	
				PLN billion	%
<b>Loans to individuals</b>	<b>558.9</b>	<b>556.2</b>	<b>544.3</b>	<b>14.7</b>	<b>2.7%</b>
— housing loans	394.7	397.6	390.5	4.2	1.1%
— in PLN	247.8	235.5	224.5	23.3	10.4%
— in foreign currencies	147.0	162.1	166.0	(19.1)	(11.5%)
— consumer loans	163.4	157.7	152.8	10.6	7.0%
— other loans	0.8	0.9	1.0	(0.2)	(19.4%)
<b>Loans to institutions</b>	<b>583.7</b>	<b>562.1</b>	<b>548.7</b>	<b>35.0</b>	<b>6.4%</b>
— non-banking financial institutions	61.8	56.4	52.5	9.3	17.7%
— business entities	440.3	422.2	415.7	24.6	5.9%
— corporations	327.5	314.5	308.5	18.9	6.1%
— sole proprietors	72.5	68.6	68.1	4.4	6.4%
— farmers	33.7	32.6	32.9	0.8	2.4%
— non-profit organizations	6.6	6.5	6.2	0.4	7.2%
— public sector	81.6	83.5	80.5	1.1	1.4%
<b>Total loans to non-banking customers</b>	<b>1 142.6</b>	<b>1 118.3</b>	<b>1 092.9</b>	<b>49.7</b>	<b>4.5%</b>

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

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

Despite the above, clear acceleration of growth corporate loans could still be hampered by delays in the distribution of EU funds available in the 2014-2020 framework as well as continuing uncertainty as to the future situation of the domestic economic environment, which the analysts associate, among other things, with more restrictive tax legislation. Another reason might be the enduring popularity of alternative sources of funding for businesses, reflected by a rapid growth of the lease market (11.6% YoY increase in financing disbursed in the first half of 2017 according to the Polish Factors Association) and the turnover of factors which are members of the Polish Factors Association (up by 13.6% YoY in the first half of 2017).

Individuals deposits remained the key source of a rise in the banking sector deposits. **The annual rate of growth for deposits** in this customer group **fell significantly** from 9.5% as at the end of December 2016 to 5.4% as at the end of June 2017. The growth was possible thanks to the continuing rapid increase in the volume of demand deposits (by 15.6% YoY). It was, however, accompanied by an increasing drop-off in term deposits (by 5.3% YoY) which suffered from successive all-time low interest-rates. The amounts deposited with banks by individuals are still relatively high. The drop resulted in particular from: interest rates reductions on saving products continued by banks in 2017 and improved condition of the Warsaw Stock Exchange which could be seen since Q4 2016. However, the decline was also significantly affected by the waning effect of disbursements under the 500+ scheme noticeable since the end of Q2 2017. It seems that the drop would have been larger, had it not been for the aforementioned further, gradual improvement in the labour market.

In the first half of 2017 the YoY change in deposits made by corporate entities fell from 7.9% as at the end of December 2016 to 1.3% as at the end of June 2017. This is associated, among other things, with the aforementioned increased restrictions of the tax law (reflected by more effective collection of VAT and delayed VAT refunds). The increase in amounts deposited by the public sector (in reality central government institutions) to all-time high levels seems to confirm this point. Additionally, the outflow of deposits placed by corporate entities could be the result of an increase in investment spending in Q2 2017. However, as has been already said, this is confirmed only by a portion of currently available data published by the Central Statistical Office of Poland. The decline in business deposits happened despite continuing increase in revenues from domestic sales, which was reflected in — at least moderate — annual growth in real retail sales throughout the analysed period.

**Table 3. Banking sector deposits by value**

PLN billion	30.06.2017	31.12.2016	30.06.2016	Change YoY	
				PLN billion	%
<b>Individuals deposits</b>	<b>671.2</b>	<b>660.0</b>	<b>636.7</b>	<b>34.6</b>	<b>5.4%</b>
— demand	377.6	350.4	326.5	51.0	15.6%
— term	293.7	309.6	310.1	(16.5)	(5.3%)
<b>Institutional deposits</b>	<b>486.3</b>	<b>463.6</b>	<b>447.1</b>	<b>39.3</b>	<b>8.8%</b>
— non-banking financial institutions	53.6	53.6	53.9	(0.3)	(0.5%)
— business entities	321.8	345.9	311.8	10.0	3.2%
corporations	247.2	269.8	244.0	3.3	1.3%
sole proprietors	38.5	40.1	34.6	3.9	11.3%
farmers	12.7	13.8	12.0	0.7	6.2%
non-profit organizations	23.3	22.3	21.3	2.1	9.7%
— public sector	111.0	64.1	81.4	29.6	36.4%
<b>Total deposits placed by non-banking customers</b>	<b>1 157.6</b>	<b>1 123.5</b>	<b>1 083.7</b>	<b>73.8</b>	<b>6.8%</b>

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

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

## 2.3. Stock market and investments

The first half of 2017 brought a positive change in WIG, representing all companies listed on the Warsaw Stock Exchange (WSE), which went up by 17.9%. The upward trend was also observed for the shares of large, medium-sized and small enterprises. In the first half of 2017, WIG20 — representing the largest companies — saw a growth of 18.1%; mWIG40 — representing medium size companies — rose by 16.4% and sWIG80 increased by 10.7%. The relative strength of WIG20 was primarily the effect of attractive valuations compared to international share markets and improving macroeconomic environment in Poland and Europe. Additionally, over the discussed period the share prices of companies operating in the fuel and energy sectors, which account for a significant portion of the index, went considerably up.

**Table 4. Values of key WSE indices**

Index	30.06.2017	31.12.2016	30.06.2016	Change YoY
WIG	61 018	51 754	44 749	36.4%
WIG20	2 300	1 948	1 751	31.4%
mWIG40	4 907	4 216	3 393	44.6%
sWIG80	16 069	14 515	13 178	21.9%

Source: Bloomberg

The situation on the Warsaw Stock Exchange in the first half of 2017 was affected mainly by: (i) expectations regarding the reforms in USA announced by President Donald Trump; (ii) expectations regarding presidential election in France and their result; (iii) launch of Brexit; (iv) expectations regarding the monetary policy of Fed and the European Central Bank; (v) political uncertainty in the domestic market related to the announced reforms (reorganization of the pension scheme; conversion of loans in the Swiss franc, judiciary reform); (vi) improvement of the macroeconomic environment in Poland and Europe and related inflow of resources into funds investing in emerging markets.

In the first half of 2017 the Polish T-bond market remained relatively stable with moderate fluctuations. Following the rise in the yields on domestic bonds in the first two months of 2017, falls appeared, which was the effect of improving macroeconomic environment and expectations that the inflation rate will be lower than previously estimated. Eventually, the yield on 10-year bonds dropped from ca. 3.4% at the end of 2016 to 3.3% at the end of the first half of 2017.

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

	30.06.2017	31.12.2016	30.06.2016	Change YoY
Number of companies	483	487	483	0.0%
Capitalization of domestic companies (PLN million)	645 030	557 124	496 094	30.0%
Share trading volume (PLN million)	140 853	202 293	89 790	56.9%
Futures trading volume ('000)	4 048	7 598	3 750	7.9%

Source: WSE

### 3. MAJOR EVENTS IN THE CAPITAL GROUP OF BANK BGŻ BNP PARIBAS S.A. IN THE FIRST HALF OF 2017

#### 10.03.2017 **PFSA's individual dividend recommendation for 2016 and recommendation of the Bank's Management Board not to pay out dividend for 2016.**

The Management Board of Bank BGŻ BNP Paribas S.A. said that it had received a letter from the Polish Financial Supervision Authority with an individual recommendation to increase the amount of equity by retaining the entire profit generated by Bank BGŻ BNP Paribas S.A. over the period from 1 January to 31 December 2016.

Therefore on 10 March 2017 the Management Board of the Bank passed a resolution to recommend that the General Meeting decides to allocate the entire net profit for 2016 to the Bank's equity.

The Bank's Management Board included the information that it would not recommend a dividend payout for 2016 in current report No. 36/2016 published on 30 November 2016.

#### 15.03.2017 **Recommendation of the Bank's Supervisory Board not to pay out dividend for 2016.**

As announced by the Management Board of Bank BGŻ BNP Paribas S.A., on 15 March 2017, the Supervisory Board of Bank BGŻ BNP Paribas S.A. adopted a resolution formulating a recommendation as to distribution of the Bank's profit for 2016.

According to the recommendation, which was presented to the General Shareholders' Meeting, the Bank's profit after tax (net profit) for the 2016 financial year should be allocated in whole to the unidentified banking risk reserve.

#### 26.04.2017 **Information about the amount of annual payment to the mandatory restructuring fund calculated by BGF for Bank BGŻ BNP Paribas S.A. for 2017 totalling PLN 50 618 228.16.**

#### 29.05.2017 **Capital ratios of Bank BGŻ BNP Paribas S.A. and the Capital Group of Bank BGŻ BNP Paribas S.A.**

As announced by the Management Board of Bank BGŻ BNP Paribas S.A., on 29 May 2017, the Board was informed that the consolidated Tier 1 capital ratio of the Capital Group of Bank BGŻ BNP Paribas S.A. as at the end of April 2017, calculated on 29 May 2017 on the basis of the available real data received from the Group companies and verified in the internal reporting process, was 10.90%, i.e. 0.11 p.p. less than specified in the letter of the PFSA of 23 October 2015 and in administrative decisions issued by the PFSA in 2016 (11.01%). The consolidated TCR calculated in accordance with the aforementioned principles was 14.02%, i.e. 0.16 p.p. less than the ratio required at the consolidated level (14.18%). Estimated equity (as at the end of April 2017) that is necessary to achieve the recommended consolidated Tier 1 ratio is ca. PLN 61.1 million (EUR 14.6 million) and ca. PLN 85.5 million (EUR 20.4 million) for the consolidated TCR.

Tier 1 ratio and TCR at the separate level as at the end of April 2017 exceeded the values recommended by the PFSA in its letter of 23 October 2015 as well as the administrative decisions issued by the PFSA in 2016, and amounted to 11.26%, i.e. 0.23 p.p. more than the recommended level of 11.03%, and 14.49%, i.e. 0.28 p.p. more than the recommended level of 14.21%, respectively.

At the same time, Tier 1 ratio and TCR at the separate and consolidated level (after four months of 2017) exceeded the levels defined in Regulation No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

Under the said Regulation, the consolidated Tier 1 ratio and the consolidated TCR should be 8.01% and 10.18%, respectively, as compared to 8.03% and 10.21%, respectively, at the separate level.

Additionally, the Bank satisfies the combined buffer requirement set out in Article 60 of the Act on Macroprudential Supervision of the Financial System and Crisis Management in the Financial Sector of 5 August 2015, both at the consolidated and the separate level.

#### 22.06.2017 **General Shareholders' Meeting of Bank BGŻ BNP Paribas S.A.**

- approval of the financial statements for 2016 and Management Reports on the Activities in 2016;
- acknowledgement of the fulfilment of duties by Members of the Management Board and the Supervisory Board in 2016;
- approval of amendments to the Bank's Statute;
- adoption of a resolution to distribute the Bank's profit generated in 2016 — allocation of the net profit to the unidentified banking risk reserve.

All changes in the composition of the Bank's Management and Supervisory Boards, which took place in the first half of 2017, have been described in chapter 4. *Governing Bodies of Bank BGŻ BNP Paribas S.A.* (below).

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

### 4.1. Composition of the Supervisory Board

Composition of the Bank's Supervisory Board as at 30 June 2017:

Full name	Position 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
Yvan De Cock	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

Changes in the Management Board of the Bank between 1 January and 30 June 2017:

- On 18 May 2017, Mr Thomas Mennicken submitted his resignation from the office of Member of the Supervisory Board of Bank BGŻ BNP Paribas S.A. as of the date of the General Shareholders' Meeting of the Bank which was held on 22 June 2017.
- On 22 June 2017, Mr Yvan De Cock was appointed Member of the Supervisory Board by the General Shareholders' Meeting.



## 4.2. Composition of the Management Board

Composition of the Management Board of the Bank as at 30 June 2017:

Full name	Position held in the Management Board of the Bank
Tomasz Bogus	President of the Management Board
Daniel Astraud	Vice President of the Management Board
Jean-Charles Aranda	Member of the Management Board
François Benaroya	Vice President of the Management Board
Philippe Paul Béziau	Vice President of the Management Board
Blagoy Bochev	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 Management Board of the Bank between 1 January and 30 June 2017:

- On 5 April 2017, Mr Jan Bujak submitted his resignation from the position of the Vice President of the Management Board as of 5 April 2017.
- During its meeting on 5 April 2017, the Supervisory Board of the Bank appointed Mr Jean-Charles Aranda Member of the Management Board effective from 5 April 2017.
- On 2 June 2017, Mr François Benaroya submitted his resignation from the position of Vice President of the Management Board as of 30 September 2017.
- During its meeting on 2 June 2017, the Supervisory Board of the Bank appointed Mr Przemysław Furlepa Vice President of the Management Board as of 1 October 2017.

## 5. RATINGS

The Bank has been rated by Moody's Investors Service Ltd. ("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.

This change resulted from confirmation of the Baseline Credit Assessment (BCA) at the ba2 level and the Advanced Loss Given Failure (LGF) analysis, which enabled improvement of 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 ratings reviews carried out in 2016 and in February 2017 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 the first half of 2017, the Bank received the following awards and accolades:

January	<b>2017 Top Employer Polska</b> for an HR policy developed in line with the best market practices
March	2017 Best Farmers' Bank <b>by research agency Martin&amp;Jacob</b>
April	<b>CSR Silver Leave by CSR POLITYKI</b> — an award granted by the editors of the POLITYKA weekly and Deloitte for the most responsible corporations; this was the third award the Bank has won
May	<b>top "crystal" position in Responsible Business Ranking.</b> The ranking is published by Dziennik Gazeta Prawna partnered by Responsible Business Forum and Deloitte
June	<b>third position in the "Growth Rate"</b> category in the third edition of the "Banking Stars" rating organized by Dziennik Gazeta Prawna and business partner PwC
June	<b>third best bank in Gazeta Bankowa's "2017 Best Bank"</b> ranking, in the Best Large Commercial Banks category

## 7. SHAREHOLDING STRUCTURE OF BANK BGŻ BNP PARIBAS S.A.

As at 30 June 2017 and the date of the Board's approval of the report for the first half of 2017, i.e. 30 August 2017, the structure of the shareholders of Bank BGŻ BNP Paribas S.A., including those holding at least 5% of the total number of votes at the General Shareholders' Meeting, was as follows:



**Table 6. Shareholding structure**

Shareholders	Number of shares	% interest in the 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%
<b>Total</b>	<b>84 238 318</b>	<b>100.00%</b>	<b>84 238 318</b>	<b>100.00%</b>

There were no changes in the shareholding structure in the first half of 2017.

As at 30 June 2017, the Bank's share capital totalled PLN 84 238 thousand and was divided into 84 238 318 shares with the par value of PLN 1.00 each, including: 15 088 100 Series A shares, 7 807 300 Series B shares, 247 329 Series C shares, 3 220 932 Series D shares, 10 640 643 Series E shares, 6 132 460 Series F shares, 8 000 000 Series G shares, 5 002 000 Series H shares and 28 099 554 Series I shares.

The Bank's shares are ordinary bearer and registered shares (as at 30 June 2017, there were 13 024 915 registered shares, including four Series B shares).

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

The four Series B 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 the voting rights, nor does it include any provisions whereby the equity rights attached to securities would be separated from the holding itself. One right to vote at the General Shareholders' Meeting of the Bank is attached to each share. The Bank's Statute does not impose any limitations as to transferring the title to the securities issued by the Bank.

As at 30 June 2017, none of the members of the Management Board or Supervisory Board of the Bank declared holding shares of Bank BGŻ BNP Paribas S.A., and there had been no changes in this respect since the date of presenting the report for the first quarter of 2017, i.e. 11 May 2017.

### **Investor obligation of BNP Paribas concerning liquidity of the Bank's shares**

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 if reaching the assumed percentage of freely traded shares within the declared deadline was unreasonable due to unforeseen or exceptional market conditions, or if it exposed 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 with the ISIN code PLBGZ0000010 are listed on the Main Market of the Warsaw Stock Exchange (WSE).

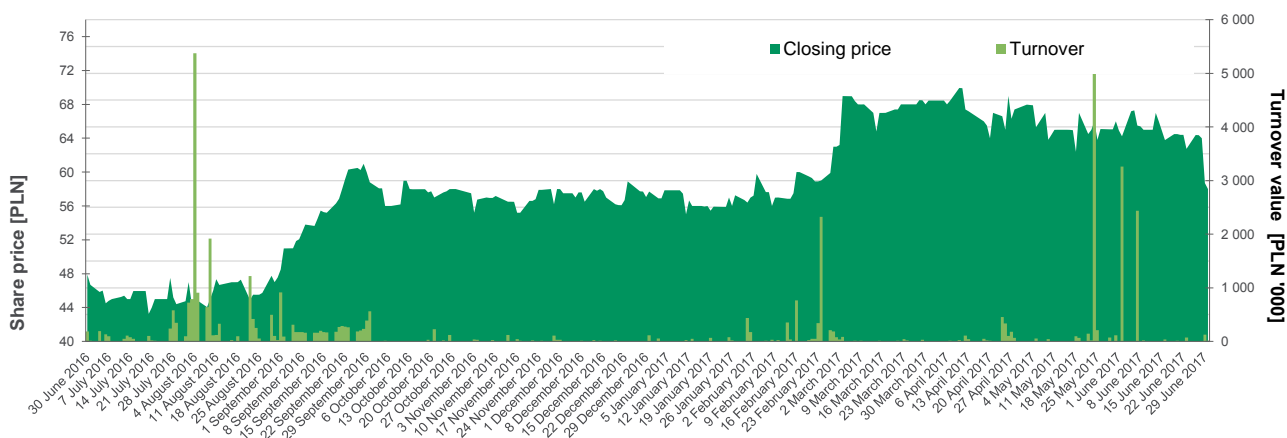
The Bank's shares are traded under the abbreviated name of BGZBNPP, marked "BGZ" and classified to the 250 PLUS segment. They are not components of any stock index.

During the trading session on 30 June 2016 the price of shares was PLN 47.90. Over 12 months it went up by 21.09%, from PLN 58.00 on 30 June 2017 to reach its peak on 10 April 2017 (PLN 69.94). During the same period, the WIG Banki index rose by 27.69%.

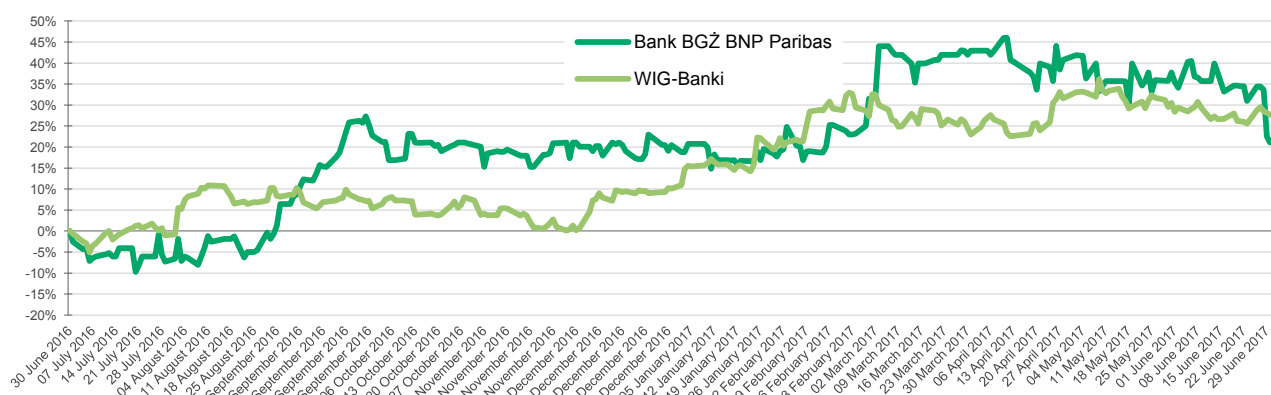
The average price of the Bank's shares over the period of 12 months ended 30 June 2017 was PLN 58.05. The average trading volume was 3 121.50 shares per session, and the average value of Bank's shares traded per session was PLN 167.97 thousand.

In Q4 2016 and Q1 2017 the price of shares remained stable (the average value for Q4 was PLN 57.27 and for Q1 2017 — PLN 60.97). In Q2 2017 the average share price went up to PLN 65.64, despite the drop seen at the end of June. Q2 2017 also saw a more than twofold increase in the average trading volume and value compared to Q1. The figures were 3 512.8 shares per session and PLN 228.26 thousand per session.

**Chart 5. The Bank's share price from 30 June 2016 to 30 June 2017**



**Chart 6. Change in Bank's share price vs. WIG Banki from 30 June 2016 to 30 June 2017 (30 July.2016 = 100%)**



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

### 9.1. Consolidated statement of profit or loss

In the first half of 2017, the Capital Group of Bank BGŻ BNP Paribas generated a net profit of PLN 120 779 thousand, up by PLN 56 141 thousand (86.9%) compared to the first half of 2016.

Net banking income in the period was PLN 1 354 838 thousand, up by 2.4% compared to the same period last year. The Group's operating costs totalled PLN 865 136 thousand, down by 9.2% compared to the first half of 2016.

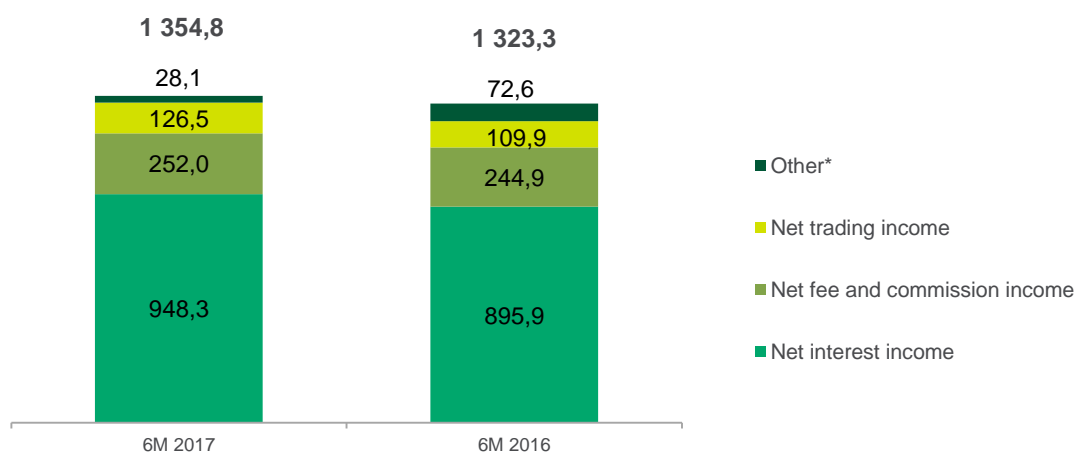
In 2016 the Group incurred considerable expenses related to the merger of BGŻ S.A., BNP Paribas Polska S.A. and Sygma Bank Polska S.A. In the first half of 2017, the cost of integration of the banks went down by 79.6% (PLN 83 563 thousand) compared to the same period in 2016, and totalled PLN 21 413 thousand.

Without the costs of integration incurred in the analyzed periods, the Group's net profit in the first half of 2017 would be PLN 138 123 thousand, down by 7.7% (PLN 11 546 thousand) compared to the same period last year.

In 2017 and 2016 the performance of the Group was affected by one-off events.

- In the first half of 2016, was settlement of the acquisition of Visa Europe Limited by Visa Inc. (which increased the Group's gross profit by PLN 41 817 thousand). Additionally, in the first half of 2016, the Act of 15 January 2016 on Tax on Certain Financial Institutions imposed a tax on the bank's assets at a monthly rate of 0.0366% effective from February 2016. Due to the time the tax was introduced, the profits for the first half of 2016 were subject to lower costs than those for the first half of 2017 (by PLN 21 010 thousand).
- In 2017, the amendment of the Act on the Bank Guarantee Fund (BGF) changed the way the contributions to the guarantee fund and the mandatory restructuring of banks fund were calculated. It also changed the frequency of payments to the restructuring fund from quarterly to yearly (with payment deadline for 2017 until July 20). Total contributions to BGF recognized in the first half of 2017 were higher by PLN 12.1 million, i.e. by 19.7%. Additionally, excluding the guarantee fund from the tax deductible expenses would cause higher tax charges by PLN 4 331 thousand in the current period.

Chart 7. Net banking income in PLN million

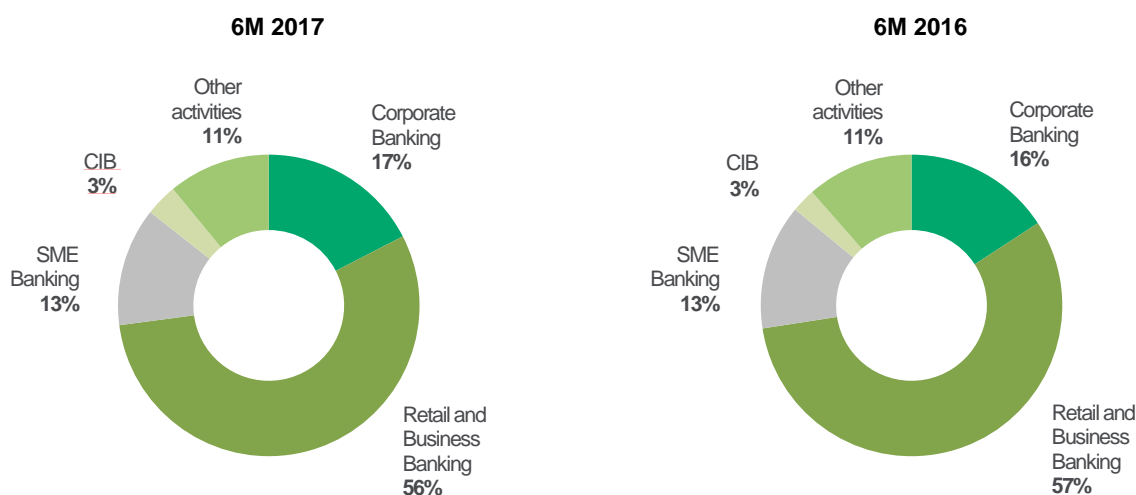


\* "Other" comprises net investment income, result on hedge accounting, dividend income as well as other operating income and expenses.

**Table 7. Statement of profit or loss**

(PLN'000)	6 months ended 30.06.2017	6 months ended 30.06.2016	Change YoY	
			PLN '000	%
Net interest income	948 290	895 939	52 351	5.8%
Net fee and commission income	252 039	244 927	7 112	2.9%
Dividend income	4 693	5 758	(1 065)	(18.5%)
Net trading income	126 458	109 855	16 603	15.1%
Result on investment activities	21 095	42 433	(21 338)	(50.3%)
Result on hedge accounting	1 643	140	1 503	1 073.6%
Other operating income and expenses	620	24 271	(23 651)	(97.4%)
<b>Net banking income</b>	<b>1 354 838</b>	<b>1 323 323</b>	<b>31 515</b>	<b>2.4%</b>
Net impairment losses on financial assets and provisions for contingent liabilities	(178 023)	(165 815)	(12 208)	7.4%
General administrative expenses	(773 152)	(856 111)	82 959	(9.7%)
Depreciation and amortization	(91 984)	(96 386)	4 402	(4.6%)
<b>Operating result</b>	<b>311 679</b>	<b>205 011</b>	<b>106 668</b>	<b>52.0%</b>
Tax on financial institutions	(103 555)	(82 545)	(21 010)	25.5%
<b>Profit (loss) before income tax</b>	<b>208 124</b>	<b>122 466</b>	<b>85 658</b>	<b>69.9%</b>
Income tax expense	(87 345)	(57 828)	(29 517)	51.0%
<b>Net profit/ (loss) for the period</b>	<b>120 779</b>	<b>64 638</b>	<b>56 141</b>	<b>86.9%</b>
<i>Integration costs</i>	<i>(21 413)</i>	<i>(104 976)</i>	<i>83 563</i>	<i>(79.6%)</i>
<b>Net profit/ (loss) for the period excluding integration costs</b>	<b>138 123</b>	<b>149 669</b>	<b>(11 546)</b>	<b>(7.7%)</b>

Note: As the figures have been rounded in some cases their total may not correspond to the exact grand total.

**Chart 8. Net banking income by segments**


## Net interest income

In the first half of 2017, the net interest income, which represents the major source of the Capital Group's income, went up by PLN 52 351 thousand, i.e. 5.8%, which was driven by a rise in interest income by PLN 46 953 thousand, i.e. 3.7% YoY as well as decrease of interest expense by PLN 5 398 thousand, i.e. by 1.4% YoY. In the first half of 2017 interest income and expense were primarily affected by the rate of growth of corporate volumes, as well as external factors.

**Table 8. Net interest income**

(PLN'000)	6 months ended 30.06.2017	6 months ended 30.06.2016	Change YoY	
			PLN '000	%
Loans and advances to banks	14 452	12 955	1 497	11.6%
Loans and advances to customers in current accounts	180 267	177 228	3 039	1.7%
Loans and advances to customers	945 171	919 338	25 833	2.8%
Hedging instruments	27 542	39 647	(12 105)	(30.5%)
Debt securities	150 128	121 439	28 689	23.6%
<b>Interest income</b>	<b>1 317 560</b>	<b>1 270 607</b>	<b>46 953</b>	<b>3.7%</b>
Amounts due to banks	(44 407)	(54 920)	10 513	(19.1%)
Debt securities issued	(5 919)	(6 621)	702	(10.6%)
Amounts due to customers	(292 222)	(272 745)	(19 477)	7.1%
Hedged items	(26 722)	(40 265)	13 543	(33.6%)
Reverse repo transactions	0	(117)	117	(100.0%)
<b>Interest expenses</b>	<b>(369 270)</b>	<b>(374 668)</b>	<b>5 398</b>	<b>(1.4%)</b>
<b>Net interest income</b>	<b>948 290</b>	<b>895 939</b>	<b>52 351</b>	<b>5.8%</b>

The main external factors include the policy adopted by the National Bank of Poland with respect to the basic interest rates and their current lowest level on record (since March 2015 the reference rate is 1.5%) and market trends in deposit interest rates. The most important internal factor was the growth of the range of operations and the increase in the share of average amounts due to enterprises in total average amounts due to customers (1H 2017 vs 1H 2016).

The structure of the Group's interest income is dominated (71.7%) by interest income on loans and advances to customers which increased by PLN 25 833 thousand (i.e. 2.8%) compared to the first half of 2016. In addition, interest on overdrafts to customers went up by PLN 3 039 thousand, i.e. by 1.7% YoY. The above were the effect of an expanded range of operations, mainly in the corporate segment (the gross loan portfolio for the category increased by 8.5% YoY). The Group's gross loan volume as a whole increased by 4.0% YoY.

Interest income on debt securities went up considerably by PLN 28 689 thousand, i.e. 23.6% following an expansion of the range of operations and a growth of the portfolio of available-for-sale assets (by 10.9% YoY).

Net interest income growth was positively impacted by the improved margins on customer deposits (lower costs), especially in the case of the amounts due to households which retain the biggest share in the total amounts due to customers. Another factor was the increase in the share of the amounts due to corporate customers (which are less expensive to acquire) in the total amounts due to customers.

The drop in the interest expense related to the amounts due to banks was mainly the effect of replacement of a portion of wholesale funding (loans and advances from banks) with funding acquired from customers. Interest expense related to the amounts due to banks in 1H 2017 went down compared to 1H 2016 by PLN 10 513 thousand (i.e. by 19.1%).

As at the end of first half of 2017 the Capital Group used fair value hedges. The Group hedges against interest rate risk, in particular against the changes in the fair value of fixed-interest rate assets and liabilities resulting from changes in a specific reference rate. The hedged items for macro fair value hedge are fixed-interest rate PLN, EUR and USD current accounts and for micro fair value hedge is fixed coupon bond (PSO422). The hedging instruments are standard IRS

transactions, i.e. plain vanilla IRS. The change in the fair value of the hedging instruments is recognized in the result on hedge accounting. Interest on the IRS transactions and the hedged items is charged to interest income.

In the first half of 2017, the net interest income on hedging relationships (the sum of interest income on hedging instruments and interest expense on hedged items) totalled PLN 820 thousand as compared to a negative figure for the first half of 2016: PLN -618 thousand.

## Net fee and commission income

The net fee and commission income in the first half of 2017 was PLN 252 039, up by PLN 7 112 thousand, i.e. 2.9% YoY, following a rise in related income by PLN 20 280 thousand, i.e. 6.9% YoY, accompanied by an increase of commission-related costs by PLN 13 168 thousand, i.e. by 27.0%.

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

(PLN'000)	6 months ended 30.06.2017	6 months ended 30.06.2016	Change YoY	
			PLN '000	%
<b>Fee and commission income</b>				
— loans and advances	112 438	90 070	22 368	24.8%
— account maintenance and settlements	72 747	93 960	(21 213)	(22.6%)
— guarantee commitments	13 600	13 346	254	1.9%
— brokerage operations	15 761	11 663	4 098	35.1%
— payment cards	44 853	38 033	6 820	17.9%
— insurance activity	21 656	18 197	3 459	19.0%
— asset management	6 805	2 115	4 690	221.7%
— other	26 093	26 289	(196)	(0.7%)
<b>Fee and commission income</b>	<b>313 953</b>	<b>293 673</b>	<b>20 280</b>	<b>6.9%</b>
<b>Fee and commission expenses</b>				
— loans and advances	(2 860)	(216)	(2 644)	1 224.1%
— payment cards	(27 593)	(23 691)	(3 902)	16.5%
— insurance activity	(12 114)	(3 284)	(8 830)	268.9%
— related to partners' network	(2 974)	(7 538)	4 564	(60.5%)
— other	(16 373)	(14 017)	(2 356)	16.8%
<b>Fee and commission expenses</b>	<b>(61 914)</b>	<b>(48 746)</b>	<b>(13 168)</b>	<b>27.0%</b>
<b>Net fee and commission income</b>	<b>252 039</b>	<b>244 927</b>	<b>7 112</b>	<b>2.9%</b>

Nearly all fee and commission income categories recorded an increase, in particular:

- loans and advances by PLN 22 368 thousand, i.e. by 24.8%;
- payment cards by PLN 6 820 thousand, i.e. 17.9%;
- asset management by PLN 4 690 thousand, i.e. by 221.7%;
- brokerage operations by PLN 4 098 thousand, i.e. by 35.1%;
- insurance activity by PLN 3 459 thousand, i.e. by 19.0%.

The increase in the fee and commission expenses was mainly the effect of:

- higher fee and commission expense on insurance activity by PLN 8 830 thousand, i.e. by 268.9%;
- higher payment card expenses that go to payment card operators which went up by PLN 3 902 thousand, i.e. by 16.5% due to a growing number of transactions carried out by the Bank's customers;
- higher expenses due to loans and advances by PLN 2 644 thousand, i.e. by 1 224.1%.



## Dividend income

In the first half of 2017, the dividend income was derived from the profits generated in 2016 by companies in which the Bank held minority interest, i.e.: Krajowa Izba Rozliczeniowa S.A. (KIR, PLN 827.5 thousand), Biuro Informacji Kredytowej S.A. (BIK, PLN 3 821.0 thousand) and VISA (PLN 44.8 thousand).

## Net trading income and net investment income

**The net trading income** for the first half of 2017 was PLN 126 458 thousand, up by PLN 16 603 thousand, i.e. 15.1% YoY. The level of the income and its changes were mainly shaped by the valuation of the derivatives and foreign exchange gain/loss.

**The net investment income** in the first half of 2017 totalled PLN 21 095 thousand, down by PLN 21 338 thousand, i.e. by 50.3% as compared to that for the first half of 2016.

The major factor affecting the income for the first half of 2016 was the income from settlement of a transaction involving the acquisition of Visa Europe Limited by Visa Inc. As a result of the settlement the Group received EUR 6.9 million in cash (i.e. PLN 30 518 thousand following translation at the 4.3945 exchange rate of 20 June 2016) and 2 521 preference shares Series C. The total profit on the transaction was PLN 41 817 thousand. The income for the first half of 2017 comprises the income from the sale of the available-for-sale securities realized mainly in Q2 2017 (PLN 20 111 thousand in Q2 only).

## Other operating income

In the first half of 2017, other operating income amounted PLN 65 716 thousand, down by PLN 18 064 thousand, i.e. 21.6% compared with the same period in the previous year mainly due to:

- drop in the income from recovery of overdue debts, redeemed receivables, non-collectible debts and payment of receivables that were excluded from the consolidated statement of financial position by PLN 22 901 thousand. In the first half of 2016 this item included PLN 20 200 thousand of income from the sale of debts, mainly in the loan portfolio of Sygma Bank Polska S.A.;
- drop in the income from the sale of goods and services by PLN 4 947 thousand, i.e. by 41.5%;

increase in the income from the sale or liquidation of property, plant and equipment and intangible assets by PLN 6 249 thousand, i.e. by 198.1%.

In the first half of 2017, item "Other operating income" contains the annual adjustment of the VAT charged for 2016 amounted to PLN 7 873 thousand (compared to PLN 8 820 thousand in analogue period of the last year).

**Table 10. Other operating income**

(PLN'000)	6 months	6 months	Change YoY	
	ended 30.06.2017	ended 30.06.2016	PLN '000	%
Gain on sale or liquidation of property, plant and equipment and intangible assets	9 404	3 155	6 249	198.1%
Gain on sale of goods and services	6 962	11 909	(4 947)	(41.5%)
Release of provisions for litigation and claims and other liabilities	1 179	3 459	(2 280)	(65.9%)
Recovery of debt collection costs	5 890	3 323	2 567	77.2%
Recovery of overdue debts, redeemed receivables, non-collectible debts and payment of receivables that were excluded from the consolidated statement of financial position	2 026	24 927	(22 901)	(91.9%)
Income from leasing operations	13 887	12 372	1 515	12.2%
Other	26 368	24 635	1 733	7.0%
<b>Total other operating income</b>	<b>65 716</b>	<b>83 780</b>	<b>(18 064)</b>	<b>(21.6%)</b>

## Other operating expenses

In the first half of 2017 other operating expenses totalled PLN 65 096 thousand, up by PLN 5 587 thousand (i.e. by 9.4%) as compared to the first half of 2016, mainly as a result of:

- costs of impairment charges on other receivables higher by PLN 9 632 thousand, largely due to a provision for unsettled card transaction balances resulting from migration recognized in Q1 2017;
- costs of debt collection higher by PLN 4 219 thousand, i.e. by 34.9%;
- growth of other operating expenses by PLN 8 790 thousand, i.e. by 45.9%.

Other operating expenses for the first half of 2016 and 2017 include the costs of integration and are mainly related to the write-off of intangible assets, liquidation of property, plant and equipment and additional expenses incurred as a result of termination of collaboration with a firm providing non-cash settlements. In the first half of 2016 integration expenses included in other operating expenses totalled PLN 20 040 thousand, as compared with the first half of 2017 when the figure was positive and totalled PLN 598 thousand.

**Table 11. Other operating expenses**

(PLN'000)	6 months ended 30.06.2017	6 months ended 30.06.2016	Change YoY	
			PLN '000	%
Loss on sale or liquidation of property, plant and equipment and intangible assets	(12 546)	(13 431)	885	(6.6%)
Impairment charges on other receivables	(10 071)	(439)	(9 632)	2 194.1%
Provisions for litigation and claims and other liabilities	(2 034)	(750)	(1 284)	171.2%
Debt collection	(16 311)	(12 092)	(4 219)	34.9%
Donations	(1 280)	(2 121)	841	(39.7%)
Cost of leasing operations	(12 475)	(11 507)	(968)	8.4%
Other operating expenses	(10 379)	(19 169)	8 790	(45.9%)
<b>Total other operating expenses</b>	<b>(65 096)</b>	<b>(59 509)</b>	<b>(5 587)</b>	<b>9.4%</b>

## Net impairment losses on financial assets and contingent liabilities

Total net impairment losses on financial assets and contingent liabilities in the first half of 2017 totalled PLN -178 023 thousand and its effect was greater by PLN 12 208 thousand (i.e. by 7.4%) compared with the first half of 2016.

In the first half of 2017, the Bank entered into five agreements for sale of its loan portfolio. The receivables sold under the agreement, the major part of which had been covered with impairment allowances or derecognized in whole, totalled PLN 505 048 thousand (principal, interest and other accompanying receivables). The contractual portfolio sale price was PLN 70 146 thousand. The net effect of the portfolio sale on the profit generated by the Bank was PLN 17 793 thousand and it was presented in the lines "impairment charges" and "release of impairment charges".

In the first half of 2016, the Bank entered into three agreements for sale of its loan portfolio. The receivables sold under the agreement, the major part of which had been covered with impairment allowances or derecognized in whole, totalled PLN 545 133 thousand (principal, interest and other accompanying receivables). The contractual portfolio sale price was PLN 75 604 thousand. The lines "impairment charges" and "release of impairment charges" include the amount of PLN 32 960 thousand.

In the first half of 2017 the annualized cost of credit risk exposure, i.e. net impairment losses on loans and advances to the average balance of net loans and advances to customers (calculated on the basis of quarter-end balances) was 0.64%, i.e. almost identical to the first half of 2016 (0.63%).



As regards the key operating segments<sup>1</sup>:

- impairment losses in the Retail and Business Banking Segment went down by PLN 9 500 thousand YoY;
- in the SME Segment — up by PLN 20 269 thousand YoY;
- in the Corporate and Institutional Banking Segment — up by PLN 2 361 thousand YoY.

## General administrative expenses, amortization and depreciation

The Capital Group's general administrative expenses incurred from 1 January to 30 June 2017 totalled PLN 773 152 thousand, down by PLN 82 959 thousand, i.e. by 9.7% compared with the same period last year.

The rise in expenses due to payments to BGF by PLN 12.1 million is the effect of changes in the method of recognition of costs in the Bank's profit or loss. The year 2017 saw changes in the terms of operation of BGF and the contribution to the mandatory restructuring fund is now recognized in the result for the first half of the year at the amount due for the entire year. The contribution to the guarantee fund is still recognized on a quarterly basis. The change affects the comparability of administrative expenses in the analysed periods which — excluding contributions to BGF — in the first half of 2017 were lower by 12.0% YoY.

Total contributions to BGF charged to the expenses of the first half of 2017 were PLN 73.4 million and comprise:

- PLN 50.6 million of provision to the annual contribution to the mandatory restructuring fund for 2017 at an amount set for the Bank by BGF (PLN 30 million was included in the results for Q1 this year) and
- PLN 22.8 million of contribution to the guarantee fund.

The biggest drop was recorded by personnel expenses which — compared to the first half of the last year — went down by PLN 54.9 million. This was partly the effect of the employment reduction by 460 posts (FTE at 30 June 2017 - 7 808, 30 June 2016 – 8 268), the costs of a restructuring provision of PLN 26 million recognized in the first half of 2016 and a lower provision for unused holiday in the current period.

Expenses in the first half of 2016 additionally were charged with higher costs related to integration processes

The integration costs incurred by the Capital Group in the first half of 2017 totalled PLN 21.4 million (as compared to PLN 105.0 million in the first half of 2016) and included:

- PLN 22.0 million recognized as general administrative expenses (in 6M 2016 - PLN 85.0 million);
- PLN -0.6 million recognized as other operating expenses, decrease (in 6M 2016 - PLN 20.0 million).

The costs of integration included in other general administrative expenses (PLN 22.0 million) include mainly:

- costs of accelerated amortization of systems and liquidation of assets in connection with the banks' merger — PLN 9.3 million;
- projects delivered in connection with the integration — PLN 7.3 million (including integration with Sygma — PLN 3.3 million).

<sup>1</sup> Information based on the segmentation note included in the Consolidated Interim Report of the Capital Group of Bank BGŻ BNP Paribas for the 6 months ended 30 June 2017.

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

(PLN'000)	6 months ended	6 months ended	Change YoY	
	30.06.2017	30.06.2016	PLN '000	%
Personnel expenses	(422 211)	(477 136)	54 925	(11.5%)
Marketing expenses	(36 564)	(44 660)	8 096	(18.1%)
IT and telecom costs	(54 743)	(64 649)	9 906	(15.3%)
Rental expenses	(80 775)	(89 098)	8 323	(9.3%)
Other material costs	(85 885)	(93 654)	7 769	(8.3%)
Business trips	(5 722)	(4 533)	(1 189)	26.2%
ATM and cash handling costs	(1 512)	(1 858)	346	(18.6%)
Costs of outsourcing services related to leasing operations	(9 974)	(12 126)	2 152	(17.7%)
Payment to the Bank Guarantee Fund	(73 393)	(61 336)	(12 057)	19.7%
Polish Financial Supervision Authority fee	(2 373)	(7 061)	4 688	(66.4%)
<b>Total general administrative expenses</b>	<b>(773 152)</b>	<b>(856 111)</b>	<b>82 959</b>	<b>(9.7%)</b>
Depreciation and amortization	(91 984)	(96 386)	4 402	(4.6%)
<b>Total expenses*</b>	<b>(865 136)</b>	<b>(952 497)</b>	<b>87 361</b>	<b>(9.2%)</b>

\* For the purposes of calculation of the expense to income ratio, adjusted by PLN 22 million (6M 2017) and PLN 85 million (6M 2016) of integration costs

In the reporting period, the **costs of amortization and depreciation** went down by PLN 4.4 million, i.e. 4.6% as compared to the first half of 2016. This was the effect of decommissioning of assets which, following the operational merger, were liquidated and the costs of accelerated amortization which were lower by 1.7 million.

## 9.2. Statement of comprehensive income

In the first half of 2017 the Group's comprehensive income went up by PLN 173 496 thousand compared to the same period of last year. The direct reason for the improvement was a material change in the measurement of available-for-sale financial assets (up by PLN 146 092 thousand) and a rise of the net income generated in the comparable periods.

Table 13. Statement of Comprehensive Income

(PLN'000)	6 months ended	6 months ended	Change YoY	
	30.06.2017	30.06.2016	PLN '000	%
<b>Net profit/ (loss)</b>	<b>120 779</b>	<b>64 638</b>	<b>56 141</b>	<b>86.9%</b>
<b>Other comprehensive income</b>				
<b>Items that are or may be reclassified subsequently to profit or loss when specific conditions have been met</b>				
Change in valuation of available-for-sale financial assets	140 230	(5 862)	146 092	(2 492.2%)
Deferred income tax	(26 644)	1 113	(27 757)	(2 493.9%)
<b>Items that will not to be reclassified subsequently to profit or loss</b>	<b>(168)</b>	<b>812</b>	<b>(980)</b>	<b>(120.7%)</b>
Actuarial valuation of employee benefits	436	1 003	(567)	(56.5%)
Deferred income tax	(604)	(191)	(413)	216.2%
<b>Other comprehensive income (net of tax)</b>	<b>113 418</b>	<b>(3 937)</b>	<b>117 355</b>	<b>(2 980.8%)</b>
<b>Total comprehensive income</b>	<b>234 197</b>	<b>60 701</b>	<b>173 496</b>	<b>285.8%</b>

## 9.3. Statement of financial position

### Assets

The balance sheet total of the Group as the end of June 2017 amounted to PLN 71 975 471 thousand, down by PLN 329 528 thousand, i.e. 0.5% compared to the end of December 2016.

Most important changes in the structure of Group's total assets in the first half of 2017 included an increase in the share of loans and advances to customers, as well as in cash and monetary assets in Central Bank, accompanied with a decrease in the share of available for sale financial assets.

Loans and advances to customers, which accounted for 77.9% of total assets as at the end of June 2017 vs. 76.2% at the end of 2016, were the key item in the structure of assets. In terms of value, net loans and advances increased by PLN 964 711 thousand, i.e. 1.8%.

Second largest item was financial assets available for sale which accounted for 15.4% of total assets at the end of June 2017 (vs. 17.3% at the end of December 2016). In the first half of 2017 its value decreased by PLN 1 399 644 thousand, i.e. by 11.2%, mostly as a result of no renewal of the NBP bills portfolio of PLN 999 959 thousand and a reduction in the portfolio of treasury bonds.

Changes in earning assets were accompanied by a slight increase (up to 3.0%) in cash and balances with the Central Bank by PLN 833 974 thousand (64.0%).

**Table 14. Assets**

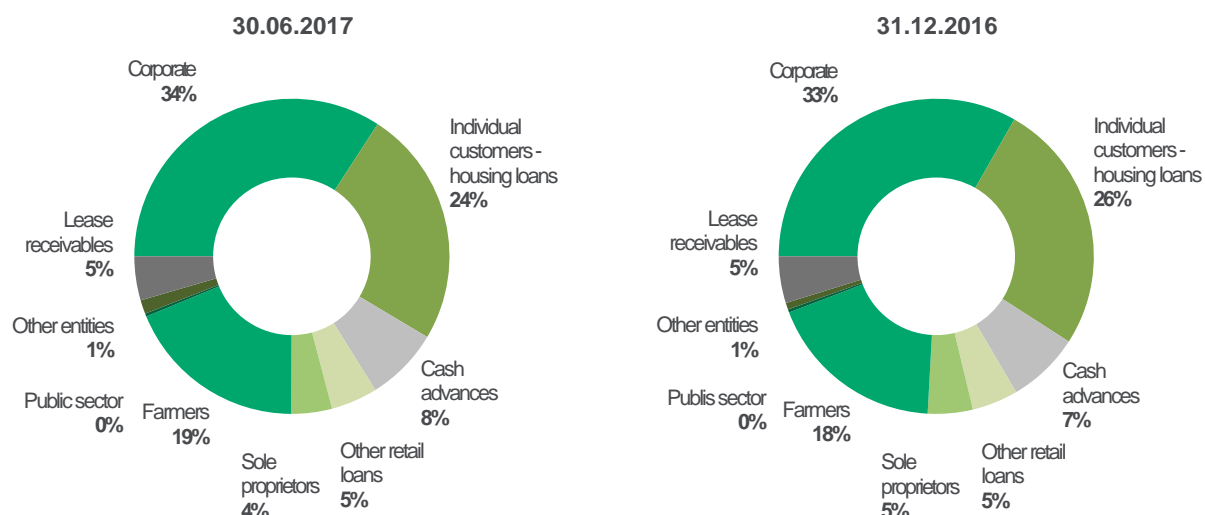
PLN '000	30.06.2017	31.12.2016	Change	
			PLN '000	%
Cash and balances with the Central Bank	2 136 821	1 302 847	833 974	64.0%
Receivables from banks	520 270	1 233 592	(713 322)	(57.8%)
Derivative financial instruments	394 177	324 005	70 172	21.7%
Hedging instruments	9 682	18 671	(8 989)	(48.1%)
Loans and advances to customers	56 040 582	55 075 871	964 711	1.8%
Available for sale financial assets	11 098 211	12 497 855	(1 399 644)	(11.2%)
Investments in subsidiaries	54 466	54 466	0	0.0%
Intangible assets	245 367	246 552	(1 185)	(0.5%)
Property, plant and equipment	518 260	546 002	(27 742)	(5.1%)
Deferred tax asset	504 291	529 824	(25 533)	(4.8%)
Other assets	453 344	475 314	(21 970)	(4.6%)
<b>Total assets</b>	<b>71 975 471</b>	<b>72 304 999</b>	<b>(329 528)</b>	<b>(0.5%)</b>

**Loan portfolio****Quality and structure of loan portfolio**

At the end of June 2017, gross loans and advances to customers amounted to PLN 58 858 222 thousand and went up by PLN 780 995 thousand, i.e. 1.3%.

**Table 15. Loan portfolio structure**

PLN '000	30.06.2017		31.12.2016	
	PLN '000	Percentage share	PLN '000	Percentage share
<b>Gross loans and advances</b>	<b>58 858 222</b>	<b>100.0%</b>	<b>58 077 227</b>	<b>100.0%</b>
Corporate	20 105 892	34.2%	19 315 741	33.3%
Individual customers – mortgage loans	14 359 794	24.4%	15 005 546	25.8%
— in PLN	8 234 707	14.0%	8 190 068	14.1%
— in foreign currencies	6 125 087	10.4%	6 815 478	11.7%
Cash loans	4 449 343	7.6%	4 323 496	7.4%
Other retail loans	2 811 100	4.8%	2 740 156	4.7%
Sole proprietors	2 460 568	4.2%	2 680 285	4.6%
Farmers	11 000 822	18.7%	10 644 765	18.3%
Budget sector	182 426	0.3%	185 572	0.3%
Other entities	834 403	1.4%	400 227	0.7%
Lease receivables	2 653 874	4.5%	2 781 439	4.8%

**Chart 9. Gross loans and advances - structure**


Loans and advances to enterprises rose 4.1% and represent 34.2% of the gross loan portfolio (33.3% at the end of 2016). Loans and advances to households (including individual entrepreneurs and farmers) decreased by PLN 312 621 thousand, i.e. 0.9%. At the end of June 2017, mortgage loans of PLN 14 359 794 thousand constituted 40.9% of the total household loans volume (42.4% at the end of 2016).

**Table 16. Quality of the loan portfolio**

PLN '000	30.06.2017			31.12.2016		
	Portfolio gross value	including: impaired	Percentage share	Portfolio gross value	including: impaired	Percentage share
<b>Gross loans and advances</b>	<b>58 858 222</b>	<b>4 246 291</b>	<b>7.2%</b>	<b>58 077 227</b>	<b>4 484 357</b>	<b>7.7%</b>
Individual customers — mortgage loans	14 359 794	626 835	4.4%	15 005 546	657 624	4.4%
— in PLN	8 234 707	201 546	2.4%	8 190 068	203 155	2.5%
— in foreign currencies	6 125 087	425 289	6.9%	6 815 478	454 469	6.7%
Cash loans	4 449 343	505 379	11.4%	4 323 496	631 552	14.6%
Other retail loans	2 811 100	185 314	6.6%	2 740 156	224 471	8.2%
Farmers	11 000 822	530 254	4.8%	10 644 765	442 187	4.2%
Institutional customers, excluding farmers	23 583 289	2 284 760	9.7%	22 581 825	2 411 575	10.7%
Lease receivables	2 653 874	113 749	4.3%	2 781 439	116 948	4.2%

The share of exposures with recognized impairment in gross loans and advances to customers improved and reached 7.2% at the end of June 2017 vs. 7.7% at the end of 2016.

**Table 17. Loan portfolio quality ratios**

PLN '000	30.06.2017	31.12.2016	Change	
			PLN '000	%
Total gross loans and advances to customers	58 858 222	58 077 227	780 995	1.3%
Impairment allowances	(2 817 640)	(3 001 356)	183 716	(6.1%)
<b>Total net loans and advances to customers</b>	<b>56 040 582</b>	<b>55 075 871</b>	<b>964 711</b>	<b>1.8%</b>
<b>Exposures without indications of impairment</b>				
Gross carrying exposure	54 611 931	53 592 870	1 019 061	1.9%
IBNR provision	(305 203)	(315 261)	10 058	(3.2%)
<b>Net exposure</b>	<b>54 306 728</b>	<b>53 277 609</b>	<b>1 029 119</b>	<b>1.9%</b>
<b>Impaired exposures</b>				
Gross carrying exposure	4 246 291	4 484 357	(238 066)	(5.3%)
Impairment allowances	(2 512 437)	(2 686 095)	173 658	(6.5%)
<b>Net exposure</b>	<b>1 733 854</b>	<b>1 798 262</b>	<b>(64 408)</b>	<b>(3.6%)</b>
<b>Indicators</b>				
Share of impaired exposures in gross portfolio	7.2%	7.7%		(0.5 p.p.)
Impairment allowances on impaired exposures	(59.2%)	(59.9%)		(0.7 p.p.)

## Liabilities and equity

As at the end of June 2017, the Group's total liabilities amounted to PLN 65 594 453 thousand and were PLN 563 725 thousand, i.e. 0.9% lower compared to the end of 2016.

At the end of June 2017, the share of liabilities in Group's total liabilities and equity was 91.1% and was 0.4 p.p. lower than at the end of 2016. A slight 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 the first half of 2017.

At the end of June 2017 amounts due to customers dropped by PLN 90 242 thousand (0.2%) vs. the end of December 2016 and amounted to PLN 55 064 772 thousand. Despite a slight volume decrease, they accounted for 83.9% of total liabilities as compared to 83.4% at the end of 2016.

In the first half of the year, the former trend to reduce debt arising from loans and advances from banks continued, resulting in a drop in the share of liabilities to banks in total liabilities. At the end of June 2017, it amounted to 10.5% vs. 11.0% at the end of 2016. At the end of June 2017, liabilities to banks amounted to PLN 6 890 764 thousand and were PLN 418 050 thousand (i.e. 5.7%) lower than half a year before.

**Table 18. Liabilities and equity**

PLN '000	30.06.2017	31.12.2016	Change	
			PLN '000	%
Amounts due to banks	6 890 764	7 308 814	(418 050)	(5.7%)
Differences resulting from fair value hedges against interest rate risk attributable to hedged items/ hedging IRS measurement	(2 455)	(4 080)	1 625	(39.8%)
Derivative financial instruments	394 994	271 757	123 237	45.3%
Amounts due to customers	55 064 772	55 155 014	(90 242)	(0.2%)
Debt securities issued	387 914	398 059	(10 145)	(2.5%)
Subordinated liabilities	1 698 941	1 768 458	(69 517)	(3.9%)
Other liabilities	1 006 120	1 122 780	(116 660)	(10.4%)
Current tax liability	59 276	8 313	50 963	613.1%
Deferred tax liability	8 064	8 022	42	0.5%
Provisions	86 063	121 041	(34 978)	(28.9%)
<b>Total liabilities</b>	<b>65 594 453</b>	<b>66 158 178</b>	<b>(563 725)</b>	<b>(0.9%)</b>
Share capital	84 238	84 238	0	0.0%
Other supplementary capital	5 127 899	5 108 418	19 481	0.4%
Other reserve capital	909 629	860 241	49 388	5.7%
Revaluation reserve	112 921	(497)	113 418	x
Retained earnings	146 331	94 421	51 910	55.0%
- retained profit	25 552	17 561	7 991	45.5%
- net profit for the period	120 779	76 860	43 919	57.1%
<b>Total equity</b>	<b>6 381 018</b>	<b>6 146 821</b>	<b>234 197</b>	<b>3.8%</b>
<b>Total liabilities and equity</b>	<b>71 975 471</b>	<b>72 304 999</b>	<b>(329 528)</b>	<b>(0.5%)</b>

### Amounts due to customers

At the end of June 2017 amounts due to customers amounted to PLN 55 064 772 thousand and dropped by 0.2% vs. the end of 2016. The drop was observed in all sectors apart from the public one, mostly in relation to term deposits.

The share of current accounts in total amounts due to customers increased from 50.1% at the end of December 2016 to 52.3% at the end of June 2017. The value of funds deposited in current accounts increased by PLN 1 186 263 thousand, i.e. 4.3%. The share of term deposits in total amounts due to customers dropped from 45.5% at the end of December 2016 to 43.8% at the end of June 2017. In terms of value, term deposits decreased by PLN 1 018 464 thousand, i.e. by 4.1% vs. December 2016. Loans and advances received decreased by PLN 272 437 thousand.

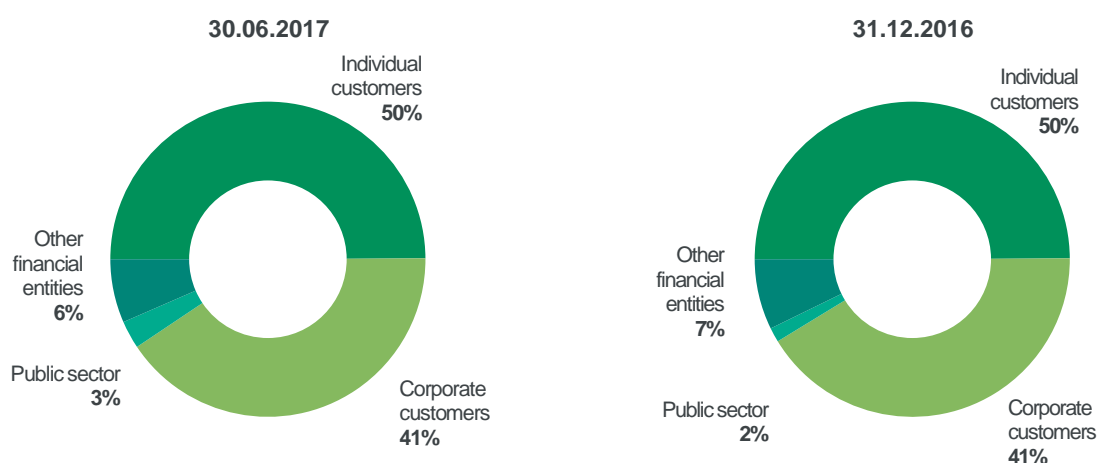
**Table 18. Amounts due to customers by products**

PLN '000	30.06.2017		31.12.2016	
	PLN '000	Percentage share	PLN '000	Percentage share
<b>Amounts due to customers</b>	<b>55 064 772</b>	<b>100.0%</b>	<b>55 155 014</b>	<b>100.0%</b>
Current accounts	28 799 824	52.3%	27 613 561	50.1%
Term deposits	24 097 277	43.8%	25 115 741	45.5%
Loans and advances received	1 751 225	3.2%	2 023 662	3.7%
Other liabilities	416 446	0.8%	402 050	0.7%

Deposits of individual customers decreased by PLN 45 203 thousand, i.e. by 0.2% and accounted for 49.9% of all amounts due to customers at the end of June 2017 (no change in structure compared to the end of December 2016).

Deposits of corporate customers decreased by PLN 406 526 thousand, i.e. by 1.8%. Their share in total amounts due to customers dropped from 41.4% at the end of December 2016 to 40.7% at the end of June 2017.

An increase in public sector deposits by PLN 758 880 thousand to PLN 1 576 904 thousand was a positive sign. Their share in total amounts due to customers grew from 1.5% at the end of December 2016 to 2.9% at the end of June 2017.

**Chart 10. Amounts due to customers by products - structure**

## Equity

As at the end of June 2017, the Group's equity amounted to PLN 6 381 018 thousand and was PLN 234 197 thousand higher compared to the end of 2016. The change in equity resulted mostly from a growth in the revaluation reserve (from PLN -497 thousand at the end of 2016 to PLN 112 921 thousand at the end of June 2017) following recognition of gain on remeasurement of available for sale financial assets.

Retained earnings grew by PLN 51 910 thousand from PLN 94 421 thousand at the end of 2016 to PLN 146 331 thousand at the end of June 2017.



## 9.4. Equity and capital ratios

As at 30 June 2017, the total capital requirement of the Group was 14.01%, down by 0.39 p.p. as compared to December 2016.

**Table 19. Equity and Group's capital ratios**

PLN '000	30.06.2017	31.12.2016	Change	
			PLN '000	%
<b>Tier 1 capital</b>				
– share capital	84 238	84 238	0	0.0%
– supplementary capital	3 272 501	3 272 501	0	0.0%
– reserve capital	2 137 873	2 118 392	19 481	0.9%
– general risk reserve	627 153	577 765	49 388	8.5%
– intangible assets	(245 065)	(246 373)	1 308	(0.5%)
– other items of equity included in Tier 1 capital	89 241	47 736	41 505	87.0%
<b>Total Tier 1 capital</b>	<b>5 965 942</b>	<b>5 854 259</b>	<b>111 683</b>	<b>1.9%</b>
<b>Tier 2 capital</b>				
– subordinated liabilities classified as equity	1 696 245	1 765 435	(69 190)	(3.9%)
<b>Own funds</b>	<b>7 662 187</b>	<b>7 619 694</b>	<b>42 493</b>	<b>0.6%</b>
<b>Risk exposure due to:</b>				
– credit risk	49 813 981	48 119 141	1 694 839	3.5%
– market risk	239 909	207 744	32 165	15.5%
– operational risk	4 594 169	4 533 056	61 112	1.4%
– credit valuation adjustment	49 102	54 045	(4 943)	(9.2%)
<b>Total risk exposure</b>	<b>54 697 160</b>	<b>52 913 987</b>	<b>1 783 173</b>	<b>3.4%</b>
<b>Group's capital ratios</b>				
	30.06.2017	31.12.2016	p.p. change	
Total capital requirement (TCR)	14.01%	14.40%	(0.39 p.p.)	
Tier 1 ratio	10.91%	11.06%	(0.15 p.p.)	

As at 30 June 2017, own funds increased by PLN 42 493 thousand as compared to 31 December 2016, which was mainly the result of retaining profit of Bank BGŻ BNP Paribas for 2016 in the amount of PLN 49 388 thousand to be appropriated to the general risk reserve in accordance with a resolution of the General Shareholders' Meeting of Bank BGŻ BNP Paribas S.A. of 22 June 2017. In the analysed period, the total risk exposure rose by PLN 1 783 173 thousand.

As at the end of June 2017, the consolidated Tier 1 capital ratio of the Capital Group of Bank BGŻ BNP Paribas S.A. was 10.91%, i.e. 0.10 p.p. less than specified in the letter of the PFSA of 23 October 2015 and in administrative decisions issued by the PFSA in 2016 (11.01%). The consolidated TCR was 14.01%, i.e. 0.17 p.p. less than the ratio required at the consolidated level (14.18%).

The estimated equity that is necessary to achieve the recommended consolidated Tier 1 ratio is ca. PLN 56.2 million (EUR 13.3 million<sup>2</sup>) and ca. PLN 93.9 million (EUR 22.2 million<sup>3</sup>) for the consolidated TCR. These figures are considerably lower than the net profit generated by Bank BGŻ BNP Paribas S.A. in the first half of 2017.

The Tier 1 ratio and TCR at the separate level as at the end of June 2017 exceeded the values recommended by the PFSA in its letter of 23 October 2015 as well as the administrative decisions issued by the PFSA in 2016, and amounted to 11.36%, i.e. 0.33 p.p. more than the recommended level of 11.03%, and 14.58%, i.e. 0.37 p.p. more than the recommended level of 14.21%, respectively.

At the same time, Tier 1 ratio and TCR at the separate and consolidated level exceeded the levels defined in Regulation No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

Under the said Regulation, the consolidated Tier 1 ratio and the consolidated TCR should be 8.01% and 10.18%, respectively, as compared to 8.03% and 10.21%, respectively, at the separate level.

Additionally, the Bank satisfies the combined buffer requirement set out in Article 60 of the Act on Macroprudential Supervision of the Financial System and Crisis Management in the Financial Sector of 5 August 2015, both at the consolidated and the separate level.

Considering these figures and the objectives of the Bank's business growth strategy as well as the process implemented to increase the conservation buffer and introduce the systemic risk buffer, the Bank will employ measures to increase its capital ratios.

## 9.5. Financial indicators

The Capital Group's ROE determined with the exclusion of integration costs was 4.4% in the first half of 2017. The drop observed as compared to the first half of 2016 results mainly from the settlement of the acquisition of Visa Europe Limited by Visa Inc., which had a positive impact on the gross profit in 2016 (PLN 41 817 thousand). After elimination of integration costs, ROA would amount to 0.4% and it would remain unchanged as compared to the preceding year.

The Bank's increased profitability is shown by a change in the cost-to-income ratio, which went up as a result of an increase in income with a simultaneous decline in operating expenses (after elimination of integration costs). The cost-to-income ratio (without integration costs) would be 62.3%, down by 2.3 p.p. as compared to 64.6% at the end of the first half of 2016. For purposes of calculation of the ratio, the denominator is banking income, i.e. the total of net interest income, net fee and commission income, dividend income, net trading income, result on investing activities, result on hedge accounting as well as other operating income and expenses.

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

The net interest margin determined relative to assets decreased slightly (by 3 b.p.) to 2.6%, which was due to an increase in the average share of available for sale financial assets in the structure of total assets, at the expense of a reduced share of the loan portfolio.

The cost of risk did not change as compared to the first half of 2016 and amounted to 0.6%.

The net loans to deposits ratio improved as compared to the end of the first half of 2016, which was attributable to a higher share in total Group's source of finance.

<sup>2</sup> The conversion was based on the average exchange rate of the National Bank of Poland at 30 June 2017 for EUR – PLN 4.2265

<sup>3</sup> See above

**Table 20. Financial ratios**

	30.06.2017	31.12.2016	30.06.2016	Change YoY p.p.
Return on equity <sup>(1)</sup>	4.4%*	3.6%*	4.7%*	(0.3)
Return on assets <sup>(2)</sup>	0.4%*	0.3%*	0.4%*	0.0
Net interest margin <sup>(3)</sup>	2.6%	2.7%	2.7%	(0.1)
Cost-to-Income <sup>(4)</sup>	62.3%*	64.6%*	64.6%*	(2.3)
Cost of credit risk <sup>(5)</sup>	(0.6%)	(0.7%)	(0.6%)	0.0
Net loans to deposits <sup>(6)</sup>	105.1%	103.7%	108.0%	(2.9)
Gross loans to total debt <sup>(7)</sup>	94.1%	90.4%	92.2%	1.9

\* Standardized figures excluding integration costs. Effects of integration costs on net profit have been estimated using the standard income tax rate of 19%. For the "costs" category, the figure disclosed in the financial statements has been reduced by integration costs recorded within general administrative expenses and depreciation and 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 recorded within other operating expenses.

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

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

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

(4) Total general administrative expenses, depreciation and amortization relative to the net banking income calculated as the total of the net interest income, net fee and commission income, dividend income, net trading income, result on investing activities, 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 (annualized).

(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 amounts due to customers, debt securities issued, loans from other banks and subordinated liabilities. Balance at the end of the period.

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

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

- **Risk of translating mortgage currency loans.** The Ministry of Finance and the President's Chancellery have been preparing drafts of new legal acts in this respect.
  - In January 2017, Financial Stability Committee adopted a resolution on recommendations aimed at encouraging banks to translate loans denominated in foreign currencies on a voluntary basis. The recommendation included changes in the operation of the Borrowers' Support Fund. At present, using the task force at the Financial Stability Committee, the Ministry of Finance is preparing amendments to regulations regarding loans denominated in or indexed to foreign currencies. On June 1, 2017 the Regulation on higher risk weights has been published (up to 150%) for exposures secured by mortgages on exhaustion. The Ministry of Finance, work is currently underway on the amendment of the Banking Law - introduces an offer for LAGs in banks using advanced estimation technologies. The date of entry into force of the amended law depends on the course of the parliamentary legislative process.
  - A new bill prepared by the President's Chancellery to support people unable to make payments under housing loans in due time. The bill introduces a number of changes to the Borrowers' Support Fund to make it more useful for borrowers in a challenging financial condition repaying loans in the local currency and those with loans denominated in or indexed to a foreign currency. A new instrument has been created for the latter group: a Restructuring Fund which will enable converting loans to the Polish zloty on terms accepted by clients (with a portion of payments resulting from the deterioration of the Polish zloty being canceled). The Fund will be financed with contributions of banks which extended housing loans in foreign currencies. The contribution will not exceed 0.5% of the carrying amount of restructured loans and will be paid quarterly. The contribution amount will be determined for a given bank depending on the value of its portfolio of loans denominated in or indexed to foreign currencies. Contributions will be paid until revoked. Restructuring should be voluntary. Banks may use the contributions to cover the difference between the carrying amount of the loan before and after currency conversion. After 6 months contributions made to the Fund will be transferred to a common cash pool available to all banks, hence banks will be encouraged to pro-actively start the restructuring process. If the contributions reached its maximum limits, the cost for the banking sector would reach ca. PLN 3.2 billion a year. The bill does not specify the period when contributions will be paid to the Fund.
- **Current standing of the Polish economy.** Rapid economic growth in the first quarter of 2017 (an increase of 1.1% on the preceding quarter and of 4.0% on the preceding year) and stabilization of the leading indicators at high levels may suggest that the GDP growth rate will remain fast in the upcoming months. Considering a strong increase in household income and the anticipated acceleration of the absorption of EU funds, the final domestic demand (consumption and investments) is likely to be the key driver of GDP growth by ca. 3.5-4.0% YoY throughout 2017.
- **Domestic labour market.** Lowering the pension age at the end of the year and the Ukraine visa waiver within the European Union may reduce the labour supply in the upcoming quarters. According to current estimates of Polish government, reduction of the retirement age may result in a rapid increase in the number of pensioners (by approx. 300 thousand). Based on analyzes commissioned by the National Bank of Poland, last year there were approx. 770 thousand Ukrainians legally employed in Poland. In the short term, a limited labour supply may intensify the pay pressure. In the medium and long term, it may slow down the potential and real GDP growth rate.
- **Acceleration of core inflation,** arising from growing pay and demand-pull pressure that may restore expectations of interest rate increase in Poland. These expectations may be supported by growing interest rates in world's key economies, among others resulting from the end of the U.S. quantitative easing policy and the phasing off of asset purchase announced by ECB. As a result, despite moderating communications of the Monetary Policy Council (MCP), it may decide to increase interest rates in 2018 to prevent occurrence of undue expectations regarding inflation among households in the context of current labour market tightening including a fast drop in the unemployment rate.

- **Growing imbalance in public finance.** Despite the accelerated growth in taxable income and improved central budget balance, the fiscal risk may regrow in 2018. Retirement age reduction (beginning from the fourth quarter of 2017) may result in a rapid growth in the number of pensioners (by approx. 300 thousand) and, consequently, an increase in the expenses of the Social Insurance Fund (by approx. PLN 10 billion, i.e. 0.5% of GDP) in 2018.
- **Potential deterioration in PLN exchange rate to key currencies** that may be contributed to a decrease in actual interest rates (resulting from an inflation growth) and the diminishing difference between them and actual interest rates in the U.S. and Eurozone.
- **Potential changes in the American** commercial policy and global trade barriers. Poland, highly dependent on EU exports, may as a result suffer economic losses (smaller GDP increase and higher inflation) due to growing protectionism.
- **A possible economic slowdown in the UK** following the commencement of the Brexit procedure and its negative effects on the Eurozone may adversely affect the Polish economy.
- **A global increase in interest rates** as a potential risk factor for Polish bonds and PLN exchange rate, as well as for economic growth rate.
- **A potential increase in fluctuations and risk aversion on European financial markets** arising from ECB's tightening monetary policy parameters, to include a limited scale of asset purchase to be introduced at the beginning of 2018. The higher risk aversion on the European bonds market may result in an increase in risk premium on Polish assets and thus improve the profitability of Polish treasury bonds (in particular with regard to the long end of the yield curve).

# 11. OPERATIONS OF THE CAPITAL GROUP OF BANK BGŻ BNP PARIBAS S.A. IN THE FIRST HALF OF 2017

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

- **Retail and Business Banking** providing comprehensive services to:
  - retail customers; and
  - business customers (microenterprises), to include:
    - entrepreneurs whose net annual revenue 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 the Standard Output<sup>4</sup> in the preceding financial year is 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 revenue 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 Output<sup>5</sup> in the preceding financial year of EUR 75 thousand or EUR 100 thousand or more, depending on the region;
  - Agro entrepreneurs with full financial reporting and sales revenue 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 revenue for the preceding financial year equal to or exceeding PLN 60 million or the Bank's credit exposure of PLN 25 million or more.
- **Corporate and Institutional Banking (CIB)** supports sales of products of the BNP Paribas Group dedicated to the largest Polish enterprises. It comprises services to strategic customers and the Financial Markets Division.
- **Other Operations**, carried out mainly through ALM Treasury.

## 11.1. Branches and ATM network

### Branches

As at 30 June 2017, the Bank had 482 retail and business banking branches. Four external cash desks handling cash and cashless transactions and seven Private Banking Centres complemented the network.

116 Customer Service Desks (formerly part of Sygma Bank Polska S.A.) also complement the retail network.

In the first half of 2017, 6 branches were liquidated and 4 relocated. Three external cash desks were closed down as well.

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

### ATM network

As at 30 June 2017, the Bank's branches offered 499 ATMs owned by IT Card. The ATMs carry the logo of Bank BGŻ BNP Paribas.

<sup>4</sup> Parameter describing the economic size of farms in accordance with the Community Typology for Agricultural Holdings.

<sup>5</sup> As above

## 11.2. Alternative distribution channels

### Online and mobile banking

The number of the Bank's customers using online and mobile services has increased. So has the number of online transactions.

**Table 21. Information on the PI@net/BiznesPI@net system**

Name of system		30.06.2017	31.12.2016
Number of customers with access	PI@net	995 005	928 825
	BiznesPI@net	145 057	135 791
Number of active users	PI@net	458 965	452 794
	BiznesPI@net	104 868	95 431
Average monthly volume of transactions	PI@net	1 951 861	677 610
	BiznesPI@net	2 884 609	1 297 345
Number of Mobile customers/users	Mobile PI@net	52 518	35 636
	Mobile BiznesPI@net	2 569	969

Since March 2017, PI@net system users have been able to file applications for preparation of annual tax returns with the Tax Office.

As the Bank's offering was modified, the functionalities of the PI@net and Market (Product Centre) online banking platforms were updated.

In the first half of 2017, a number of new functionalities were implemented in BiznesPI@net. The key changes for customers include:

- instructions for real-time transfers to the Social Insurance Institution (ZUS) and the Tax Office;
- transfer confirmations sent automatically to a specified e-mail address;
- feature splitting login credential between company accounts in BiznesPI@net and individual accounts in PI@net (defining aliases and providing alias access passwords);
- additional authorization to hide the account balance when an instruction is being processed (Hide Balance functionality);
- two-man rule for adding a new counterparty — new approval scheme;
- presentation of the account interest rate in account details;
- generation of credit account statements in the Cards module;
- additional, dedicated template to generate "SAF Bank Statements";
- sharing PDF bank statements through Web Services;
- availability of BiznesPI@net for PayU/PayByNet payments.



## Bank cards

As regards issuing and management of payment cards, Bank BGŻ BNP Paribas S.A. partners with such organizations as MasterCard and Visa. The card portfolio includes debit, credit and deferred payment cards. As at 30 June 2017, the number of cards issued was 1 406.4 thousand and it was nearly 61 thousand lower than a year before. The decrease concerns mainly credit cards in the retail customer segment.

**Table 22. Number of bank cards issued by Bank BGŻ BNP Paribas S.A.**

'000	30.06.2017	30.06.2016	Change YoY	
			'000	%
Debit cards – retail customers	704.2	703.7	0.5	0.1%
Credit cards – retail customers	606.9	670.7	(63.8)	(9.5%)
Debit cards – business	78.9	76.9	2.0	2.7%
Deferred payment cards – business	6.1	5.8	0.3	4.6%
Credit cards – business	1.0	1.0	0.0	3.6%
Prepaid cards	9.2	9.0	0.2	2.1%
<b>Total number of cards issued</b>	<b>1 406.4</b>	<b>1 467.1</b>	<b>(60.7)</b>	<b>(4.1%)</b>

## Cooperation with intermediaries

As at the end of the first half of 2017, the Bank cooperated actively with 15 chain intermediaries, such as: Open Finance, Notus or Expander, as well as 3 local intermediaries. The scope of such cooperation included acquisition of banking products.

## 11.3. Retail and Business Banking

**Retail and Business Banking** provides services to individuals, private banking customers as well as businesses (microenterprises). 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:
  - Mass;
  - Premium (Personal Banking until 31 March 2017) — customers investing assets of at least PLN 100 thousand through the Bank or those whose monthly account receipts are at least PLN 7 500;
  - Private Banking — customers investing assets of at least PLN 1 million through the Bank (new Private Banking customers) or PLN 600 thousand (existing Private Banking customers);
- Businesses (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 principles laid down in the *Accounting Act*, and those whose net annual revenue 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 the Standard Output<sup>6</sup> in the preceding financial year is less than EUR 75 thousand or EUR 100 thousand, depending on the region;
- Non-profit organizations (e.g. foundations and associations);
- Housing communities.

## Products offered

As regards management of its retail and business product offering, in the first half of 2017 the Bank focused its efforts on improving efficiency and product profitability. All business processes were fully standardized as well as internal regulations and price lists.

In May 2017, two new accounts were offered to mass customers: *"Konto Optymalne"* and *"Konto Maksymalne"*. The new accounts are offered by branches and online. Both are fee-free.

Additionally, holders of *"Konto Optymalne"* pay:

- PLN 0 for management of their debit cards;
- PLN 0 for cash withdrawal from the Bank's own and more than 2 thousand Planet Cash ATMs in Poland;
- PLN 0 for cash withdrawal from BNP Paribas Group and Global Alliance ATMs abroad (52 thousand ATMs in more than 50 countries).

Holders of *"Konto Maksymalne"* pay:

- PLN 0 for management of debit cards issued for account holders being less than 26 years old (PLN 0 for other account holders if the minimum value of cashless transactions per month is PLN 300, otherwise a monthly fee of PLN 12 applies);
- PLN 0 for cash withdrawal from all ATMs in Poland and abroad.

The launch of the new products was accompanied by an advertising campaign on the television, in cinemas and online, which was conducted between 26 May and 9 July 2017. The campaign included also a special offer addressed to new account holders — a 2% refund for purchases made with a debit card in points of sale and online, the maximum of PLN 300 per year (the validity period of the offer for new clients expires on 31 August 2017).

At the same time, the Bank is introducing cash deposit machines at its branches, which enable customers to make cash deposits on their own without the teller's help. The service is fee-free. In addition to cash deposits, the said devices handle cash withdrawals, also in contactless form. The first cash deposit machines of this kind were made available in selected cities in May. At least a further 100 will be installed by the end of the year.

In partnership with IT Card, an owner of a network of Planet Cash ATMs, the Bank has been the first institution in Poland to introduce dual-function devices which also handle contactless transactions.

Furthermore, the Bank continued to sell personal accounts as part of the "Program Partnerski" offer addressed to employees of the Bank's customers from the Corporate and SME segments. The Program includes personal accounts, overdraft facilities, credit cards, cash advances as well as mortgages, all of which are available on preferential terms.

A new version of Personal Banking known as Premium Banking was made available to wealthy customers as of 1 April 2017. It comprises a wide range of the basic daily banking products, i.e. the personal account, the dual-currency card (the card may be linked to the PLN or the EUR account), dedicated foreign exchange rates and a dedicated offering of deposit products.

Additionally, in the first half of 2017, the Bank sold its products pro-actively to Ukrainian customers. Both the website and advertising materials are available in Ukrainian. At the same time, the fees for credit transfers from Bank BGŻ BNP Paribas to Ukrsibbank, a Ukrainian bank from the BNP Paribas Group, were reduced.

As far as the offering addressed to Business Customers is concerned, the Bank provides products that enable satisfaction of numerous customer needs relating to funding necessary for their business activity, transactional banking and investment.

With a view to strengthening its relationships with customers, in 2017 the Bank launched advertising campaigns aimed to promote its leading products, namely the overdraft facility for businesses as well as its comprehensive offering for entrepreneurs.

<sup>6</sup> Parameter describing the economic size of farms in accordance with the Community Typology for Agricultural Holdings.

Regular marketing initiatives prepared considering individual industry needs enable the Bank to inform its customers of the products that suit their business activity, in addition to new services and special offers. This form of advertising is used primarily for services which have a direct impact on business growth, i.e. overdraft facilities, cash advances extended for any purpose related to business activity, investment loans as well as preferential loans and cash advances extended to farmers for any purpose related to their agricultural households.

As it is the Bank's objective to strengthen its position in the segment of farmers and Agro businesses, between January and mid-May 2017 a promotional campaign was launched for such products as working capital, preferential, EU or investment loans dedicated to the segment. The Bank's products for the Agro sector were advertised in industry magazines, online, using posters and leaflets.

In May 2017, the second edition of the "Let's Support Neighbourhood Business" nationwide campaign was launched. It is addressed mainly to SMEs and consumers. The campaign is a social initiative aimed to encourage customers to use the products and services offered by local enterprises and to emphasize the importance of "neighbourhood" businesses in local communities. Its scope included the launch of a dedicated website: [www.sasiedz kibiznes.pl](http://www.sasiedz kibiznes.pl), providing both enterprises and consumers with information on the initiative itself and the benefits of participation, in addition to offering the possibility to register. This year, nearly 7 500 local businesses in more than 900 locations across Poland participated in the initiative. The "Neighbourhood Business Week" preceding immediately the "European Neighbours' Day" on 29 May 2017 was the central point of the event. Robert Makłowicz was the ambassador of this year's edition. As part of an educational campaign, the Bank organized 16 free-of-charge training sessions for entrepreneurs — Neighbourhood Business Academy — in 18 Polish cities. The workshops were conducted by Google "Internetowe Rewolucje" experts and the Sprawny Marketing consultancy. The central theme of the training was "How to promote your business online".

The "Let's Support Neighbourhood Business" and "Neighbourhood Business Academy" initiatives are an element of the Bank's long-term strategy in the small enterprise segment, whereby the Bank partners with local enterprises in addition to supporting their business growth.

## Deposits

The first half of 2017, like 2015 and 2016, saw the interest rates of the National Bank of Poland at the lowest level on record. In spite of these demanding macroeconomic conditions, the deposit operations of the Bank did not focus exclusively on ensuring stability of the retail customer savings portfolio. The Bank conducted promotional campaigns to acquire new deposits. Individual customers could choose from a number of special offer term deposits and promotional interest on savings accounts, rewarding customers who deposited new funds as well as those who decided to keep their existing savings with the Bank. The key campaigns promoted:

- "new" and "old" funds accumulated in the "Konto Dobrze Oszczędnościowe" savings account;
- the "Lokata Progresywna" term deposit;
- the "Lokata Promocyjna" term deposit.

In the first half of 2017, changes were made to the IT system with a view to improving the functionalities of the products offered by the Bank, including:

- extension of the transfer count functionality (applicable also to cash withdrawals);
- changes to new term deposit confirmations (elimination of the necessity to complete the "Lokata Progresywna" term deposit form manually);
- increase in the number of term deposits that can be opened through the Product Market (standard term deposits).

The Bank regularly launched attractive special offers to its Premium and Private Banking customers for selected maturities of the "Lokata bardzo osobista" term deposit in addition to the "Autooszczędzanie" account interest rate.

In the first half of 2017, it also continued initiatives aimed to raise customers' awareness of the possibility to save money for their retirement, with the savings exempt from the capital gains tax (provided that the conditions set out in the applicable legislation are satisfied). The Individual Retirement Account (IKE) offered by the Bank was standardized and made more attractive, as a result of which it is currently used by more than 20 thousand customers.

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

- about 200 investment funds managed by 14 investment fund management companies, available through PI@net;
- "Profit Plus" term deposits linked to investment funds;
- 5 unit-linked deposits;

- 3 issues of structured certificates offered through private subscription to Private Banking customers;
- 1 issue of structured certificates available through public subscription.

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

- to microenterprises which are not subject to the requirements of the Accounting Act: “*Biznes Lider Ekstra*” Package;
- to customers with integrated accounts: “*Biznes Lider Premium*” Package — an account tailored to the needs of individual enterprises;
- to farmers: “*Agro Lider*” Package;
- to non-profit organizations: “*Spółeczny Lider*” Package;
- to housing communities: “*Lider Wspólnot*” Package and
- to those entities which use POS terminals in their business activity: “*POS*” Package.

The structure of each package allows the Bank to offer specific products and services which support customers in the use of the current account and handling transactions related to their business. A single fee applies to a specific range of products and services.

With a view to offering comprehensive services to housing communities, in May 2017 the Bank introduced the “*Lider Wspólnot*” Package, which is used for handling accounts opened and maintained or housing communities and property managers.

In June 2017, a promotional term deposit was introduced for new farmers, with maturity from 1 to 12 months and a promotional interest rate of 1.5%. The purpose of that initiative is to boost sales of the “*Agro Lider*” Package.

The Bank cooperates with Elavon in the provision of POS terminals to Business Customers.

Promotional pricing terms for the lease of POS terminals were offered to the Bank’s customers until the end May 2017. Any business entity that was willing to use a POS terminal and held or opened an account with the Bank could use a fee waiver for 9 months (3-year agreements) or for 6 months (2-year agreements).

A new promotional campaign was launched in May 2017. The fee for leasing a POS terminal is PLN 9 for 12 months and PLN 29 for the second year of an agreement entered into for a term of 24 months. The initial fee is PLN 0 for one POS terminal and PLN 250 for each successive device.

**Table 24. Number of retail customer deposit accounts**

'000	30.06.2017	30.06.2016	Change YoY	
			'000	%
<b>Number of accounts* – branches</b>	<b>1 552.3</b>	<b>1 956.1</b>	<b>(403,7)</b>	<b>(21%)</b>
Current accounts	766.5	880.2	(113,7)	(13%)
Savings accounts	482.3	690.7	(208,4)	(30%)
Term deposits	303.5	385.1	(81,6)	(21%)
<b>Number of BGŻOptima accounts</b>	<b>306.4</b>	<b>262.9</b>	<b>43.5</b>	<b>17%</b>
Savings accounts	227.8	214.7	13.1	6%
Term deposits	78.7	48.2	30.4	63%
<b>Total number of accounts</b>	<b>1 858.8</b>	<b>2 219.0</b>	<b>(360,2)</b>	<b>(16%)</b>

\*excluding auxiliary accounts

## BGŻOptima

BGŻOptima is a brand of Bank BGŻ BNP Paribas under which savings and investment products are offered in the direct model. It includes savings accounts, term deposits and investment funds, which allow customers to generate income. The brand focuses on simple, widely available investment products in addition to term deposits and savings accounts. It has topped the Comperia ranking for the past five years as regards the interest rate offered for savings accounts and term deposits.

Additionally, the Bank operates a traditional Investment Centre which offers investment advice to customers in and near Warsaw under the BGŻOptima brand. It is also involved in educational initiatives and information campaigns addressed to customers and aimed to inform them of the available savings and investment products. Every year, BGŻOptima publishes a report on the approach of Polish customers to finance and savings relative to other countries.

The services offered under the BGŻOptima brand are used by nearly 190 thousand customers, whose deposits total PLN 8.6 billion.

## Loans

To address the needs of its customers, in the first half of 2017 the Bank continued to offer the solutions proposed by the Polish Bank Association to help CHF loan borrowers (the so called “six pack”), including the application of negative LIBOR rates, reduction of the currency spread for CHF, conversion of loans from CHF to PLN at the request of customers at the average exchange rate of the National Bank of Poland as well as releasing customers from the obligation to put up additional collateral. At the same time, special offers were prepared for customers who pay their CHF loan instalments earlier and in higher amounts – the margin on the outstanding loan amount in CHF was reduced.

Those customers who expect comprehensive solutions could use a special offer for a housing loan combined with a personal account, including life and job loss insurance.

With a view to ensuring top quality service to its retail customers, the Bank continued to sell revolving overdraft facilities through the Rat@tu system. In order to make the offering of personal accounts more attractive, in the first half of 2017 the Bank launched two widely available pricing offers where customers could obtain revolving loans with an arrangement fee of PLN 0.

The loans offered in the business segment to finance day-to-day operations and investment needs are addressed to microenterprises, small enterprises (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.

The key loan products offered by the Bank are:

- overdraft facilities;
- revolving/non-revolving working capital loans;
- cash advances (fixed term);
- investment loans.

The parameters of each loan are designed to suit individual needs of microenterprises and farmers.

In the first half of 2017, the Bank introduced the BGK loan with the thermal efficiency improvement or overhaul premium for housing communities.

Another initiative implemented to make the loan offering dedicated to microenterprises more attractive was the Cardif insurance for overdraft facilities for farmers (“Agro Ekspres”). The solution was implemented in the Rat@tu system which is used for handling loan products offered to farmers.

In response to customer needs, in February 2017 the Bank broadened the range of products for microenterprises with simplified accounts, to include a working capital loan for the payment of VAT, which is available to customers using the Bank’s financial support for investment projects.

Additionally, microenterprises may use EU loans, preferential loans, guarantees and currency risk management products.

## Bank guarantees and LCs

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

In the first half of 2017, the Bank issued 58 bank guarantees at the request of business customers with a total value of PLN 4.69 million.

## Commercial volumes

As at 30 June 2017, consolidated Retail and Business Banking deposits amounted to PLN 32 748 million and were PLN 122 million, i.e. 0.4% lower than at the end of 2016. The fall was related to term deposits and overnight deposits.

As at 30 June 2017 the value of the loan portfolio in the Retail and Business Banking segment (consolidated presentation) amounted to 29 498 million, i.e. 0.4% more than at the end of 2016. The highest volume increase was recorded in consumer credit by PLN 313 million. On the other hand, the biggest drop was in housing loans, which fell by PLN 617 million, primarily as a result of the weakening of the CHF rate. In the analyzed period, the volume of residential housing loans (withdrawn from the offer in 2008-2009) amounted to PLN 6 125 million, including loans granted in CHF constituted 98.8% of this portfolio.

**Table 25. Retail and Business Banking Deposits and Loans<sup>7</sup>**

PLN '000	30.06.2017	31.12.2016	Change YoY	
			PLN '000	%
Current accounts	8 115 544	7 745 397	370 147	5%
Savings accounts	10 781 467	10 390 023	391 444	4%
Term deposits	13 257 682	14 030 413	(772 732)	(6%)
Overnight deposits	593 762	704 442	(110 680)	(16%)
<b>Accounts and deposits</b>	<b>32 748 456</b>	<b>32 870 276</b>	<b>(121 820)</b>	<b>0%</b>
<i>including: BGŻOptima</i>	<i>8 601 738</i>	<i>8 715 740</i>	<i>(114 002)</i>	<i>(1%)</i>
Consumer credit	6 068 465	5 755 656	312 810	5%
Investment loans	4 377 011	4 488 287	(111 276)	(2%)
Overdraft facilities	2 983 418	2 836 950	146 468	5%
Housing loans	14 152 852	14 769 947	(617 095)	(4%)
Lease receivables	426 648	539 065	(112 418)	(21%)
Credit cards	699 719	710 564	(10 845)	(2%)
Short-term loans	287 259	201 880	85 379	42%
Other loans	502 767	67 337	435 430	647%
<b>Loans and advances (net)</b>	<b>29 498 140</b>	<b>29 369 686</b>	<b>128 454</b>	<b>0%</b>

## Net banking income — Retail and Business Banking

The net banking income in the Retail and Business Banking segment for the first half of 2017 amounted to PLN 751.6 million, which means a slight increase as compared to analogous period of 2016. It accounted for 55.5% of the total net banking income of the Group for the first half of 2017. Personal Finance generated 36.4% of the net banking income in this segment.

<sup>7</sup> 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.

**Table 23. Net banking income — Retail and Business Banking<sup>8</sup>**

PLN '000	6 months ended 30.06.2017	6 months ended 30.06.2016	Change YoY	
			PLN '000	%
Net interest income	587 268	552 510	34 758	6%
Net fee and commission income	144 037	142 770	1 267	1%
Net trading and other income	20 275	55 511	(35 236)	(63%)
<b>Net banking income</b>	<b>751 580</b>	<b>750 791</b>	<b>789</b>	<b>0%</b>

## 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 advances — distributed mainly through the branch network, but also via the Internet and the Contact Centre;
- instalment loans — offered to individual 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;
- leasing — operating and finance leases, including in partnership with BNP Paribas Leasing Services Sp. z o.o., initiated mainly by used car dealers and authorized car dealers;
- leasing loans — offered to customers in partnership with BNP Paribas Leasing Services Sp. z o.o., mainly by used car dealers and authorized car dealers;
- long-term rental of vehicles in partnership with Arval Service Lease Polska Sp. z o.o. — offered through selected car dealers;
- credit cards — offered to customers through the Bank's own branch network as well as the Bank's credit card desks located in shopping centres and retail chains with whom the Bank has cooperation agreements in place. Credit cards are also offered to customers who have signed cash advance agreements, car loan agreements or instalment loan agreements linked with a credit card 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 Centre, including: CRM campaigns (cross-selling) and selling loans over the phone.

## Product offer

### Cash advances

In the first half of 2017, the Bank launched the following offers related to cash advances:

- possible application for a loan to be extended for a term of up to 120 months (compared to the maximum of 84 months before);
- possible application for a loan of up to PLN 200 thousand (as compared to the maximum of PLN 150 thousand before);

<sup>8</sup> Information based on the segmentation note included in the Consolidated Interim Report of the Capital Group of Bank BGŻ BNP Paribas for the period of 6 months ended 30 June 2017.



- the “Happy End” offer with a very attractive interest rate of 4.4% and the “Last Year without Interest” option. The customer’s interest rate may be reduced to 0% during the last 12 months of the term of the loan, provided that the instalments have been paid on time. The offer was available for loans with a term of 6 to 60 months.

### Instalment loans

Bank BGŻ BNP Paribas has been offering instalment loans since 31 May 2016, i.e. since its merger with Sygma Bank Polska. The loan is offered to individual customers for purchases of goods or services that are not connected to the customer’s business activity or profession. Instalment loans of PLN 50 to PLN 60 000 are available for a term of 3 to 120 months. At present, the Bank offers instalment loans through more than 12 500 retail partners that provide funding for purchases made in both traditional and online stores. The terms of instalment loans are linked to the loan offer of each commercial partner in a given time.

### Car loans

In the first half of 2017, the Bank launched the following offers related to the car loans:

- new promotional offer: 4.4%;
- increased flexibility of price parameters with respect to interest rates (changes by 0.2 p.p.);
- new promotional offer for KIA;
- new 50/50 balloon loan offer for Hyundai;
- new car loan offer for Mitsubishi;
- new car loan offer – low instalments with a repurchase guarantee – for Hyundai.

### Leasing

Apart from car loans, the Bank’s customers may enter into operating and finance lease agreements (including the “VAT Marża” finance lease) from PLN 20 thousand (PLN 5 thousand for new motorcycle dealers) to PLN 500 thousand for new and used vehicles. Lease products are offered through a lease company in relation to passenger cars, trucks of up to 8 tons, buses, tractors, scooters, motorcycles and quads.

In the first half of 2017, the Bank launched the following offers related to the car leases:

- new, more attractive minimum financing thresholds;
- acceptance of a wider range of lease applications submitted by entrepreneurs;
- a wider range of vehicles financed, to include campers of up to 3.5 tons and water scooters;
- new dedicated offers for Hyundai and KIA:
  - operating leases with importer’s subvention;
  - “Nauka Jazdy KIA RIO” dedicated offer;
- acquisition of lease leads from www.

### Leasing loan

As of the end of 2016, the range of products offered to business customers has included a leasing loan offered in partnership with BNP Paribas Leasing Services Sp. z o.o. through authorized car dealers and used car dealers. It may be used for purchases of new and used vehicles, such as passenger cars and trucks, buses, tractors, scooters, motorcycles, quads, yachts and motor boats.

In the first half of 2017, the lease facility offer was changed to:

- introduce a new promotional offer — 4.4%;
- increase the flexibility of price parameters with respect to interest rates (changes by 0.2 p.p.);
- change the interest rate on the facility;
- launch a new promotional offer for KIA;
- launch a new lease facility offer for Mitsubishi;
- launch a new promotional offer for KIA (vehicles used by driving schools).

### Long-term rental of vehicles

The product was introduced in the fourth quarter of 2016 and it is available to business customers through Mitsubishi car dealers in partnership with Arval Service Lease Polska sp. z o.o. The product is available for a term of 24 to 60 months, in the amount of PLN 20 000 to PLN 1 000 000, for new passenger cars only. In the first half of 2017, it began to be sold also by authorized KIA dealers. The product is offered by selected car dealers for new vehicles only. In the first half of



2017, the Bank's sales of the long-term car rental product in partnership with Arval totalled PLN 1.6 million. It is the Bank's intention to sell the product through further car dealers starting from the second half of 2017.

### Credit cards

As a result of the merger with Sygma Bank Polska on 31 May 2016, Bank BGŻ BNP Paribas has become one of the largest issuers of credit cards in Poland with an 11% market share. At present, the Bank offers credit cards in all of its branches and more than 116 Customer Service Desks located in shopping centres 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, a car loan agreement or an instalment loan agreement with a credit card. The available limits range from PLN 2 thousand to PLN 6 thousand.

At the end of the first half of 2017, the Bank offered credit cards to customers from all segments, both individual and corporate, in addition to 7 co-branded partner cards issued in cooperation with the leading retail chains or the leading industry brands.

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

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

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

The Brokerage Office offers a wide range of investment funds managed by recognized Polish and foreign investment fund management companies. As at the end of June 2017, the Brokerage Office sold units in more than 300 funds managed by 17 investment fund management companies. As at the end of June 2017, the value of investment fund management company assets sold through Bank BGŻ BNP Paribas was PLN 2.69 billion.

Fee and commission income on sales of units in investment fund management companies (through the Bank's branches) amounted to PLN 12 253 thousand in the first half of 2017 as compared to PLN 9 065 thousand in the first half of 2016. In the first half of 2017, broker fee and commission income totalled PLN 4 740 thousand versus PLN 2 847 thousand a year before.

In the analysed period, the total fee and commission income of the Brokerage Office increased by PLN 5 081 thousand on the preceding year.

**Table 24. Fee and commission income of the Bank's Brokerage Office**

PLN '000	6 months	6 months	Change YoY	
	ended 30.06.2017	ended 30.06.2016	PLN '000	%
Broker fees and commissions	4 740	2 847	1 893	66%
Fees on sale of units in investment fund management companies	12 253	9 065	3 188	35%
<b>Fee and commission income</b>	<b>16 993</b>	<b>11 912</b>	<b>5 081</b>	<b>43%</b>

**Table 25. Share of the Bank's Brokerage Office in WSE trading volume**

		30.06.2017		30.06.2016	
		volume	share	volume	share
Shares	PLN million	896.55	0.36%	350.81	0.21%
Bonds	PLN million	15.97	1.10%	25.11	2.24%
Contracts	number	38 732	0.50%	24 840	0.34%
Investment certificates	PLN million	0.77	1.99%	0.71	1.11%
Options	number	2 574	0.94%	4 247	1.25%

## 11.6. SME Banking

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

- **SME Farmers** are customers with full financial reporting and sales income of less than PLN 60 million or farmers without full financial reporting and the Standard Output (SO<sup>9</sup>) of EUR 75 thousand or EUR 100 thousand (depending on the province) in the preceding financial year. As regards loan customers, the SME segment includes farmers with the Bank's credit exposure of PLN 2-25 million.
- **Agro SME sub-segment** 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, foundations and associations with prior year's net income of PLN 10-60 million.

Services for SME segment customers are provided in 44 dedicated SME Business Centres located around the country. Services provided to these businesses in Bank BGŻ BNP Paribas are based on cooperation between Relationship Managers and customers. The model involves individualised approach of the Relationship Manager in charge of the entire relationship between the customer and the Bank. Furthermore, SME customers are served by dedicated teams of product specialists offering high standard of sales support and product advice, based on knowledge and experience including cash management, treasury, leasing, factoring and trade finance. Agro experts support the services provided in SME Farmer and SME Agro sub-segments. Further, customers may use the ongoing operating services provided by the retail network, as well as operating and information support on the phone offered by Business Centre.

### Product offer

The Bank has a broad product offering addressed to SME segment customers. The offering developed for SME includes such products as:

- **transactional products** as part of the customer's account or package (cashless domestic and cross-border transactions, cash transactions, also closed ones, automatic fund transfers between accounts);
- **deposit products** for the customer's investment of surplus cash (e.g. standard deposits, negotiated deposits with maturity and interest rate agreed on a case-by-case basis, deposits made through the online banking system as well as deposit accounts for flexible surplus cash management);
- **loan products** providing funding for the day-to-day running of the business as well as implementation of investment and development projects, refinancing expenditure that has already been incurred or loans granted by other banks (overdrafts, revolving and non-revolving working capital loans and investment loans);
- **trade finance products**, export and import letter of credits, documentary collection, letter of credit discounts, as well as issuing guarantees and processing external guarantees. The Bank offers fast and comprehensive services related to guarantees and LCs, which are based on dedicated IT solutions;

<sup>9</sup> Parameter describing the economic size of farms in accordance with the Community Typology for Agricultural Holdings.

- **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..

### **New products and business line development in the first half of 2017**

Risk appetite determining an additional funding amount available for a given customer above the requested limit is a new solution aimed at reduction of the loan process in the SME segment.

Further, a pilot version of a simplified loan process for less complex funding structures in determined value ranges has been implemented, featuring a limited number of data obtained from customers in the motioning stage (for existing customers) and processed by the Bank in the course of loan processing.

A set of criteria has been developed to qualify customers with good financial standing as VIPs and a priority processing path has been implemented to process loan renewal for these customers.

Additionally, the process of monitoring loan exposure collateral has been improved through introduction of reminder notes for clients, regarding documents to be delivered to confirm that collateral has been established, extended or supplemented for a given loan.

In November 2016, FX Planet currency platform was put in operation. In the first half of 2017, it was supplied with new functionalities, i.e. forex rate alert, economic service and dealer chat.

In June, a new factoring product was launched. Linia Progresywna is a modern form of funding, combining the funding of receivables and payments of customer's liabilities, which allows flexible management of funds and their use according to needs. The factoring limit available depends on the value of assigned receivables, with fully automated transaction processing. The newest factoring product is a response to the needs of both current and prospective customers.

### **Product offer for Agro sub-segment**

The Bank has a comprehensive offering for the food and agro segment, including accounts, deposits, loans and farmer insurance (both voluntary and statutory).

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 mortgage on agricultural property, the Bank had to make changes to its internal rules on financing investments in agricultural farms, especially regarding trade in land.

Apart from its own offering, the Bank prepares ones dedicated to farmers and including additional services, developed in cooperation with third parties.

#### **Preferential loans**

In 2017, the Bank continued granting preferential loans on the terms and conditions introduced in 2015. They included investments in farming and inland fishing, purchase of agricultural land, 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 Modernisation 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 specialised agricultural production of up to PLN 8 million and a loan for processing of up to PLN 16 million.

In 2017 the Bank has can charge up to 2% of front-end commission, with the margin remaining on the level of 2.48%. At present, the interest rate offered to customers is 3% p.a.

In February 2017, the Bank's offering was extended with ZC loan, intended for agricultural producers to repay their liabilities under civil law.

Typically, preferential loans are used mainly for purchases of agricultural land, construction and modernisation 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 agricultural and food sector enterprises.

### Produce purchase loans

In June 2017, the Bank opened the campaign of selling produce purchase loans for 2017 season. The offering is dedicated to entities purchasing and/or warehousing and processing agricultural produce, as well as for those purchasing seasonal surplus of such produce.

### Debt consolidation loan

In February the Bank launched a debt consolidation loan aimed at assuming liabilities of SME farmers contracted with other banks, financial institutions or Agricultural Property Agency.

The loans are offered both to existing and new customers that operate farms, regardless of their legal form, mostly to individual farmers, but also to commercial companies or cooperatives.

Customer liabilities may be consolidate with loans offered by Bank BGŻ BNP Paribas, such as Agro Progres (investment purposes), Agro Ekspres (working capital and investment purposes), and Rzeczówka (working capital purposes).

Available total amounts of loans and borrowings to be assumed:

- investment funding: up to PLN 4 million;
- working capital funding: up to PLN 2 million.

### Cooperation with Arval Service Lease Polska Sp. z o.o.

In February 2017, the Bank concluded a new cooperation agreement with Arval Service Lease Polska Sp. z o.o., a member of the BNP Paribas Capital Group. Under the agreement, a special offer is prepared, addressed to customers of Bank BGŻ BNP Paribas, including farm operators. The Arval offer includes long-term vehicle leases with a package of additional services, included in the monthly instalment amount and comprising: car service, purchase, exchange and maintenance of tyres, civil liability, full coverage and accident insurance, replacement cars and claim handling.

## Offering related to public schemes

### 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. In January 2017 Bank Gospodarstwa Krajowego collected applications under the third round of the “*Loan for Innovative Technologies*” programme performed from 20 February 2017 to 7 April 2017 for its customers.

### Cooperation with the Lewiatan Confederation

In cooperation with Lewiatan, the Bank participates in a series of conferences “**Innowacja, finansowanie, nauka, rozwój – Głos Biznesu 2017**”, addressed to beneficiaries from the SME sector, looking for adequate programmes and sources to fund innovation.

### Leasing loan

In cooperation with BGŻ BNP Paribas Leasing, in January 2017 Bank BGŻ BNP Paribas provided its customers with access to leasing loans, allowing the conclusion of leases when using EU subsidies and to fund businesses that are not registered VAT payers, farmers and professionals.

The offer includes two types of such loans:

- a leasing loan allows efficient funding of purchases of fixed assets, necessary to run a farm or a firm,
- a European leasing loan is necessary to fund investments based on EU subsidies.

The leasing loan (Pożyczka Leasingowa) is customized to individual needs of beneficiaries. It can be used to fund up to 100% of investment value; it provides a flexible source of funding fixed assets and a quick processing path. It is characterized by a long term of funds availability (up to seven years), high amounts offered and a flexible repayment schedule that can be adjusted to seasonality of revenue generation.

## Trade finance products for SME segment customers

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

### Bank guarantees and LCs

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

In the first half of 2017, the Bank issued 368 bank guarantees at the request of SME customers with a total value of PLN 63.15 million.

In the first half of 2017, the Bank opened 86 import LCs with a total value of PLN 13.79 million at the request of customers from this segment, and handled 57 export LCs with a total value of PLN 24.82 million issued by third-party banks for the benefit of those customers.

## Commercial volumes

As at 30 June 2017, consolidated SME Banking deposits amounted to PLN 6 554 million and were PLN 969 million, i.e. 17% higher than at the end of 2016. The increase in current account balances compensated for the decreases in other deposit products.

As at 30 June 2017 the value of the loan portfolio in the SME Banking (consolidated presentation) amounted to 11 470 million, i.e. has not changed since the end of 2016.

**Table 29. SME Deposits and Loans<sup>10</sup>**

PLN '000	30.06.2017	31.12.2016	Change YoY	
			PLN '000	%
Current accounts	5 015 104	3 644 228	1 370 875	38%
Savings accounts	278 375	363 600	(85 225)	(23%)
Term deposits	900 353	988 362	(88 008)	(9%)
Overnight deposits	359 680	588 277	(228 597)	(39%)
<b>Accounts and deposits</b>	<b>6 553 511</b>	<b>5 584 466</b>	<b>969 045</b>	<b>17%</b>
Consumer credit	705	791	(87)	(11%)
Investment loans	7 017 543	7 154 189	(136 646)	(2%)
Overdraft facilities	2 425 104	2 210 189	214 915	10%
Lease receivables	555 875	541 182	14 693	3%
Credit cards	817	657	159	24%
Short-term loans	997 974	1 161 959	(163 985)	(14%)
Factoring	471 791	410 048	61 743	15%
<b>Loans and advances (net)</b>	<b>11 469 809</b>	<b>11 479 016</b>	<b>(9 207)</b>	<b>0%</b>

See footnote on p.45

## Net banking income — SME

In the first half of 2017, net banking income in SME was PLN 172.3 million, which denotes a 3% decrease YoY. It represents 12.7% of the total net banking income of the Capital Group.

At the end of June 2017, the Bank provided services to 16 633 SME customers, 7 256 (43.6%) of which were farmers, 2 303 (13.9%) Agro enterprises and 7 074 (42.5%) other sector enterprises.

**Table 26. Net banking income — SME<sup>11</sup>**

PLN '000	6 months ended 30.06.2017	6 months ended 30.06.2016	Change YoY	
			PLN '000	%
Net interest income	115 162	115 570	(408)	0%
Net fee and commission income	47 283	46 966	317	1%
Net trading and other income	9 886	14 967	(5 081)	(34%)
<b>Net banking income</b>	<b>172 331</b>	<b>177 503</b>	<b>(5 172)</b>	<b>(3%)</b>

## 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 financial institutions.

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

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.

### Distribution channels

Corporate Banking services are provided by Business centres (BC) located in large cities across Poland, which are separate from the Bank's branch network. At present, the Bank has eight business centres: in Warsaw, Gdańsk, Katowice, Kraków, Lublin, Łódź, Poznań and Wrocław. In addition to the existing BCs, services are provided to customers locally by dedicated relationship managers in Białystok, Bydgoszcz, Olsztyn, Rzeszów and Szczecin.

<sup>11</sup> See footnote on p.46



## Product offer

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 centre 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 specialists, including M&A advisory support, project funding, 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 Institutional Banking (CIB);
- **lease and factoring services** — offered by the Lease Department and BGŻ BNP Paribas Faktoring Sp. z o.o., respectively;
- **public sector services** — arrangement of issues of municipal bonds, forfeiting and dedicated cash management solutions.

### Online banking

The Bank provides its customers with access to Internet banking through BiznesPI@net and Connexis, which are adjusted to the needs of its customers: large corporations and SME. BiznesPI@net allows online management of all banking products: accounts, cards, loans, deposits and LCs. It integrates with finance and accounting corporate systems through web services. The Bank offers its customers with Electronic Currency Platform allowing conclusion of currency 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).



## Trade finance products for corporate banking customers

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

### Bank guarantees and LCs

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

In the first half of 2017, the Bank issued 956 bank guarantees at the request of Corporate Segment customers with a total value of PLN 588.54 million.

In the first half of 2017, the Bank opened 545 import LCs with a total value of PLN 196.07 million at the request of customers from this segment, and handled 167 export LCs with a total value of PLN 78.41 million issued by third-party banks for the benefit of those customers.

## Commercial volumes

As at 30 June 2017, consolidated Corporate Banking deposits amounted to PLN 13 921 million and were PLN 517 million, i.e. 4% lower than at the end of 2016.

As at 30 June 2017 the value of the loan portfolio in the Corporate Banking segment (consolidated presentation) amounted to 14 555 million, i.e. 5% more than at the end of 2016.

**Table 27. Corporate Banking Deposits and Loans<sup>12</sup>**

PLN '000	30.06.2017	31.12.2016	y/y change	
			PLN '000	%
Current accounts	5 132 235	5 644 611	(512 377)	(9%)
Savings accounts	6 496	5 455	1 041	19%
Term deposits	6 584 598	6 362 211	222 386	3%
Overnight deposits	2 197 321	2 425 608	(228 287)	(9%)
<b>Accounts and deposits</b>	<b>13 920 649</b>	<b>14 437 886</b>	<b>(517 237)</b>	<b>(4%)</b>
Consumer credit	72	117	(45)	(39%)
Investment loans	6 320 655	5 850 991	469 664	8%
Overdraft facilities	3 038 267	2 632 005	406 262	15%
Lease receivables	1 462 780	1 487 051	(24 271)	(2%)
Credit cards	2 448	2 003	446	22%
Short-term loans	2 364 577	2 352 338	12 239	1%
Other loans	1 344	120 514	(119 170)	(99%)
Factoring	1 364 562	1 391 317	(26 755)	(2%)
<b>Loans and advances (net)</b>	<b>14 554 705</b>	<b>13 836 335</b>	<b>718 369</b>	<b>5%</b>

See footnote on p.45

## Net banking income — Corporate Banking

In the first half of 2015, the net banking income of Corporate Banking was PLN 236.1 million, which denotes an increase by 13% YoY. It represented 17.4% of the total net banking income as compared to 15.8% in the corresponding period of the preceding year.

**Table 28. Net banking income – Corporate Banking<sup>13</sup>**

PLN '000	6 months ended 30.06.2017	6 months ended 30.06.2016	Change YoY	
			PLN '000	%
Net interest income	135 148	114 246	20 902	18%
Net fee and commission income	61 236	56 015	5 221	9%
Net trading and other income	39 741	39 111	630	2%
<b>Net banking income</b>	<b>236 125</b>	<b>209 372</b>	<b>26 753</b>	<b>13%</b>

## 11.8. Corporate and Institutional Banking

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 has been integrated into the Bank's structures; it includes service of strategic customers and the Financial Markets Division.

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: funding of acquisitions and investment projects;
- cash flow and liquidity management, working capital optimization;
- managing financial and commodity risk.

CIB offers customers with top quality expert knowledge, combining understanding of the Polish market with experience on international markets and competencies of top class sector experts. It 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 or 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 centres focusing on analyses;
- arrangement of debt security issues for corporate customers.

<sup>13</sup> See footnote on p.46

## 11.9. Other operations

Other Operations of the Group are carried out mainly through the 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.

The ALM Treasury combines the features of a business line with those of a competency centre responsible for the management of interest rate risk, current and structural liquidity of the Bank, structural currency risk, determining and managing internal transfer prices for all products offered by the Bank. The 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 centres, i.e. ALM Treasury and Corporate Centre.

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.

Key obligations entrusted with ALM Treasury comprise ensuring a balanced liquidity position accompanied with optimized costs of funding Bank's operations and an appropriate structure of assets and liabilities, including sensitivity to interest rate changes. Other units within this function focus on management of an internal transfer pricing system, balance sheet analysis, modelling and measuring liquidity and interest rate risk for the Banking Book, managing issues of debts securities, arranging long-term credit facilities and organizing the work of ALCO.

## 11.10. Cooperation with financial institutions

As at 30 June 2017, the Bank was a correspondent bank of ca. 1000 other banks, and held 40 nostro accounts for 25 major currencies with foreign banks.

In the discussed period, the Bank held 20 loro accounts denominated in two 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 June 2017, the Capital Group of Bank BGŻ BNP Paribas had 7 808 FTEs (including employees on maternity leave, childcare leave and longer sick leave) as compared to 8 073 FTEs at the end of December 2016. The Bank's headcount at the end of June 2017 and at the end of 2016 takes account of the legal merger with Sygma Bank Polska on 31 May 2016.

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

**Table 29. Headcount in the Bank's Capital Group**

	30.06.2017	31.12.2016	31.12.2015
<b>The Bank's Capital Group</b>	<b>7 808</b>	<b>8 073</b>	<b>8 512</b>
<b>Total Bank, including:</b>	<b>7 510</b>	<b>7 978</b>	<b>7 588</b>
Head Office	3 358	3 627	3 189
Branches	4 010	4 204	4 242
Mobile Relationship Managers	95	95	88
Brokerage Office	33	38	54
Training Centre	11	10	11
Trade Unions	4	4	4
<b>TFI BGŻ BNPP</b>	<b>23</b>	<b>21</b>	<b>19</b>
<b>BGŻ BNPP Faktoring Sp. z o.o.</b>	<b>62</b>	<b>57</b>	<b>30</b>
<b>BFN ACTUS Sp. z o.o.</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>BNP Paribas Leasing Services* Sp. z o.o.</b> <i>(formerly: Fortis Lease Polska Sp. z o.o. in liquidation)</i>	<b>0</b>	<b>0</b>	<b>0</b>
<b>BNP Paribas Group Service Center S.A.</b> <i>(formerly: Laser Services Polska S.A.)</i>	<b>212</b>	<b>16</b>	<b>5</b>
<b>Syigma Bank Polska S.A.</b>	<b>-</b>	<b>-</b>	<b>869</b>

\* The company employs 0.25 FTE

## 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 adopted a *Compensation policy for individuals that exert a considerable influence on the risk profile of Bank BGŻ BNP Paribas S.A.*, which was developed in line with the guidance included in Resolution No. 258/2011 of the Polish Financial Supervision Authority and the requirements of CDR IV, and approved by the Supervisory Board on 9 September 2016.

The Bank has established an HR and Compensation 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 incentive (bonus) schemes are aimed to support the Bank's strategy by rewarding employees for the accomplishment of their goals. They are based on the MbO (Management by Objectives) formula, which means that the employee's individual bonus depends on the achievement of his/her goals, both quantitative and qualitative. Additionally, a combination of individual and team 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 salesforce, which have been developed to account for the nature of the tasks fulfilled in each area, i.e. Retail and Business Banking, Personal Finance, SME Banking, Corporate Banking and Private Banking;
- a bonus scheme which lays down the rules for granting and payment of variable compensation, including bonuses, to employees exerting a considerable influence on the risk profile of the Bank;
- bonus schemes for specific employee groups, other than direct salesforce.

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

## Training and development

In the first half of 2017, the training activity was carried out in close liaison with the Bank's business lines.

The total number of training participants was 50 394, including 41 850 e-learning participants.

### Major training initiatives in the first half of 2017:

- courses dedicated to the new product offering and use of the systems of the merged institutions;
- courses increasing leadership competencies of managers, focusing in particular on salesforce management – Manager's Academy at Bank BGŻ BNP Paribas;
- courses supporting the implementation of the new organizational culture, knowledge and change management in relation to the adopted business strategy of the organization;
- courses supporting development of a risk culture at the Bank as well as pro-active employee attitudes and behaviours, especially in operational risk and compliance;
- 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 Bank;
- courses supporting development of sales skills and enhancing the quality of customer service, addressed to the salesforce;
- foreign language courses.

Additionally, the Bank introduced a new standard for cooperation with compliance area regarding monitoring and reporting the status of compulsory training completion.

### Development programs implemented in the first half of 2017

- "Prestiż" 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 display 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.
- "Leaders for Tomorrow" initiative — a development program of the Capital Group of BNP Paribas aimed at development of leadership skills. 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 experience.
- "Development is Our Strength" program — aimed to develop the competencies of managers through diverse training and coaching activities.
- Internal Labor Market — it continues initiative launched in 2014 with a view to enhancing the occupational mobility of employees inside the organization.
- Occupational Mobility Days — an initiative supporting occupational mobility of employees, who can familiarize themselves with the nature of work in specific business areas and attend meetings (in classroom and online) focusing on professional development. The Occupational Mobility Days include training courses and conferences on building professional career.
- 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:

- "Bankformers" internship program addressed to 4th and 5th year students and offering the possibility to participate in selected projects at the Bank;
- "Focus on Development" traineeship program addressed to 4th and 5th year students. It is aimed to share knowledge, get students prepared for their profession and improve the Bank's image as a desirable employer;
- "Ambassador Duo" program — two representatives of the Bank working in close liaison with each other are present at each university to build the Bank's image as an attractive employer. The program is addressed to at least 2nd year students of selected universities.

## 11.12. Information technology

In 2017, IT initiatives were implemented in three major areas:

- 1) **operational integration of Bank BGŻ BNP Paribas SA with exSygma Bank Polska SA** — at the end of June 2017, modifications to IT systems went live and migration of customers from exSygma Bank systems to the target systems of Bank BGŻ BNP Paribas is planned for the second half of the year.
- 2) **projects related to the day-to-day operations of the Bank** include mainly digitization of the customer service process, optimization and development of IT services as well as data management.
- 3) **regulatory compliance projects** — major obligatory projects resulting from changes to regulations (e.g. IFRS 9, MIFID II) and the necessity to comply with the demanding standards of the BNP Paribas Group (e.g. Radar – Risk Data Aggregation, KYC — Know Your Customer), in addition to cybersecurity projects.

In the first half of 2017, the spending on IT investment projects totalled PLN 25 million. 132 projects are being implemented at present.

### Major IT initiatives

Projects related to the preparation for the operational merger of Bank BGŻ BNP Paribas Polska SA and exSygma Bank Polska SA, involving the integration of IT tools and systems of both banks. They guarantee uninterrupted operations of the Bank while ensuring complete operational security and minimizing the negative effect on customers.

The key IT tasks fulfilled as part of the Bank's full integration process in the first half of 2017:

- January — implementation of the last phase of the Tallyman One Collection Tool project aimed to centralize debt collection processes and facilitate customer service (customer support in one application by unified processes);
- April — completion of the migration of exBGZ customer credit documentation to the target DocuWare system;
- May — (i) implementation of new functionalities in the PI@net and BiznesPI@net online banking systems; (ii) SmartCash Release 1 – implementation 30 functional and technical improvements for application users at branches;
- June — (i) migration of debit card data from the exBNP system to the target system of Bank BGŻ BNP Paribas; (ii) implementation of the first part of functional changes to the target systems of Bank BGŻ BNP Paribas for purposes of data migration from exSygma. 59 changes were introduced and launched in 23 systems of the Bank.
- Infrastructure projects at the Bank:
  - implementation of the solution of Skype for Business;
  - redevelopment of the Bank's network — Internet security system;
  - implementation of an application firewall for the electronic banking system;
  - launch of an additional chamber in the key Data Centre;
  - launch of fully redundant network and server infrastructure for the system of the Brokerage Office in both Data Centres of the Bank;
  - Secure Email Gateway upgrade;
  - exSygma mailbox migration.

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

- implementation of the "eUrząd" functionality in PI@net and the Product Centre;
- FX PI@net — implementation of new functionalities of the FX platform: FX Alerts, Price Indications, Chat with the Dealer, Economic News;
- availability of BiznesPI@net for PayU/PayByNet payments;
- transfer of the FATCA assessment process from MIFID IT Tool to OKL;
- launch of an infoline for Ukrainian customers;
- launch of the Bank's website in Ukrainian;
- implementation of lease products and leas facilities in the Lease Offers application.

## 12. OPERATIONS OF THE SUBSIDIARIES IN THE CAPITAL GROUP OF BANK BGŻ BNP PARIBAS S.A. IN THE FIRST HALF OF 2017

### 12.1. Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A.

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

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

- investment fund establishment and management;
- intermediation in sale and redemption of units and shares in foreign funds.

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

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

- **BGŻ BNP Paribas FIO**, which started its operations in March 2016. It comprises seven sub-funds with a diversified investment policy, which enable customers to invest both on the local and global market (as at the end of June 2017, assets under management totalled ca. PLN 1 218 million);
- **BGŻ SFIO**, the management of which was taken over by the entity from Ipopema TFI in January 2016, once a relevant authorization had been granted by the Office of Competition and Consumer Protection. It comprises four sub-funds (as at the end of June 2017, assets under management exceeded PLN 46.7 million);
- **BNP Paribas FIO**, which entered the Polish market in 2005. It comprises three sub-funds which invest mainly in the Polish market. BNP Paribas FIO offers also an individual retirement account — *IKE BNP Paribas FIO*, and an individual pension insurance account — *IKZE BNP Paribas FIO* (as at the end of June 2017, assets under management totalled PLN 72.0 million);
- **Avantage FIZ** established in November 2015. It is the first solution in this group of products offered by the entity, which is dedicated mainly to affluent customers as the minimum investment amount is higher and the investment strategy complex (as at the end of June 2017, assets under management exceeded PLN 20.8 million);
- **BGŻ BNP Paribas Globalnej Alokacji FIZ**, established in June 2016. It is based on the THEAM Quant MultiAsset Diversified SICAV FUND managed by THEAM, an entity from the BNP Paribas Group – the participants' assets are invested in foreign fund units. New certificates/units were issued in March 2017 (as at the end of June 2017, assets under management totalled PLN 5.9 million).

**Table 30. Key financial information of TFI BGŻ BNPP**

PLN '000	30.06.2017*	31.12.2016	31.12.2015
Balance sheet total	13 546	12 657	14 845
Long-term investments	627	622	2 618
Equity	10 527	9 755	13 673
including: net profit (loss)	769	(3 595)	(245)

\* *unaudited*

TFI BGŻ BNPP has partnered with Bank to distribute units in the funds that it offers under an agreement concluded with the Brokerage Office of Bank BGŻ BNP Paribas S.A. on 28 January 2015.

The share capital of TFI BGŻ BNPP amounts to PLN 9 048 thousand and is divided into 377 000 shares with the par value of PLN 24.00 each. As at 30 June 2017, its equity totalled PLN 10.5 million and was sufficient to ensure security of the entity's day-to-day operations.



As at 30 June 2017, assets under management of TFI BGŻ BNPP exceeded PLN 1 363.3 million and the entity was ninth on the market as regards the increase in AUM.

Due to a rapid growth observed since mid-2015 (launch of additional products, increased scale of business operations, organizational changes), the entity reported a loss for 2016, but it is now generating profits. Such performance was anticipated under the entity's development plan approved by the Supervisory Board. As the value of AUM of the funds managed by the entity is increasing rapidly, it should generate profits in the subsequent years of its operations.

## 12.2. BGŻ BNP Paribas Faktoring Spółka z o.o.

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

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

The share capital of BGŻ BNP Paribas Faktoring amounts to PLN 10.4 million and is divided into 20 820 shares. As at 30 June 2017, BGŻ BNP Paribas Faktoring held assets totalling PLN 2 020 million.

As at the end of June 2017, BGŻ BNP Paribas Faktoring was the fifth largest factoring company in Poland in terms of turnover (according to the Polish Factors Association) and its market share was 8.8%.

**Table 31. Key financial information of BGŻ BNP Paribas Faktoring Sp. z o.o.**

PLN '000	30.06.2017	31.12.2016	31.12.2015
Balance sheet total	2 020 075	1 901 120	1 005 936
Amounts due from customers	1 824 631	1 782 818	912 173
Equity	16 089	16 386	12 793
including: net profit (loss)	5 679	5 976	2 977

## 12.3. Bankowy Fundusz Nieruchomościowy Actus Spółka z o.o.

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

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

As at 30 June 2017, the entity's investment portfolio comprised undeveloped land in Wrocław-Marszowice, with the area of 46.8468 ha. In accordance with the Local Development Plan, the real property will be used for residential building purposes.

It is the entity's objective to sell the real property on favourable terms.

**Table 32. Key financial information of BFN Actus Spółka z o.o.**

PLN '000	30.06.2017*	31.12.2016	31.12.2015
Balance sheet total	54 652	54 772	54 703
Long-term investments	54 466	54 466	54 487
Equity	46 449	46 557	8 556
including: net profit (loss)	(108)	(895)	(1 527)

\* *unaudited*

## 12.4. BNP Paribas Leasing Services Spółka z o.o.

*(formerly: Fortis Lease Polska Sp. z o.o.)*

On 15 February 2014, under an agreement to transfer the enterprise and assume debt, which was entered into by Fortis Lease Polska Sp. z o.o. ("FLP") and BNP Paribas Bank Polska S.A., the enterprise of FLP was transferred to BNP Paribas Bank Polska S.A. in return for the redeemed FLP shares accounting for 99.98% of its share capital. Thus, the leasing operations of FLP were incorporated into the structure of BNP Paribas Bank Polska S.A.

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

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

On 1 July 2016, the Extraordinary Shareholders' Meeting of FLP adopted a resolution concerning the entity's further existence and changing its name from FLP to BNP Paribas Leasing Services Sp. z o.o. (the "Company"). As of the date of the resolution, FLP has no longer been in liquidation and it is getting ready for resumption of its operations.

On 14 July 2016, 16 August 2016 and 19 August 2016, the Company's Management Board adopted resolutions to establish 51 branches so as to facilitate the registration process.

The change in the Company's name was recorded in the National Court Register on 13 September 2016 and since then the Company has been able to use it.

Its operations were launched in October 2016.

On 3 November 2016, the Company's Management Board adopted a resolution to establish 3 new branches located in Marki, Jelenia Góra and Grodzisk Mazowiecki.

On 28 March 2017, the Company's Management Board adopted a resolution to establish 2 another branches located in Pietrowice Wielkie and Zabrze. Currently, the Company has 56 branches.

As at 30 June 2017, the Company's share capital comprised 2 equal shares with the total par value of PLN 20 000. Total assets amounted to PLN 535 556 thousand.

**Table 33. Key financial information of BNP Paribas Leasing Services Spółka z o.o.**

PLN '000	30.06.2017	31.12.2016	31.12.2015
Balance sheet total	535 556	151 891	4 821
Long-term investments	449 936*	0	0
Equity	(4 358)	724	2 170
including: net profit (loss)	(5 083)	(1 446)	(23)

\* receivables arising from funding provided by the Company

## 12.5. BNP Paribas Group Service Center S.A. (formerly: LaSer Services Polska S.A.)

On 1 December 2015, as declared on 28 July 2015 to the Polish Financial Supervision Authority by BNP Paribas S.A., Bank BGŻ BNPP purchased 100% of shares in LaSer Services Polska S.A. from BNP Paribas S.A. Personal Finance. On 20 June 2016, the General Shareholders' Meeting of LaSer Services Polska S.A. amended the entity's articles of association. Additionally, the name of the entity was changed to BNP Paribas Group Service Center S.A. The changes were recorded in the National Court Register on 12 September 2016.

The scope of the entity's business activity includes:

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

**Table 34. Key financial information of BNP Paribas Group Service Center S.A.**

PLN '000	30.06.2017	31.12.2016	31.12.2015
Balance sheet total	21 254	25 594	14 631
Short-term investments	13 636	20 420	11 986
Equity	19 395	23 879	13 340
including: net profit (loss)	10 416	16 554	2 313

## 13. KEY RISK MANAGEMENT

The Bank identifies, measures, monitors and manages the risks involved in its business operations.

In particular, the following risks are identified in the risk monitoring, control and management process:

- credit risk;
- counterparty risk;
- market risk;
- interest rate risk in the banking portfolio;
- liquidity risk;
- operational risk;
- compliance risk;
- business risk (non-achievement of BEP);
- reputation risk;
- strategic risk;

- leverage risk;
- model risk;
- solvency 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 define the applicable limits for measurable risks. All methods and procedures are regularly reviewed to ensure that they are appropriate and reliable. The Bank relies on validation tests and stress tests, in addition to back testing. For non-measurable risks, the procedures are analysed and monitored periodically 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 and Risk 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 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 management strategy and adopts the risk management policies in addition to the material risk limit policy and risk control procedures. The risk management principles are derived from the *Risk Management Strategy* defined by the Management Board and accepted by the Supervisory Board.

## 13.1. Credit risk

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

The Bank's credit risk management system has been defined in the *Credit Policy of Bank 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.

## The Bank's subsidiaries

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

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

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

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

## Debt restructuring and collection

In the first half of 2017, recoveries totalled PLN 323.4 million, including:

- PLN 143.5 million at the legal debt collection stage (Personal Finance: PLN 54 million, micro-enterprises: PLN 38 million, SME – PLN 32.4 million and mortgage loans: PLN 16 million, corporate entities – PLN 3.1 million)
- PLN 109.4 million from the loan portfolio restructuring;
- PLN 70.5 million from sale of the NPL portfolio.

In the first half of 2017, the Bank issued 9 500 enforcement titles.

## 13.2. Liquidity, currency and interest rate risk

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

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

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

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

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

Liquidity, currency and interest rate risk is monitored using a formal system of limits and reports, implemented as part of dedicated risk management policies, accepted at the level of the Bank's Management Board. The system of limits comprises the majority of liquidity, currency and interest rate risk parameters analysed 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 management of the position in excess of 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 behaviour, 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 (intraday) liquidity — present day;
- future liquidity — beyond the present day, broken down into:
  - current liquidity — within 7 days;
  - short-term liquidity — more than 7 days to 1 month;
  - medium- and long-term liquidity — more than 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. Short- and long-term lines of credit, including subordinated loans, were mainly extended by the BNP Paribas Group, the European Bank for Reconstruction and Development, the European Investment Bank and the Council of Europe Development Bank.

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

## Loan financing structure

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



**Table 35. Loan portfolio financing structure**

PLN million	30.06.2017
<b>Net loans and advances</b>	<b>53 779</b>
<b>Total sources of funding</b>	<b>60 279</b>
Customer deposits, including:	53 562
- individual customers	27 609
- corporate	24 777
- other financial institutions	1 176
Long-term lines of credit	6 333
Debt securities issued	384

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 BNPP Group, which provides stable funding to address such shortages in EUR, USD and CHF. This concerns, in particular, the CHF housing loan portfolio, for which a stable level of funding has been secured by the Bank. As at 30 June 2017, the structure of open long-term lines of credit was as follows:

**Table 36. Structure of loans from the BNP Paribas Group**

million	30.06.2017
CHF	1 008
EUR	231
PLN	641

**Table 37. Structure of loans from EBRD, EIB and CEB**

million	30.06.2017
EUR	132
PLN	263

## 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 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 analysed 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 2017 and the verification did not identify the necessity to make any adjustments.

## Interest rate risk in the banking book

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

For purposes of management of its interest rate risk in the banking book, the Bank has identified two sub-portfolios:

- the standard portfolio, where interest rate risk arises from those instruments/positions which are not a source of uncertainty or volatility, which means that their exposure to interest rate risk results in whole from the parameters defined in the agreement, e.g. a loan which may not be repaid early;
- the structural portfolio with instruments/positions:
  - whose parameters may differ depending on customer behaviour, the economic environment or competition and which may be secured only in part, e.g. loans which may be repaid early, savings accounts whose interest rates are not based on market rates of interest, interest-bearing current accounts and demand deposits;
  - non-interest-bearing equity and liabilities, such as non-interest-bearing current accounts, demand deposits and equity;
  - equity investments and derivatives used as interest rate risk hedges for the 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 the standard portfolio;
- a mismatch between the repricing dates of assets and liabilities ("gapping"), collectively and by the main currencies for the aggregate ALM Treasury portfolio;
- sensitivity of interest income to defined — expected and crisis — yield curve scenarios, assuming different yield curve scenarios, where EaR is the difference between the highest and the lowest result relative to the base result (determined by reference to market rates);
- One Year Equivalent (OYE) — a measure of sensitivity of the fair value of the balance sheet, expressed as the nominal value of the annual transaction (item) with the same sensitivity.

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

The table below presents the accumulated interest rate gap for the banking portfolio as at 30 June 2017. The use of the limits is below the maximum thresholds.

**Table 38. Interest rate gap (PLN million)**

Term	Gap
1M	-5 728
3M	-354
6M	297
1Y	-2 500
2Y	-3 447
3Y	-2 890
5Y	-1 243
10Y	100

### 13.3. Counterparty risk

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

As at the end of June 2017, 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 quarter of 2017, the Bank's exposure to counterparty risk in the corporate segment went down by 11% while the exposure to banks decreased by 10%.

### 13.4. Country risk

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

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

As at 30 June 2017, foreign lending operations of the Bank accounted for 59.1%, international trade transactions for 31.5%, treasury transactions (including deposits and derivatives) represented 9.3% and derivative transactions entered into with foreign corporate customers represented 0.1% of the Bank's country risk exposure. France accounted for 26%, the Netherlands for 15%, Germany for 13% and Switzerland for 9% of the exposure. The remaining exposure was related to the UK, Belgium, Luxembourg and Turkey.

## 13.5. Operational risk

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

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

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

- tools used for purposes of recording operational events, together with the principles of their recording, allocation and reporting;
- operational risk analysis, its monitoring and day-to-day control;
- counteracting an elevated level of operational risk, to include risk transfer;
- calculation of the capital requirement related to the 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 offense 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. The said document lays down the key principles, defines the organizational framework and establishes the standards of the Bank’s internal control environment. The Bank’s internal control objectives are, in particular, improvement of efficiency of controls as part of a uniform, effective internal control system based on three control levels, as well as improvement of the process of the Bank responding to identified internal control inefficiencies and raising the risk awareness in the organization. The Bank’s management is involved in the process of ensuring and confirming the efficiency of the key processes and controls (management sign-off).

Functional control is exercised in accordance with the “*Functional Control Rules of Bank BGŽ BNP Paribas S.A.*”.

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 Bank estimates its regulatory capital necessary to cover operational risk in accordance with the applicable regulations. The said calculation is performed using the standardized approach (STA). Requirements for the Bank’s subsidiaries, at the consolidated level, are determined using the basic indicator approach (BIA).

## The Bank’s subsidiaries

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

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

In particular, the operational risk strategy and policy adopted by the subsidiaries lay down the operational risk management principles and involve establishment of organizational units (or independent positions or functions) responsible for operational risk management. They also cooperate with the Operational Risk Department, which ensures that supervision measures applicable to operational risk management in the Group are employed. Additionally, for purposes of operational risk management, the Bank’s subsidiaries use the same risk definitions as those adopted by the Bank. In compliance with the supervisory regulations, the Bank records operating losses of its subsidiaries on the basis of information provided by such entities.

## 13.6. Legal risk

As at 30 June 2017, no proceedings had been instituted before courts, arbitration or public administration bodies with respect to the Bank's receivables or liabilities, the value of which would exceed 10% of the Bank's equity.

As at 30 June 2017, the total disputed amount in litigation against the Bank (except adverse claims and proceedings to annul legal transactions) was PLN 159 747 181.10. The total value of the litigation initiated by the Bank was PLN 393 340 563.07.

### 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 fine 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. The case was admitted by the Supreme Court on 4 April 2017 but the date of session has not been defined yet.

### Corporate claims against the Bank (interchange fee)

By 30 June 2017, the Bank received 26 calls for settlement from companies using payment cards. The total amount of these claims was PLN 986.06 million, including PLN 975.99 million where the Bank had joint and several responsibility with other banks. The claims were related to the interchange fees determined under agreements for restricting competition.

### Proceedings instigated by the Bank's customers being parties to CHF indexed and/or denominated loan agreements

As at 30 June 2017, the Bank was a defendant in sixty (60) cases filed by customers to annul CHF indexed or denominated mortgage loan agreements (the "CHF loans") by means of a statement that the Bank granted loans in PLN without denomination in a foreign currency or to claim damages for the Bank's abuse of subjective rights, to include principles of community life, and misinforming customers, or to cancel the enforcement title.

The number of claims filed by customers in relation to CHF loans has increased considerably since January 2017.

The total value of the claims is PLN 27.9 million.



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

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

The merger of three complementary organizations enabled the establishment of a financial institution willing to become the leading integrated universal bank in Poland, which combines top-quality service with operational efficiency and profitability of operations. The Bank's share in the loan market reached the level of 4.9% and y 4.5% in the deposit market. As at the end of June 2017, the BGZ BNP Paribas S.A. Group was the sixth largest banking group in Poland in terms of asset value.

In April 2016, the Management Board of the Bank adopted the Bank's revised Growth Strategy for 2016-2018. The Bank is planning to base its growth on four pillars:

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

Completion of the operational integration of the merged institutions is a precondition for effective implementation of the Strategy. Services to customers are provided under a single brand — BGŻ BNP Paribas. However, achievement of the strategic objectives of the Group will only be possible after completion of the operational merger, including migration of all customers to one system and standardization of the expanded product offering, which will close the integration process. Migration of data of the customers of BGŻ S.A. and BNP Paribas Polska S.A. to a single IT system on 11 November 2016 was the major step ending the operational merger of these two institutions. Migration of Sygma Bank Polska customer data, planned for the second half of 2017, will be the last stage of the integration process.

Effective migration of customer data and completion of the operational merger marks a new phase of the Group's business development on the Polish market. Reliance on the same systems, a standardized offering and uniform processes will allow the Group to optimize its costs and use the available resources on business and banking development initiatives. In 2017, the Group is planning to place a special focus on the development and improvement of online and mobile banking solutions, in addition to a review and modernization of its organizational processes.

Optimization of the range of products offered and elimination of redundant distribution chain links will contribute to an increase in profitability and enable the Bank to expand its operations onto new areas and new customers, thus ensuring sustainable growth. This will be supported by 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 Strategy, the Bank intends to further strengthen its presence in all major areas of operation. Reinforcing the current leading position in the agri-food sector, using the leader's position in consumer credit and establishing model banking solutions dedicated to large enterprises and multinational corporations in Poland while drawing on the global experience of the BNP Paribas Group are the key areas of the business expansion of the Group of Bank BGŻ BNP Paribas S.A. in 2017.

Based on the completed operational merger of Bank BGŻ and BNP Paribas Bank Polska and the planned close of the operational merger with Sygma Bank Polska, in 2017 the Group intends to focus on cross-sell in addition to offering new products to the existing customers and acquiring new ones. This approach will be adopted for both individual customers (consumer finance, current accounts, investment funds) and SMEs (increase in the number of customer transactions).

In the corporate customer segment, a better use of the opportunities related to cross-border transactions, factoring facilities and leases is a chance for the Bank to grow.



As a result of the merger, once the expected synergies have been achieved from complementarity, increased scale of operations and process improvement, the Bank expects that its key operating ratios and financial efficiency will improve. On the one hand, achievement of these benefits depends on internal factors, i.e. the ability to obtain the expected results of the operational integration process and on the other, on external conditions, mainly the economic situation and the regulatory environment. The scale of efficiency improvements and their pace depend largely on cost base reduction. The expected cost synergies are partly offset by process reorganization costs as well as the Bank's spending on innovations relating to the solutions and products that it offers.

In the context of the Group's growth prospects and opportunities, one should emphasize the importance of incorporation of Sygma Bank Polska in the structure of Bank BGŻ BNP Paribas S.A., which was effected in May 2016, for strategy implementation. The merger has contributed to the extension of the range of products offered by the Bank on the consumer finance market. The integrated consumer finance products (instalment loans, cash advances, car loans, credit cards as well as partner and loyalty programs) ensure comprehensiveness of the Bank's offering in this area, in addition to increasing the scale of its operations and improving its competitive advantage.

The customers of the former Sygma Bank Polska have gained access to a wider range of banking products and the distribution network of Bank BGŻ BNP Paribas. On the other hand, the Bank has been able to incorporate 116 Customer Service Points of the former Sygma Bank Polska into its sales network.

A reduction of the uncertainty about economic developments represents an opportunity for the market. Rapid economic growth in the first quarter of 2017 (an increase of 1.1% on the preceding quarter and of 4.0% on the preceding year) and stabilization of the leading indicators at high levels may suggest that the GDP growth rate will remain fast in the upcoming months. Considering a strong increase in household income and the anticipated acceleration of the absorption of EU funds, the final domestic demand (consumption and investments) is likely to be the key driver of GDP growth by ca. 3.5-4.0% YoY throughout 2017.

The developments on the job market may be a negative factor. Lowering the pension age at the end of the year and the Ukraine visa waiver within the European Union may reduce the labour supply in the upcoming quarters. In the short term, a limited labour supply may intensify the pay pressure. In the medium and long term, it may slow down the potential and real GDP growth rate.

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

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

### **Fairness and reliability of the presented financial statements**

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

- the Consolidated Interim Report of the Capital Group of Bank BGŻ BNP Paribas S.A. for the period of 6 months ended 30 June 2017 and the comparative information have been prepared in conformity with the applicable accounting principles and they reflect, truly, fairly and clearly, the economic and financial position of the Capital Group of the Bank as well as its financial performance in all material respects.
- The Management Board's Report on the Activities of the Capital Group of Bank BGŻ BNP Paribas S.A. in the first half of 2017 gives a true view of the development and achievements as well as the position of the Capital Group of the Bank, including a description of the key risks and threats.

### **Appointment of the entity authorized to audit financial statements**

The Management Board of Bank BGŻ BNP Paribas S.A. hereby represents that Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Warsaw, an entity authorized to audit financial statements, was appointed under Section 20.1.1g) of the Statute of Bank BGŻ BNP Paribas S.A. by the Supervisory Board of the Bank (Resolution of the Supervisory Board No. 79/2015 of 11 June 2015) in accordance with the laws in force, as the entity responsible for reviewing the consolidated financial statements of the Capital Group of Bank BGŻ BNP Paribas S.A. for 2017; and that the said entity and the certified auditors conducting the review satisfy the conditions to issue an unbiased and independent report on the review, in accordance with the applicable Polish laws.

## 16. SIGNATURES OF MEMBERS OF THE MANAGEMENT BOARD OF BANK BGŻ BNP PARIBAS S.A.

30 August 2017	<b>Tomasz Bogus</b> <i>President of the Management Board</i>	signature
30 August 2017	<b>Jean-Charles Aranda</b> <i>Member of the Management Board</i>	signature
30 August 2017	<b>Daniel Austra</b> <i>Vice-President of the Management Board</i>	signature
30 August 2017	<b>François Benaroya</b> <i>Vice-President of the Management Board</i>	signature
30 August 2017	<b>Philippe Paul Bézieau</b> <i>Vice-President of the Management Board</i>	signature
30 August 2017	<b>Blagoy Bochev</b> <i>Vice-President of the Management Board</i>	signature
30 August 2017	<b>Wojciech Kemblowski</b> <i>Vice-President of the Management Board</i>	signature
30 August 2017	<b>Magdalena Legęć</b> <i>Vice-President of the Management Board</i>	signature
30 August 2017	<b>Jaromir Pelczarski</b> <i>Vice-President of the Management Board</i>	signature
30 August 2017	<b>Jerzy Śledziwski</b> <i>Vice-President of the Management Board</i>	signature
30 August 2017	<b>Bartosz Urbaniak</b> <i>Member of the Management Board</i>	signature