

---



# **BANK BGŻ BNP PARIBAS S.A.**

## **MANAGEMENT BOARD REPORT ON THE ACTIVITIES IN 2017**

---

*This document is a translation of a document originally issued in Polish. The only binding version is the original Polish version.*



**BGZ BNP PARIBAS**

The bank for a changing world

## TABLE OF CONTENTS

<b>1. BANK BGŻ BNP PARIBAS S.A.</b> .....	<b>4</b>
1.1. Structure of the Capital Group .....	5
<b>2. EXTERNAL FACTORS AFFECTING THE BANK'S OPERATIONS IN 2017</b> .....	<b>6</b>
2.1. Macroeconomic conditions .....	6
2.2. Performance of the banking sector .....	8
2.3. Stock market and investment situation .....	11
<b>3. MAJOR EVENTS IN BANK BGŻ BNP PARIBAS S.A. IN 2017</b> .....	<b>13</b>
<b>4. GOVERNING BODIES OF BANK BGŻ BNP PARIBAS S.A.</b> .....	<b>19</b>
4.1. Composition of the Supervisory Board .....	19
4.2. Composition of the Management Board .....	19
4.3. Remuneration paid to the Management Board and Supervisory Board .....	20
<b>5. RATINGS</b> .....	<b>23</b>
<b>6. AWARDS AND DISTINCTIONS</b> .....	<b>23</b>
<b>7. SHAREHOLDER STRUCTURE OF BANK BGŻ BNP PARIBAS S.A.</b> .....	<b>24</b>
<b>8. SHARE PRICE OF BANK BGŻ BNP PARIBAS S.A. ON WSE</b> .....	<b>26</b>
<b>9. FINANCIAL STANDING OF BANK BGŻ BNP PARIBAS S.A.</b> .....	<b>27</b>
9.1. Separate statement of profit or loss .....	27
9.2. Statement of comprehensive income .....	35
9.3. Statement of financial position .....	35
9.4. Equity and capital ratios .....	41
9.5. Financial ratios .....	44
9.6. Average interest rates used by the Bank .....	45
<b>10. FACTORS WHICH, ACCORDING TO THE BANK, WILL AFFECT THE BANK'S PERFORMANCE WITHIN AT LEAST THE NEXT QUARTER</b> .....	<b>46</b>
<b>11. OPERATIONS OF BANK BGŻ BNP PARIBAS S.A. IN 2017</b> .....	<b>48</b>
11.1. Branches and ATM network .....	48
11.2. Alternative distribution channels .....	49
11.3. Retail and Business Banking .....	50
11.4. Personal Finance .....	57
11.5. Operations of the Brokerage Office of Bank BGŻ BNP Paribas S.A. ....	59
11.6. SME Banking .....	60
11.7. Corporate Banking .....	65
11.8. Corporate and Institutional Banking .....	68
11.9. Other banking activity .....	69
11.10. Cooperation with financial institutions .....	69
11.11. Human resource management .....	69
11.12. Information technology .....	72
11.13. Agreements concluded with central banks and supervisory authorities .....	73
<b>12. KEY RISK MANAGEMENT</b> .....	<b>74</b>
12.1. Credit risk .....	75
12.2. Liquidity, currency and interest rate risk .....	76
12.3. Counterparty risk .....	80
12.4. Country risk .....	80
12.5. Operational risk .....	81
12.6. Legal risk .....	83

13.REPORT ON BANK BGŻ BNP PARIBAS' COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES.....	84
13.1. Statement of compliance with corporate governance principles in 2016.....	84
13.2. Information concerning the Bank's compliance with the recommendations and principles of the Best practices for WSE listed companies 2016 .....	91
14.INFORMATION ON CERTIFIED AUDITOR.....	94
15.CORPORATE SOCIAL RESPONSIBILITY (CSR) .....	95
15.1. Report on the non-financial information .....	101
16.SPONSORSHIP AND CHARITY.....	102
17.GROWTH PERSPECTIVES OF BANK BGŻ BNP PARIBAS S.A.....	103
18.SUBSEQUENT EVENTS .....	105
19.STATEMENTS OF THE MANAGEMENT BOARD OF BANK BGŻ BNP PARIBAS S.A. ....	106
20.SIGANTURES OF MEMBERS OF MANAGEMENT BOARD OF BANK BGŻ BNP PARIBAS S.A. ....	107

# 1. BANK BGŻ BNP PARIBAS S.A.

Bank BGŻ BNP Paribas S.A. (hereinafter referred to as the “Bank”, “Bank BGŻ BNP Paribas”) operates within BNP Paribas, a leading international financial group, operating in 74 countries, with over 190,000 employees, of which more than 146,000 in Europe. The BNP Paribas Group operates in two key areas:

- Retail Banking and Services, which includes Domestic Markets and International Financial Services; and
- Corporate and Institutional Banking.

The BNP Paribas Group supports its clients (retail customers, local authorities, entrepreneurs, SME, corporate customers and institutions) in the implementation of various projects, offering a broad range of financial, investment and savings products along with insurance.

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

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

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

The Mission of the Bank is to responsibly deliver innovative financial solutions which enable our clients to change their world and which support local economy.

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

Bank BGŻ BNP Paribas is a universal bank with a full product offer, addressed to Polish and international corporations, SME, farmers and retail clients, present in local communities.

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

- **The most client-oriented bank in Poland**, nurturing close, long-term relations with clients through:
  - building neighbourly relations with retail customers and SME in small towns and cities;
  - adapting international corporate banking solutions to local customers' needs;
  - providing an offer for every retail customer segment and concentrating on chosen industries in SME and corporate banking;
  - maintaining high quality of customer services;
- **A strong local bank with global reach**, which supports further growth of the Polish economy, the best partner and the Bank of choice for companies considering foreign expansion, owing to the position of BNP Paribas Group, including:
  - dedicated foreign service centres in five world regions which help their local customers liaise with their potential business partners abroad;
  - a selection of financial products which enable to participate in international trade market;
- **A universal and integrated bank** for Polish and international corporate customers, SME, farmers and retail customers; the bank that continues its growth on the Polish market, maintains No. 1 position in the agro-food segment, remains the leader in the consumer credit segment and holds a leading position in terms of providing services to large enterprises and international corporations through:
  - improving cooperation between business lines and Group entities in customer service;
  - developing a greater number of overlapping products and business lines' shared focus on the sectors;
  - comprehensive customer service, dedicated offer for each industry and comprehensive supply chain finance;
- **A fully mobile bank, accessible to its customers** through the branch network, ensuring strong relationships with customers, including medium and small towns. The Bank that is capable of satisfying the needs of the existing customers and winning new, young and forward-thinking customers through:
  - implementation of new mobile banking functionalities;
  - transformation of single-product offers such as Optima, iGotówka;
  - optimization and automation of back-office processes and expansion of the IT platform.

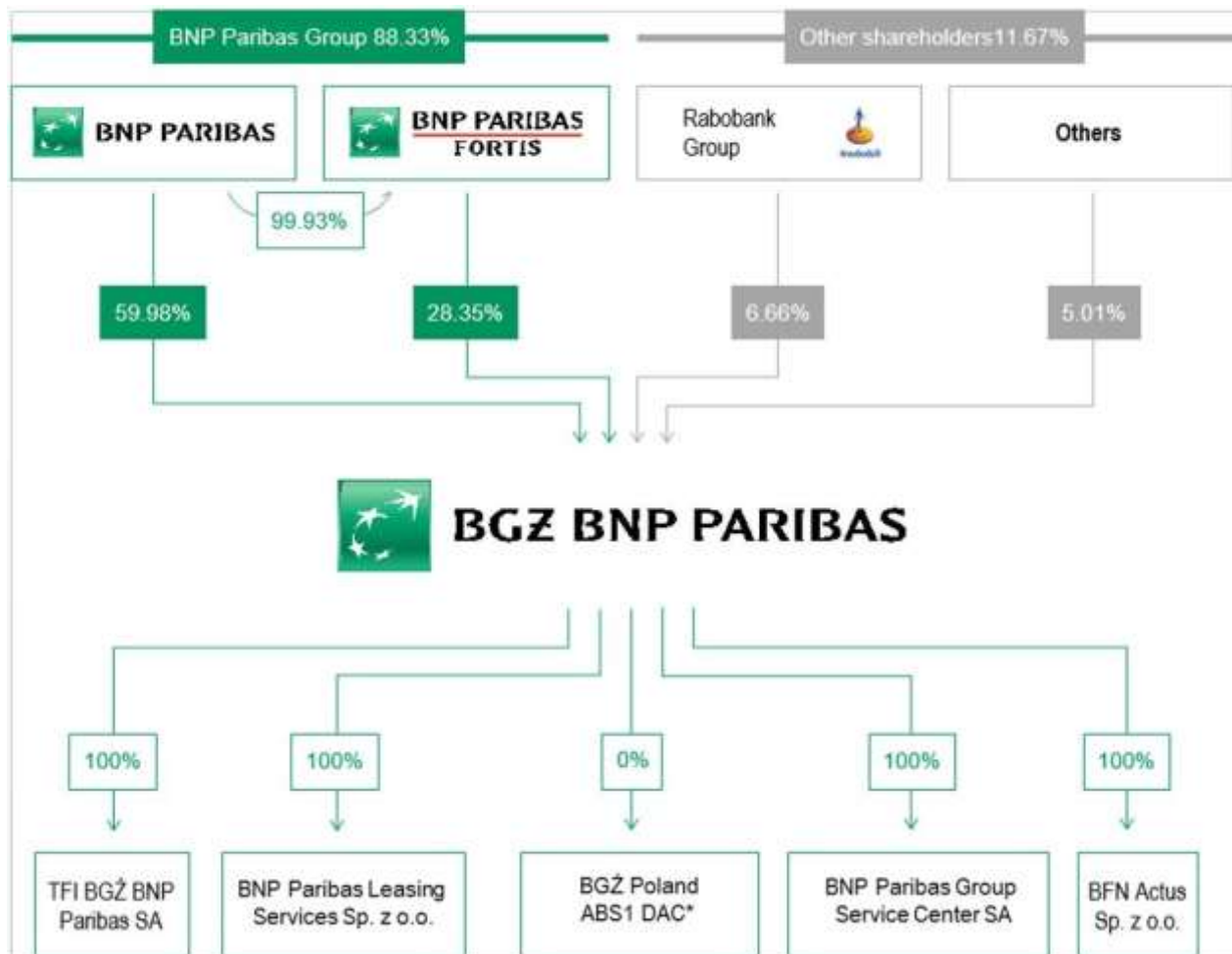
## 1.1. Structure of the Capital Group

Composition of the Group as of 31 December 2017:

- Bank BGŻ BNP Paribas S.A. – the parent, and
- subsidiaries listed below:

Entity's name	Core business	Bank's interest in share capital	Consolidation and measurement method
Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A. („TFI BGŻ BNPP”)	investment fund establishment and management	100.0%	full method
Bankowy Fundusz Nieruchomościowy ACTUS Sp. z o.o. („Actus”)	purchase and sale of real estate	100.0%	full method
BNP Paribas Leasing Services Sp. z o.o. („Leasing”)	leases	100.0%	full method
BNP Paribas Group Service Center S.A. („GSC”)	financial agency services	100.0%	full method
BGZ Poland ABS1 DAC („SPV”)	SPV created for the purpose of securitization transaction	0.0%	full method

Structure of the Bank's shareholders and its Capital Group composition are as follows:



\* BGZ Poland ABS1 DAC („SPV”) registered in Ireland, 3RD Floor Kilmore House, Park Lane, Spencer Dock, Dublin. An SPV company with which the Bank performed a securitization transaction of a part of the loan portfolio. The Group has no equity contribution in this entity. The company is controlled by Bank BGŻ BNP Paribas S.A. due to the fulfilment of the control conditions contained in IFRS 10

In December of 2017 the Bank sold 100% of BGŻ BNP Paribas Faktoring Sp. z o.o. shares (i.e. 20.820 shares amounting to PLN 10,410 thousand), representing 100% of the share capital and 100% of the votes at the entity shareholders' meeting for the aggregate price equal to PLN 10,410 thousand in favour of BNP Paribas S.A., a French stock corporation (Societe Anonyme), with its registered office in Paris, operating in Poland through its branch BNP Paribas S.A. Oddział w Polsce, with its registered office in Warsaw.

Due to the above transaction, the investment in Bank's subsidiaries decreased in accordance with the book value of BGŻ BNP Paribas Faktoring Sp. z o.o., i.e. PLN 7,653 thousand. The profit amounted to PLN 2,757 thousand and is presented in the statement of profit or loss, in net investment income.

After closing the transaction the Bank and BGŻ BNP Paribas Faktoring Sp. z o.o. will continue their existing cooperation, supporting the Bank's customers with a wide range of high quality factoring services.

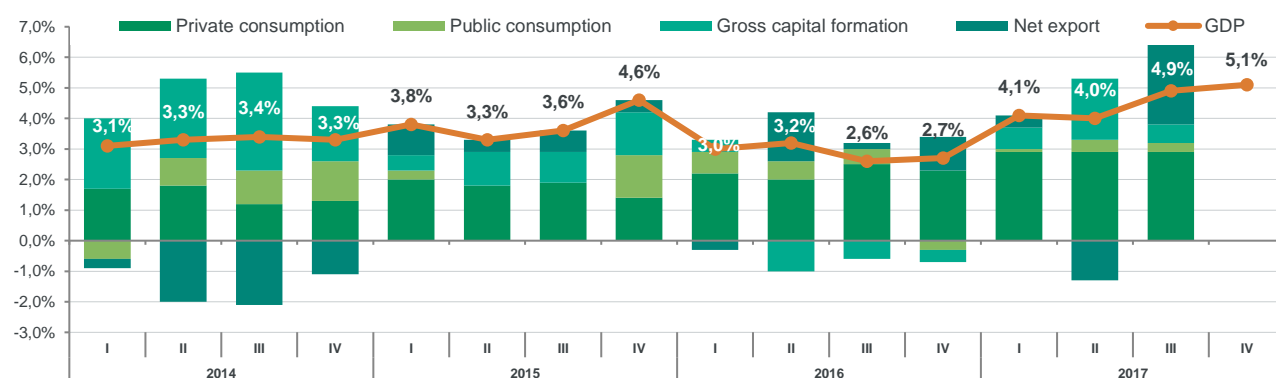
## 2. EXTERNAL FACTORS AFFECTING THE BANK'S OPERATIONS IN 2017

### 2.1. Macroeconomic conditions

#### GPD

In the first three quarters of 2017 Polish GDP increased, by 4.3% y/y on average, with a faster growth rate in the third quarter, with an increase of 4.9% y/y. Economic activity data for October-December - as well as a preliminary estimate of GDP growth in 2017 at the level of 4.6% - also point to an increase by c. 5% y/y. According to CSO (Polish Central Statistical Office) data, the main factor driving economic growth in the first three quarters of last year was household consumption, which increased by 4.8% y/y on average. According to preliminary data for the entire 2017 year, the increase in consumption households' expenditure also amounted to 4.8%. The rapid increase in consumption resulted from a favourable situation on the labour market, including an acceleration of wage growth and higher social benefits which resulted from a government program Rodzina 500+. Despite an improvement in the absorption of EU funds, the investment growth rate remained relatively low and amounted to an average of 1.2% y/y in the first three quarters of 2017. In the third quarter, however, the increase in capital expenditure accelerated to 3.3% y/y, and the preliminary estimate of an increase in capital expenditure to 5.4% in 2017 suggests a further acceleration in capital expenditure in the final quarter of last year. In 2018, investment growth is expected to continue, primarily in the public sector.

Chart 1. GDP growth (y/y)



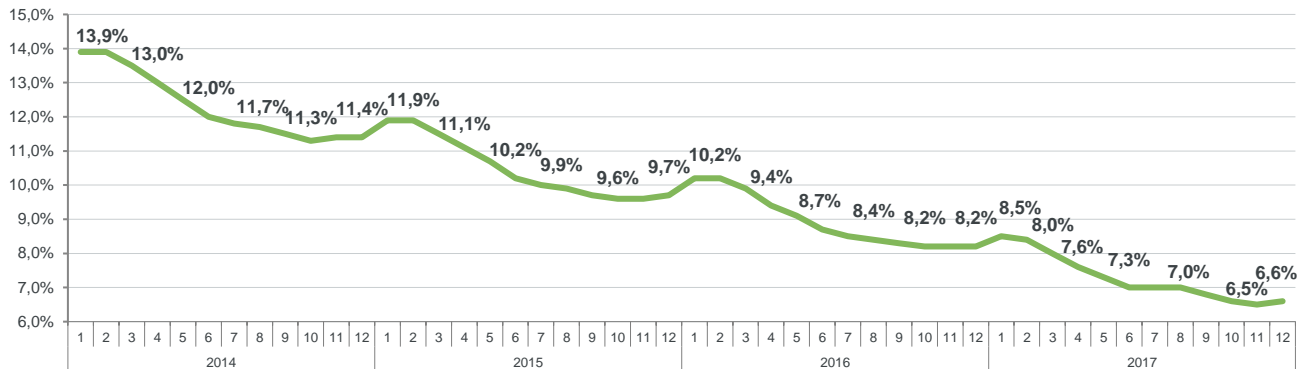
Source: Central Statistical Office

#### Business activity

In 2017 industrial production increased by 6.5% on average as compared to 3.0% in 2016. Contributing factors to acceleration of production growth were both higher foreign demand and a good domestic economic situation. Construction and assembly production increased by 12.5% in the last year, following a major decline of 14.4% in 2016. Improved situation in construction was a result of a rebound in public sector investments, mainly within the infrastructure

area , co-financed by EU funds. A reflection of strong consumer demand within the past year was the acceleration in the growth of real retail sales to 7.1% as compared to an increase of 5.4% in 2016.

**Chart 2. Registered unemployment rate**



Source: Central Statistical Office

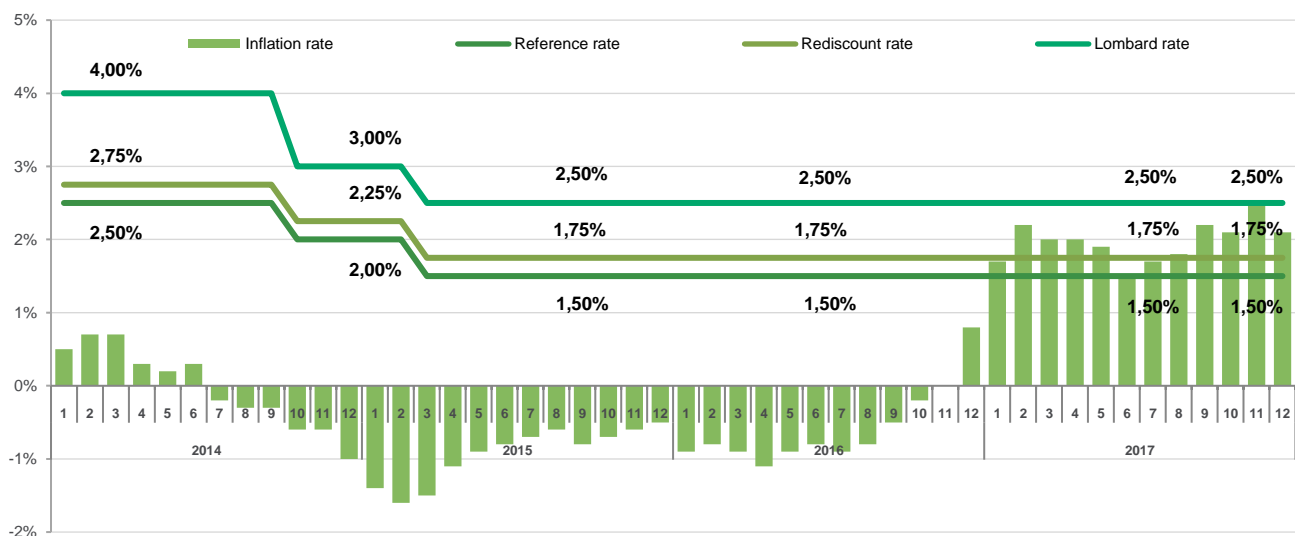
**Inflation**

The average annual CPI inflation amounted to 2.0% in 2017, in December the prices of consumer goods and services increased by 2.1% y/y. In comparison, in 2016 the CPI index decreased by 0.6% on average. The increase in inflation was mainly due to higher prices of fuels, other energy carriers and food. Simultaneously, core inflation, excluding food and energy prices, also increased to 0.7% (on an annual average) and to 0.9% y/y in December 2017. Demand pressure and acceleration of wage growth indicate the possibility of further acceleration in core inflation as well as CPI inflation in the coming months.

**Monetary policy**

In 2017, the Monetary Policy Council (MPC) maintained the interest rates unchanged. The stabilization of interest rates in Poland was due mainly to the supply-related nature of the accelerating inflation and the ECB's very smooth monetary policy. The acceleration of core inflation in Poland and the likely phasing out of the asset purchase program by the ECB suggest, however, the possibility of beginning of interest rate increases cycle by the MPC before the end of 2018.

**Chart 3. Inflation and interest rates**



Source: Central Statistical Office, National Bank of Poland

## Bonds market

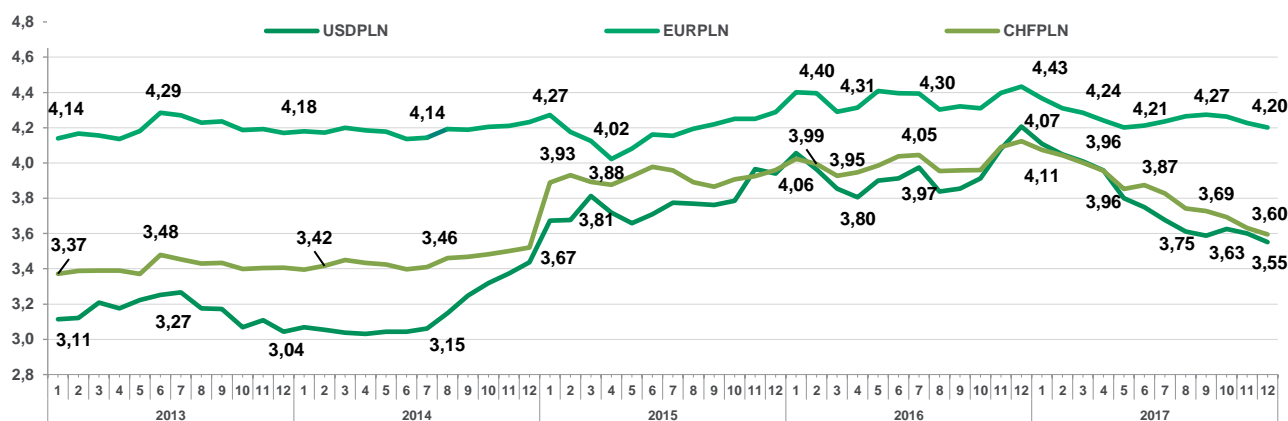
In the past year, Treasury bond yields in Poland were influenced by the situation on core markets and by domestic data on inflation, public debt, as well as investors' expectations regarding the future monetary policy of the MPC. After increases in profitability at the beginning of the year (up to 2.25% for two-year bonds, 3.15% for five-year bonds, and almost 3.90% for 10-year bonds), caused by significant acceleration of inflation, the yields of long- and medium-term bonds on the domestic market began to decline in March and stabilized in the middle of the year. At the end of December, the yield on 5-year Treasury bonds was 2.65%, and 3.30% in case of 10-year bonds. On the other hand, the yield on 2-year Treasury bonds, after rising to over 2.20% in the first quarter, fell to around 1.70% at the end of 2017.

A good situation in terms of government budget and a drop in the ratio of public debt to GDP to about 53% from over 54% in 2016, contributed to a decrease in the risk premium for long-term Polish bonds (measured by the spread against 10Y German bonds) to below 290bps in December 2017 from over 335bps at the end of 2016.

## Currency market

In 2017, the Polish zloty strengthened significantly against major currencies. The EUR/PLN exchange rate decreased to the level below 4.20 in December, as compared to c. 4.37 in January. The rapid appreciation of the euro against both the US dollar and the Swiss franc caused a significant appreciation of Polish zloty against these two currencies. At the end of the year, the USD/PLN exchange rate fell below 3.55, and the CHF/PLN exchange rate was below 3.60, as compared to 4.05-4.10 for both of these currency pairs at the beginning of last year. An important macroeconomic factor favouring the appreciation of the domestic currency was a significant acceleration in the productivity of the manufacturing sector.

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, the net profit of the Polish banking sector in 2017 decreased by 2.3% y/y, to the level of PLN 13.6 billion (as compared to PLN 13.9 billion in 2016).

The deterioration in the net result of the sector (y/y) was determined by a single event in June 2016, i.e. the sale of shares in the payment organization Visa Europe, the American company Visa Inc. According to the PFSA data, this transaction resulted in a one-off income (before tax) of almost PLN 2.5 billion. This income was fully compensated in 2017 by high increases of: interest income (by 12.1% y/y, i.e. by approx. PLN 4.6 billion) and commission income (by 9.1% y/y, i.e. approx. PLN 1.2 billion). As a consequence, the net result of banking activity of the sector in 2017 was 4.1% (i.e. approx. PLN 2.5 billion) higher than in 2016.



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

PLN million	12 months	12 months	Change y/y	
	ended 31.12.2017	ended 31.12.2017	PLN million	%
Net interest income	42,629	38,024	4,604	12.1%
Net fee and commission income	13,743	12,592	1,151	9.1%
Dividend income	1,168	1,308	(140)	(10.7%)
Other items	4,223	7,390	(3,167)	(42.9%)
<b>Net income on banking activity</b>	<b>61,763</b>	<b>59,315</b>	<b>2,448</b>	<b>4.1%</b>
Other operating income	2,062	2,457	(396)	(16.1%)
Operating expenses, personnel expenses	(16,633)	(15,727)	(906)	5.8%
General administrative expenses	(16,386)	(15,936)	(451)	2.8%
Depreciation and amortization	(2,949)	(2,913)	(37)	1.3%
<b>Total expenses</b>	<b>(35,969)</b>	<b>(34,575)</b>	<b>(1,393)</b>	<b>4.0%</b>
Impairment losses on assets and other provisions	(9,505)	(9,092)	(414)	4.5%
<b>Profit before income tax for the period</b>	<b>18,360</b>	<b>18,326</b>	<b>34</b>	<b>0.2%</b>
Income taxes and other statutory reductions of profit	(4,761)	(4,192)	(569)	13.6%
<b>Net profit for the period</b>	<b>13,600</b>	<b>13,914</b>	<b>(314)</b>	<b>(2.3%)</b>

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

Apart from the high base effect related to the VISA transaction, a significant negative contribution to the y/y net result of the sector included: a drop in other operating income (by 16.1% y/y, i.e. PLN 0.4 billion) and in particular, the sustained increase in general operating expenses (by 4.0% y/y, i.e. approx. PLN 1.4 billion). The latter was related primarily to the increase in personnel expenses and a different period related to tax on the assets of certain financial institutions (in 2017 banks paid for the full 12 months, and in 2016 for 11 months, from the date of introduction, i.e. from February). Moreover, the increase in the sector's cost base was accompanied by a deterioration (by PLN 0.4 billion, i.e. 4.5% y/y) of the impairment losses on assets and other provisions.

According to NBP data, 2017 brought a slight decrease in the nominal dynamics of banks' receivables due to loans for non-bank customers. At the end of 2017, it amounted to 3.7% y/y, while it was 4.9% y/y at the end of 2016. However, decisive impact on this decline had a strengthening of the Polish zloty against the main currencies of the core markets, and not an actual slowdown in new lending. An actual major decrease was noted in the deposit activity of non-banking clients. The annual rate of their deposits reached 4.2% at the end of 2017, while at the end of 2016 it amounted to 9.4%.

Private loans increased by 1.1% y/y at the end of 2017, while at the end of 2016 its growth amounted to 5.6% y/y. A determining factor in 2017 was the major deepening of negative dynamics in terms of private debt due to foreign currency mortgage loans (-18.9% y/y, compared to -2.3% at the end of 2016). It was connected with a clear appreciation of the Polish zloty, especially against CHF (by 13.4% y/y at the end of 2017, as opposed to a 4.5% y/y decline at the end of 2016), which was accompanied by marginal new sales of foreign currency mortgage loans and gradual repayment of previously contracted loans.

Despite earlier fears of analysts, in 2017 the moderately high credit growth rate in the PLN mortgage loans segment continued. According to BIK, the banks granted 204.4 thousand of mortgage loans for the total value of PLN 46.5 billion, which constituted an increase of 11.1% y/y in terms of value. The demand for mortgage loans continued to grow due to a number of factors, including a further gradual improvement on the labour market, stable NBP interest rates (the lowest ever in the history), as well as a very good situation on the real estate market. In the first quarter of 2017, significant support was provided by the government program "Mieszkanie dla Młodych" (MdM), which pool of funds for 2017 was exhausted at the end of January.

On the other hand, a more significant acceleration on the mortgage loan market may have been impeded by the financing or co-financing of cash house purchases by a large number of investors (related to the aforementioned lowest interest rates in the history, which resulted in an unattractive interest rate on savings products). The availability and sale of PLN mortgage loans may also have been slightly reduced by the banks' tightening of the own contribution requirements at the beginning of 2017 (increase by 5 pp, up to 20%, in accordance with the amended Recommendation S).

A significant contribution to the growth in the private lending segment in 2017 was again due to consumer loans. This was determined by the continued bank pressure to sell PLN cash loans as short- and medium-term products with high margin. It was accompanied by sustained demand, stimulated by good consumer moods. According to BIK, throughout 2017, banks and Credit Unions granted 7.2 million of consumer loans, their total value being PLN 78.7 billion, which constituted an increase by 3.5% y/y in terms of value.

In 2017, however, a noticeable acceleration in the pace of enterprise segment lending development was noted. The nominal dynamics of corporate debt in banks increased from 5.6% y/y at the end of 2016 to only 6.0% y/y at the end of 2017. However, this was accompanied by the significant appreciation of the Polish zloty against major currencies of the core markets at the end 2017 y/y (as compared to its depreciation at the end of 2016). The adjusted dynamics of the nominal debt of companies in banks - without this factor - would have reached 8.0% y/y. Growth in the corporate loans market should definitely be associated with the general increase in their economic activity, reflected in the strong acceleration of the dynamics of current loans. An additional factor, although probably of lesser significance, was the gradual revival in terms of company investments, visible in the fourth quarter of 2017. This was, however, mainly observed in the public sector.

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

PLN billion	31.12.2017	31.12.2016	31.12.2015	Change y/y	
				2017 vs 2016	2016 vs 2015
<b>Loans to private customers</b>	<b>562.1</b>	<b>556.2</b>	<b>526.8</b>	<b>1.1%</b>	<b>5.6%</b>
- mortgage loans	391.5	397.6	379.0	(1.5%)	4.9%
- in PLN	260.0	235.5	213.1	10.4%	10.5%
- in foreign currencies	131.5	162.1	165.9	(18.9%)	(2.3%)
- consumer loans	167.7	156.9	146.8	6.9%	6.9%
- other loans	2.9	1.7	1.0	73.7%	74.6%
<b>Loans to institutional customers</b>	<b>597.3</b>	<b>562.0</b>	<b>538.7</b>	<b>6.3%</b>	<b>4.3%</b>
- non-bank financial institutions	63.9	56.4	56.0	13.3%	0.7%
- business entities	447.7	422.2	402.0	6.0%	5.0%
corporate	333.3	314.5	297.9	6.0%	5.6%
individual entrepreneurs	73.6	68.6	66.2	7.3%	3.6%
farmers	33.8	32.6	31.8	3.6%	2.7%
non-commercial institutions	6.9	6.5	6.1	7.1%	6.9%
- public sector	85.7	83.4	80.7	2.8%	3.3%
<b>Total loans to non-bank customers</b>	<b>1,159.4</b>	<b>1,118.2</b>	<b>1,065.5</b>	<b>3.7%</b>	<b>4.9%</b>

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

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

On the other hand, an earlier and more distinctive acceleration in the growth of the corporate loan market could have been impeded by: a delay in the distribution of EU funds from the 2014-2020 perspective and persistent uncertainty concerning the development of the domestic economic environment, associated by analysts, with (among others) the

increasing restrictiveness of tax law. The popularity of alternative financing sources for companies, i.e. leasing and factoring, may also have been of significance.

The private customers' savings remain the primary source of growth in deposits of the banking sector. However, the annual growth rate of deposits within this group of customers noticeably decreased, from 9.5% y/y at the end of 2016 to 3.7% at the end of 2017. The growth in this category was determined by the continuous dynamic growth of current deposits volume (growth by 12.8% y/y). However, it was accompanied by a deepening decline in the volume of term deposits (by 6.7% y/y). The decline in the overall deposit activity was due in particular to the low attractiveness of savings products, which reached record low interest rates mid-year, and an improvement of the situation on the Warsaw Stock Exchange. A significant factor contributing to the decline, however, may also have been the 500+ Program, whose effect was visible until the end 2017's second quarter. At the same time, it seems that the decline in the dynamics of private deposits would be deeper if not for the aforementioned further, gradual improvement of the situation on the labour market.

The use of accumulated deposits for current operations (related, i.a., to an increase in wages), in addition to the aforementioned gradual recovery within the area of investments and the changes in tax law, most likely contributed to a significant decline in the deposit activity of enterprises in 2017. The dynamics of their deposits decreased from 7.9% y/y at the end of December 2016, to 2.4% y/y at the end of 2017. Worth noting is the fact that this slight increase in 2017 was due to a strong increase in the volume of foreign currency deposits of enterprises. On the other hand, the volume of PLN deposits of this client group decreased slightly in comparison to the end of 2016.

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

PLN billion	31.12.2017	31.12.2016	31.12.2015	Change y/y	
				2017 vs 2016	2016 vs 2015
<b>Private deposits</b>	<b>684.2</b>	<b>660.0</b>	<b>602.9</b>	<b>3.7%</b>	<b>9.5%</b>
- current	395.2	350.4	295.6	12.8%	18.5%
- term	289.0	309.6	307.3	(6.7%)	0.8%
<b>Institutional deposits</b>	<b>486.4</b>	<b>463.6</b>	<b>424.3</b>	<b>4.9%</b>	<b>9.2%</b>
- non-bank financial institutions	57.2	53.6	55.4	6.9%	(3.3%)
- business entities	360.1	345.9	317.6	4.1%	8.9%
corporate	276.2	269.8	250.1	2.4%	7.9%
Individual entrepreneurs	44.5	40.1	37.0	11.1%	8.3%
farmers	15.2	13.8	10.9	10.5%	26.8%
non-commercial institutions	24.1	22.3	19.6	8.1%	13.5%
- public sector	69.1	64.1	51.4	7.8%	24.8%
<b>Total non-bank deposits</b>	<b>1,170.6</b>	<b>1,123.5</b>	<b>1,027.2</b>	<b>4.2%</b>	<b>9.4%</b>

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

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

### 2.3. Stock market and investment situation

2017 brought a positive change to the WIG stock index, an index representing all companies listed on the Warsaw Stock Exchange (WSE). It recorded an increase of 23.2%, which is the highest rate of return since 2012 (+ 26.2%). Despite the upward trend of all listed indices, the scale of increases differed for large, medium and small companies. The WIG20 index representing the largest companies was the growth leader, increased by 26.3%, the Warsaw mWIG40 medium company index increased by 15.0%, and the sWIG80 index ended the year increased by 2.4%. The relative strength of the WIG20 index was influenced by favourable value comparisons to foreign stock markets and the improving macroeconomic environment in Poland and Europe. In addition, within the discussed period, a significant increase was recorded in the share prices of banks which represent a significant part of this index.

**Table 4. Key WSE indices**

Index	31.12.2017	31.12.2016	31.12.2015	Change in 2017	Change in 2016
WIG	63,746	51,754	46,467	23.2%	11.4%
WIG20	2,461	1,948	1,859	26.3%	4.8%
mWIG40	4,847	4,216	3,567	15.0%	18.2%
sWIG80	14,596	14,259	13,211	2.4%	7.9%

Source: Bloomberg

The following factors, among others, determined the situation on the Warsaw Stock Exchange in 2017: (i) expectations concerning the announced US reforms of President Donald Trump, (ii) commencement of the so-called Brexit procedure, (iii) expectations regarding the monetary policy of the FED and the ECB, (iv) political uncertainty within the country due to the wave of protests against the judicial reform (v) improvement of the macroeconomic environment in Poland and Europe and the related inflow of investment funds for emerging markets; and (vi) continuation of the long-term bull market in the core markets.

On the Polish Treasury bond market, the first half of 2017 was characterized by moderate volatility. After an increase in yields on domestic bonds recorded in January and February 2017, yields in the following months displayed a downward trend. This was influenced, i.a., by the improving macroeconomic environment as well as by expectations regarding inflation level lower than previously forecasted. The second half of 2017 was a period when the yields on 10-year Treasury bonds fluctuated within the range of 3.1% -3.5%, indicating the stabilization of expectations regarding monetary policy and the economic situation.

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

	31.12.2017	31.12.2016	31.12.2015	Change in 2017	Change in 2016
Number of companies	482	487	487	(1.0%)	0.0%
Cap of domestic companies (PLN million)	710,336	557,124	516,785	27.5%	7.8%
Share trading volume (PLN million)	260,979	202,293	225,287	29.0%	(10.2%)
Futures trading volume ('000)	7,319	7,598	7,767	(3.7%)	(2.2%)

Source: WSE

In 2017, 15 new companies appeared on the main market of the WSE (including: 7 due to the transfer of quotations from the NewConnect market) and 20 entities left the trading floor. The number of companies listed on the Warsaw Stock Exchange decreased from 487 at the end of 2016 to 482 at the end of 2017. On the NewConnect market, 19 issuers debuted in 2017 (in 2016 there were 16 new companies). On the Catalyst bond market, a total of 608 series of bonds were listed, and the value of the issue exceeded PLN 751 billion.

### 3. MAJOR EVENTS IN BANK BGŻ BNP PARIBAS S.A. IN 2017

#### 10.03.2017 Individual dividend recommendation for 2016 issued by PFSA and recommendation of the Bank's Management Board to refrain from dividend pay-out for 2016.

The Management Board of Bank BGŻ BNP Paribas S.A. informed that it had received a letter from the Polish Financial Supervision Authority with an individual recommendation to increase the Bank's own funds through 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 recommending that the General Meeting should decide to allocate the entire net profit for 2016 to the Bank's equity.

The Bank's Management Board informed that it would not recommend a dividend pay-out for 2016 in current report No. 36/2016, published on 30 November 2016.

#### 15.03.2017 Recommendation of the Bank's Supervisory Board to refrain from dividend pay-out 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 the distribution of the Bank's profit for 2016.

According to the recommendation, presented at the General Shareholders' Meeting, the Bank's profit after tax (net profit) for the 2016 financial year should be allocated in whole to the general risk fund for unidentified risk of banking activity.

#### 26.04.2017 Information on the amount of annual payment to the mandatory bank restructuring fund determined by BFG for Bank BGŻ BNP Paribas S.A. 2017, and totalling PLN 50,618,228.16 for 2017.

#### 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 and calculated on 29 May 2017, based on available real data received from Group companies and verified in the internal reporting process, amounted to 10.90%, i.e. 0.11 pp 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 pp 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 pp more than the recommended level of 11.03%, and 14.49%, i.e. 0.28 pp 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 EU Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (hereinafter referred to as the "Regulation No. 575/2013").

Under abovementioned Regulation, the required consolidated Tier 1 ratio and the consolidated TCR were equal to 8.01% and 10.18%, respectively, as compared to 8.03% and 10.21%, respectively, at the required separate level.

Additionally, the Bank complies with the combined buffer requirement set out in Article 60 of the Act on macro-prudential 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 financial statements for 2016 and approval of Management Board 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 general risk fund for unidentified risk of banking activity.

**13.09.2017** Publication of current report on the **registration of the amendment to the Statute of Bank BGŻ BNP Paribas S.A. in the National Court Register**, adopted by the General Shareholders' Meeting of the Bank on 22 June 2017.

**21.09.2017** Supervisory Board's decision to **extend, for the next two years, the current agreement** concluded on 12 June 2015 with **Deloitte Polska** Spółka z ograniczoną odpowiedzialnością (limited partnership), with its registered office in Warsaw as an external auditor of the Bank's financial statements and of consolidated financial statements of the Bank BGŻ BNP Paribas S.A. Capital Group.

**30.10.2017** **Consent of the Supervisory Board of the Bank to sell 100% of shares of BGŻ BNP Paribas Faktoring Sp. z o.o. to BNP Paribas S.A.**

**15.11.2017** **Conclusion of conditional share purchase agreement regarding 100% of shares of BGŻ BNP Paribas Faktoring Sp. z o.o.**

According to the agreement the Bank will sell 100% of shares of BGŻ BNP Paribas Faktoring (i.e. 20,820 shares amounting to PLN 10,410,000), representing 100% of the share capital and 100% of the votes at the entity shareholders' meeting for the aggregate price equal to PLN 10,410,000 (ten million four hundred ten thousand Polish zlotys).

The sale of the shares shall be effective upon fulfilment of the conditions precedent, including receipt of the information from the PFSA, enabling the Bank to conduct cross-border factoring activities in other member states of the European Union.

The finalization of the transaction and consequent deconsolidation of BGŻ BNP Paribas Faktoring will improve the solvency position of the Bank on a consolidated basis (TCR by 0.61 pp and Tier 1 Ratio by 0.47 pp, estimation based on data as at 30 September 2017).

**20.11.2017** **Conclusion of Amendment Agreements to the Subordinated Loan Agreements**

On 20 November 2017 the Bank concluded the following amendment agreements with BNP Paribas S.A., a French public limited company (Societe Anonyme), having its registered office at 16 Boulevard des Italiens, 75009 Paris, registered with the Trade and Companies Register of Paris under SIREN number 662 042 449:

- Amendment Agreement to the Fixed-Term Subordinated Loan Agreement dated 15 November 2012 of EUR 60 million, i.e. the equivalent of PLN 254.5 million at the NBP average exchange rate as of 17 November 2017 (1 EUR = 4.2419 PLN), concluded by and between BNP Paribas Bank Polska S.A. and BNP Paribas S.A. Under the Amendment Agreement, the subordinated loan maturity date is extended until 20 December 2027. The subordinated loan interest rate will be equal to 3-month EURIBOR plus margin.
- Amendment Agreement to the Fixed-Term Subordinated Loan Agreement dated 15 November 2012 of CHF 60 million, i.e. the equivalent of PLN 217.6 million at the NBP average exchange rate as of 17 November 2017 (1 CHF = 3.6266 PLN), concluded by and between BNP Paribas Bank Polska S.A. and BNP Paribas S.A. Under the Amendment Agreement, the subordinated loan maturity date is extended until 20 December 2027. The subordinated loan interest rate will be equal to 3-month LIBOR CHF plus margin.

**23.11.2017** **Decision of the PFSA on the consent for recognition of 1H 2017 net profit as a part of the Bank's Common Equity Tier 1 capital, in the amount of PLN 130,029,376.35**

Recognition of the 1H 2017 net profit as a part of the Bank's Tier 1 capital will improve the capital adequacy ratios by 0.25 pp (Common Equity Tier 1 Ratio) and by 0.25 pp (Total Capital Ratio – TCR), calculation based on data as at 30 September 2017. In case of consolidated capital adequacy ratios



the increase would be equal to 0.23 pp and 0.24 pp, respectively.

**27.11.2017 Information on the decision of the Polish Financial Supervision Authority requesting the Financial Stability Committee to express its opinion on the imposition on Bank BGŻ BNP Paribas S.A. the other systemically important institution buffer**, in the amount equivalent to 0.25% of the total risk exposure amount, calculated in accordance with Article 92 paragraph 3 of the Regulation No. 575/2013.

**28.11.2017 Recommendation of the Polish Financial Supervision Authority on the additional capital requirement for the Bank.**

On 28 November 2017 the Bank received a decision from the Polish Financial Supervision Authority, recommending that the Bank should maintain own funds for the coverage of additional capital requirement in order to secure the risk resulting from FX mortgage loans for households at the level of 0.62 pp above the level of Total Capital Ratio as mentioned in Article 92, paragraph 1(c) of the Regulation No. 575/2013.

Additional capital requirement should consist of at least 75% of Tier 1 capital (which corresponds to capital requirement at the level of 0.47 pp above the level of Tier 1 Capital Ratio as mentioned in Article 92, paragraph 1(b) of the Regulation No. 575/2013), and should consist of at least 56% of core Tier 1 capital (which corresponds to capital requirement at the level of 0.35 pp above the level of Core Tier 1 Ratio as mentioned in Article 92, paragraph 1(a) of the Regulation No. 575/2013).

Previously, as the Bank informed in the current report no 34/2016 published on 19 October 2016, the Bank was obliged to maintain own funds for the coverage of additional capital requirement in order to secure the risk resulting from FX mortgage loans for households at the level of 0.71 pp, which should have consisted of at least 75% of Tier 1 capital (which corresponded to 0.53 pp).

Simultaneously, the Management Board informed that as at the date of receiving the decision of the Polish Financial Supervision Authority it maintains its own funds at the level allowing to meet the recommended capital requirements on the standalone basis.

**4.12.2017 Securitization of the Bank's consumer loans – consent of the Bank's Supervisory Board**

On 4 December 2017, the Bank's Supervisory Board adopted a resolution and gave consent to sell, under a securitization transaction, loan receivables arising from cash loan agreements and car loan agreements concluded by the Bank with debtors with the total nominal value, as at the sale date, not higher than PLN 2,400,000,000.00 (two billion four hundred million Polish zlotys) to the BGZ Poland ABS1 Designated Activity Company, a company organized under the Irish law, based in Dublin, hereinafter referred to as "SPV".

The consent also applies to the sale of additional receivables arising from cash loan agreements and car loan agreements concluded by the Bank with the debtors to the SPV under a two-year revolving period with the provision that the total current value of all sold receivables on every day of the two-year revolving period does not exceed the value of PLN 2,600,000,000.00 (two billion six hundred million Polish zlotys).

The receivables will be sold for the price consisting of the initial price equal to the nominal value of the receivables as at the sale date, and the deferred price, equal to the part of interest income of the SPV in a given settlement period, specified in accordance with the terms agreed between the Bank and SPV.

The planned securitization transaction is aimed at a capital relief by excluding securitized credit exposures from the calculation of the Bank's risk-weighted exposure amounts, which would positively impact the Bank's capital ratios on the separate and consolidated level.

The finalization of the transaction will improve the separate capital adequacy ratios: Common Equity Tier 1 Ratio (CET 1) by 0.38 pp, Tier 1 Ratio by 0.38 pp and Total Capital Ratio (TCR) by 0.49 pp, calculation based on data as at 30 September 2017.

In the case of consolidated capital adequacy ratios the increase would be equal to 0.34 pp, 0.34 pp and 0.44 pp respectively.

**5.12.2017 Conditional share purchase agreement regarding 100% of shares of BGŻ BNP Paribas Faktoring Sp. z o.o. - fulfilment of the condition precedent**

On 5 December 2017 the Bank received information from the Polish Financial Supervision Authority

enabling the Bank to conduct cross-border factoring activities in other member states of the European Union.

This means that the key condition precedent included in the conditional share purchase agreement regarding 100% of shares of BGŻ BNP Paribas Faktoring sp. z o.o. has been fulfilled.

**7.12.2017 Decision of the Financial Stability Committee on the issuance of a positive opinion on the identification of Bank BGŻ BNP Paribas S.A. by the Polish Financial Supervision Authority as other systemically important institution, and on imposing a buffer of other systemically important institution on Bank BGŻ BNP Paribas S.A.**

On 7 December 2017 the Bank obtained a decision of the Financial Stability Committee ("FSC") dated 1 December 2017 including the FSC's positive opinion on the identification of the Bank by the Polish Financial Supervision Authority ("PFSA") as other systemically-important institution, and on imposing a buffer of other systemically-important institution on the Bank equal to 0.25% of the total risk exposure amount, calculated pursuant to Article 92, item 3 of Regulation No. 575/2013.

**11.12.2017 Securitization of the Bank's consumer loans – signing of agreements.**

On 11 December 2017, the Bank concluded a number of agreements under a securitization transaction regarding the portfolio of loan receivables, including a significant agreement on the sale of receivables (the "Receivables Sale Agreement") arising from cash loan agreements and car loan agreements concluded by the Bank with Borrowers, in the total value of PLN 2,300,470,732.54 (the "Receivables"), to the BGZ Poland ABS1 Designated Activity Company, a company organized under the Irish law, based in Dublin ("SPV"). The Bank is not related to the SPV either by capital or organization.

Under a service agreement signed concurrently with Receivables Sale Agreement, the Bank will remain obliged to provide an ongoing service of the receivables.

The receivables will be sold for the price consisting of the initial price equal to the nominal value of the receivables as at the sale date, and the deferred price, equal to the part of interest income of the SPV in a given settlement period, specified in accordance with the terms agreed between the Bank and SPV. The sale of Receivables is dependent on the initial price payment for the Receivables.

Funds needed to pay the price will be acquired by the SPV through a private placement of bonds denominated in PLN in the total value of PLN 2,300,470,732.54. The repayment of bonds will be secured by a registered pledge on a group of movables or rights, comprising in particular the Receivables.

The bonds were planned to be issued on 19 December 2017. The interest rate of the issued bonds is based on the relevant reference rate plus a margin. The bonds are to be repaid by 27 April 2032.

The Bank will not acquire the bonds issued by the SPV.

The securitization transaction structure provides for a two-year revolving period when the Bank will have the right to sell further receivables arising from car loan agreements or cash loan agreements.

The signed Receivables Sale Agreement regulates conditions which have to be fulfilled by the receivables to be included in the securitized portfolio and a number of cases where a deterioration of the SPV situation or of the receivables portfolio being sold will end the revolving period earlier. The agreement also determines situations when the Bank is entitled to a reverse repurchase of a portion of receivables or cases in which an earlier discontinuation of the structure could be conducted.

The transaction is aimed at a capital relief by excluding securitized credit receivables from the calculation of the Bank's risk-weighted assets on the separate and consolidated level, and the acquisition of a mid-term financing by the Bank. The finalization of the transaction will improve the separate capital adequacy ratios: the Common Equity Tier 1 Ratio (CET 1) by 0.38 pp, Tier 1 Ratio by 0.38 pp and Total Capital Ratio (TCR) by 0.49 pp, where the calculation is based on data as at 30 September 2017. For consolidated capital adequacy ratios, the increase would equal 0.34 pp, 0.34 pp and 0.44 pp, respectively.

**15.12.2017 Decision of the Polish Financial Supervision Authority on the consent to include the following amounts into the Bank's Tier 2 capital, based on amendments to subordinated loan agreements:**

- EUR 60 million (the equivalent of PLN 253.3 million at the NBP average exchange rate as of 15 December 2017: 1 EUR = 4.2217 PLN), which constitutes a subordinated debt under a



subordinated loan agreement dated 15 November 2012, amended by the Amendment Agreement of 20 November 2017 concluded between the Bank and BNP Paribas S.A. with its registered office in Paris, under which the aforementioned subordinated loan's maturity is extended until 20 December 2027;

- CHF 60 million (the equivalent of PLN 217.4 million at the NBP average exchange rate as of 15 December 2017: 1 CHF = 3.6227 PLN), which constitutes a subordinated debt under a subordinated loan agreement dated 15 November 2012, amended by the Amendment Agreement of 20 November 2017 concluded between the Bank and BNP Paribas S.A. with its registered office in Paris, under which the aforementioned subordinated loan's maturity is extended until 20 December 2027.

**15.12.2017 Letter of the Polish Financial Supervision Authority on the additional capital requirement for the Bank - for the coverage of additional capital requirement in order to secure the risk resulting from FX mortgage loans for households on the consolidated basis at the level of 0.60 pp** above the level of Total Capital Ratio as mentioned in Article 92, Paragraph 1(c) of the Regulation No. 575/2013.

Additional capital requirement should consist of at least 75% of Tier 1 capital (which corresponds to capital requirement at the level of 0.45 pp above the level of Tier 1 Capital Ratio as mentioned in Article 92, paragraph 1(b) of the Regulation No. 575/2013), and should consist of at least 56% of core Tier 1 capital (which corresponds to capital requirement at the level of 0.34 pp above the level of Core Tier 1 Ratio as mentioned in Article 92, paragraph 1(a) of the Regulation No. 575/2013).

Previously, as the Bank informed in the current report No. 39/2016 published on 27 December 2016, the Bank was obliged to maintain own funds for the coverage of additional capital requirement in order to secure the risk resulting from FX mortgage loans for households on the consolidated basis at the level of 0.68 pp, which should have consisted of at least 75% of Tier 1 capital (which corresponded to 0.51 pp) and of at least 56% of core Tier 1 capital (which corresponded to 0.38 pp).

Simultaneously, in the letter mentioned above, PFSA informed the Bank that with reference to the criteria for the needs of the dividend policy of banks for 2018 published by the KNF on 24 November 2017, that as a result of analyses performed as part of stress tests conducted by the Office of the Polish Financial Supervision Authority (UKNF), it has been specified that in the Bank's case the individual add-on (ST) measuring the Bank's sensitivity to an adverse macroeconomic scenario defined as a difference between the TCR in the reference scenario and the TCR in the shock scenario, including supervisory adjustments, amounts to 0.00%.

**18.12.2017 Signing of Executive Settlement to the Conditional Share Purchase Agreement relating to BGŻ BNP Paribas Faktoring Sp. z o.o.**

The Bank signed the Executive Settlement to the Conditional Share Purchase Agreement relating to BGŻ BNP Paribas Faktoring Sp. z o.o. ("Agreement"), dated 15 November 2017 with BNP Paribas S.A., a French stock corporation (Societe Anonyme), incorporated and existing under French law, with its registered office in Paris, France, at 16 Boulevard des Italiens - 75009, operating in Poland through its branch BNP Paribas S.A. Branch in Poland, with its registered office in Warsaw, Suwak 3, 02-676 (the "Purchaser").

Under the aforementioned Executive Settlement the Parties confirm that all the conditions precedent set out in the Agreement have been satisfied and the transfer of the ownership of shares from the Bank to the Purchaser shall be effective on 31 December 2017.

**19.12.2017 Securitization of the Bank's consumer loans – finalization of transaction.**

The Bank received initial price payment of PLN 2,300,470,732.54 for the receivables arising from cash loan agreements and car loan agreements sold to the BGZ Poland ABS1 Designated Activity Company, a company organized under the Irish law, based in Dublin ("SPV") under the Receivables Sale Agreement dated 11 December 2017.

The initial price payment implies the fulfilment of the condition under which receivables arising from cash loan agreements and car loan agreements were to be assigned to the SPV.

**19.12.2017 Bank BGŻ BNP Paribas S.A.'s ratings upgraded by Moody's Agency:**

- long-term local and foreign-currency deposit ratings (LT Bank Deposits) were upgraded to Baa1

from Baa2, the outlook remains stable,

- short-term local and foreign-currency deposit ratings (ST Bank Deposits) were affirmed at the level Prime-2,
- individual assessment (Baseline Credit Assessment) was affirmed at the level ba2,
- adjusted Baseline Credit Assessment was affirmed at the level baa3,
- long-term Counterparty Risk Assessment was affirmed at the level A3(cr),
- short-term Counterparty Risk Assessment was affirmed at the level Prime-2(cr).

---

**29.12.2017 Decision of the Polish Financial Supervision Authority on imposing a buffer of other systemically-important institution on Bank BGŻ BNP Paribas S.A.** - decision obtained by the Bank on 29 December 2017.

The value of the buffer of other systemically-important institution (based on consolidated and separate principle): 0.25% of the total risk exposure amount, calculated pursuant to Article 92, item 3 of Regulation No. 575/2013.

---

All changes in the composition of the Bank's Management Board and Supervisory Board, which took place in 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

The composition of the Supervisory Board as of 31 December 2017 was the following:

Full name	Office held in the Supervisory Board of the Bank
Józef Wancer	Chairman of the Supervisory Board
Jarosław Bauc	Vice-Chairman, Independent Member of the Supervisory Board
Jean-Paul Sabet	Vice-Chairman of the Supervisory Board
Yvan De Cock	Member 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
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 composition of the Supervisory Board in 2017:

- On 18 May 2017, Mr Thomas Mennicken, a member of the Supervisory Board, submitted a resignation from the position of Member of the Supervisory Board of Bank BGŻ BNP Paribas S.A., with the effect from the day of the Ordinary General Shareholders' Meeting of the Bank, which took place on 22 June 2017.
- On 22 June 2017, the Ordinary General Shareholders' Meeting appointed Mr Yvan De Cock as a Member of the Bank's Supervisory Board.

### 4.2. Composition of the Management Board

The composition of the Management Board as of 31 December 2017 was the following:

Full name	Office held in the Management Board of the Bank
Przemysław Gdański	Vice-President of the Management Board in-charge of Management Board
Jean-Charles Aranda	Member of the Management Board
Daniel Astraud	Vice-President of the Management Board
Philippe Paul Béziau	Vice-President of the Management Board
Blagoy Bochev	Vice-President of the Management Board
Przemysław Furlepa	Vice-President of the Management Board
Wojciech Kemblowski	Vice-President of the Management Board
Magdalena Legęć	Vice-President of the Management Board
Jaromir Pelczarski	Vice-President of the Management Board
Jerzy Śledziewski	Vice-President of the Management Board
Bartosz Urbaniak	Member of the Management Board

Changes in the composition of the Management Board in 2017:

- On 5 April 2017, Mr Jan Bujak submitted a resignation from the position of the Vice-President of the Bank's Management Board, with the effect from 5 April 2017.
- On the meeting held on 5 April 2017, the Supervisory Board has appointed Mr Jean-Charles Aranda to the position of a Member of the Bank's Management Board, with the effect from 5 April 2017.
- On 2 June 2017 Mr François Benaroya submitted a resignation from the position of the Vice-President of the Bank's Management Board, with the effect from 30 September 2017.
- On the meeting held on 2 June 2017, the Supervisory Board of the Bank has appointed Mr Przemysław Furlepa for a Member of the Bank's Management Board, as its Vice-President, with the effect from 1 October 2017.
- On 21 September 2017 Mr Tomasz Bogus submitted a resignation from the position of the President of the Bank's Management Board, with the effect from 31 October 2017.
- On the meeting held on 26 October 2017, the Supervisory Board appointed Mr Przemysław Gdański to the position of the Vice-President of the Bank's Management Board, with the effect from 1 November 2017, and entrusted him with managing the work of the Management Board until the approval of the Polish Financial Supervision Authority (PFSA) to appoint as the President of the Management Board. At the same meeting, the Supervisory Board adopted a resolution to appoint Mr Przemysław Gdański as the President of the Bank's Management Board. The resolution enters into force on the day of its adoption with effect from the date of obtaining the consent of the PFSA issued on the basis of the Article 22b of the Banking Law Act.
- On 20 December 2017 Ms Magdalena Legęć submitted a resignation from the position of Vice-President of the Bank's Management Board, with the effect from 31 December 2017.

### 4.3. Remuneration paid to the Management Board and Supervisory Board

Personal data regarding remuneration paid in a given year for Management Board Members are as follows:

**Table 6. Remuneration paid to Members of the Management Board in 2017\***

Full name	Term of office		Base remuneration	Annual bonus paid in the year	Buy-back of phantom shares	Additional benefits	Total
	from	to					
Przemysław Gdański	01.11.2017	31.12.2017	320	-	-	1	<b>321</b>
Tomasz Bogus	01.01.2017	31.10.2017	1,400	280	279	1,816**	<b>3,775</b>
Jean-Charles Aranda	05.04.2017	31.12.2017	766	127	-	217	<b>1,110</b>
Daniel Astraud	01.01.2017	31.12.2017	1,577	508	300	243	<b>2,628</b>
Francois Benaroya	01.01.2017	30.09.2017	864	580	304	213	<b>1,961</b>
Philippe Paul Bezieau	01.01.2017	31.12.2017	915	50	26	126	<b>1,117</b>
Blagoy Bochev	01.01.2017	31.12.2017	840	222	167	218	<b>1,447</b>
Jan Bujak	01.01.2017	05.04.2017	317	126	107	1,874**	<b>2,424</b>
Przemysław Furlepa	01.10.2017	31.12.2017	409	-	-	115	<b>524</b>
Wojciech Kemblowski	01.01.2017	31.12.2017	979	237	163	6	<b>1,385</b>
Magdalena Legęć	01.01.2017	31.12.2017	800	182	156	72	<b>1,210</b>
Jaromir Pelczarski	01.01.2017	31.12.2017	1,000	324	201	71	<b>1,596</b>
Jerzy Śledziewski	01.01.2017	31.12.2017	1,080	48	48	72	<b>1,248</b>
Bartosz Urbaniak	01.01.2017	31.12.2017	825	132	122	6	<b>1,085</b>
<b>Total</b>			<b>12,092</b>	<b>2,816</b>	<b>1,873</b>	<b>5,050</b>	<b>21,831</b>

\* The table presents remuneration paid in the whole 2017

\*\* The amount contains also severance and remuneration paid for the termination of employment contract and the equivalent for unused holidays

**Table 7. Remuneration paid to Members of the Management Board in 2016\***

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

\* The table presents remuneration paid in the whole 2016

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

In addition, Management Board Members are, among others, entitled to the following additional benefits (based on individual employment contracts):

- accommodation allowance, as specified in the employment contract;
- coverage or reimbursement of costs incurred in relation to secondment to work in Poland;
- coverage of costs of private trips to the seconding country for a Member of the Management Board and his/her family members living in Poland (of specified frequency);
- coverage of tuition fees for children in Poland;
- a one-time relocation allowance.

Personal data on remuneration paid in a given year for Supervisory Board members is presented in the tables below:

**Table 8. Remuneration paid to Members of the Supervisory Board in 2017**

Full name	Term of office		Remuneration
	from	to	
Józef Wancer	01.01.2017	31.12.2017	600*
Jarosław Bauc	01.01.2017	31.12.2017	180
Jean-Paul Sabet	01.01.2017	31.12.2017	180
Yvan De Cock	22.06.2017	31.12.2017	67
Stefaan Decraene	01.01.2017	31.12.2017	150
Jacques d'Estais	01.01.2017	31.12.2017	150
Alain Van Groenendael	01.01.2017	31.12.2017	-
Thomas Mennicken	01.01.2017	22.06.2017	84
Piotr Mietkowski	01.01.2017	31.12.2017	150
Monika Nachyła	01.01.2017	31.12.2017	150*
Mariusz Warych	01.01.2017	31.12.2017	300
<b>Total</b>			<b>2,011</b>

\* remuneration related only to the function of Member of the Supervisory Board

**Table 9. Remuneration paid to Members of the Supervisory Board in 2016**

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

\* remuneration related only to the function of Member of the Supervisory Board

Information regarding remuneration paid to Members of the Management Board and the Supervisory Board of the Bank has also been presented in *Note 47 Related party transactions to the Separate Financial Statements of Bank BGŻ BNP Paribas S.A. for the year ended 31 December 2017.*

## 5. RATINGS

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

On 19 December 2017, the ratings for the Bank's long-term deposits have been upgraded from Baa2 to level Baa1 with a stable outlook; at the same time the rating for the short-term deposits has been maintained at Prime-2 level.

The basic BCA (Baseline Credit Assessment) credit score at ba2 level has been confirmed. The Advanced Loss Given Failure (LGF) analysis increased the rating by one degree compared to the adjusted Baseline Credit Assessment to the level of baa3.

The Counterparty Risk Assessment at level A3 (cr) / Prime-2 (cr) has been maintained.

The main factors affecting the rating upgrade for the long-term deposits of the Bank are:

- greater transparency of the legislative projects concerning the mortgage loan portfolio in CHF;
- stable growth of the deposit base from non-financial clients with simultaneous reduction of financing from the BNPP group.

Moody's Investors Service	Rating
Long-term deposit rating ( <i>LT Bank Deposits</i> )	Baa1
Short-term deposit rating ( <i>ST Bank Deposits</i> )	Prime-2
Individual assessment ( <i>Baseline Credit Assessment, BCA</i> )	ba2
Adjusted individual assessment ( <i>Adjusted Baseline Credit Assessment, Adjusted BCA</i> )	baa3
Counterparty risk assessment long-term / short-term ( <i>Counterparty Risk assessments, CRa</i> )	A3(cr)/Prime-2(cr)
Outlook	stable

## 6. AWARDS AND DISTINCTIONS

In 2017, the Bank received the following awards and distinctions:

January	name of <b>Top Employer Polska 2017</b> for its HR policy developed in line with best market practices
March	<b>first place in the Best Farmer's Bank 2017</b> ranking prepared by research agency Martin&Jacob
April	<b>the Srebrny Listek CSR POLITYKI</b> - award granted by the editors of the POLITYKA weekly newspaper and Deloitte to the most socially responsible companies; the prize awarded to the bank for the third time
May	<b>first place on the "crystal" level in the Ranking of Responsible Companies</b> ; The ranking is published by "Dziennik Gazeta Prawna"; the substantive partners are Responsible Business Forum and Deloitte
June	<b>first place in the "Growth Rate"</b> category in the third edition of the "Banking Stars" rating organized by "Dziennik Gazeta Prawna" and PwC (as a substantive partner)
June	<b>third place in the plebiscite "The Best Bank of 2017" of the "Gazeta Bankowa"</b> newspaper in the category for the Best Large Commercial Banks
October	<b>award in the "Best Digital Action"</b> category for the organization of the event in the competition "Employer Branding Stars"

November	distinction in the <b>"Sila Przyciągania" ("the Power of Attraction")</b> contest in the category of the best "out of the box" initiative for "Virtual Open Days" campaign
November	<b>"Entrepreneur-friendly bank"</b> - Main Award and Gold Statuette in the "Universal Bank" category, as well as the title of "Banking Quality Leader 2017". The bank was also awarded the Diamond Statuette for winning the Promotional Emblem in ten subsequent editions.
December	award in the <b>"Leader of jointly responsible and sustainable development"</b> competition
December	distinction in the "Responsible Business Awards" competition in the category of <b>"Responsible Company of the Year"</b>

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

As of 31 December 2017 and the date of signing the report for 2017, i.e. 12 March 2018, 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 10. Shareholder structure**

Shareholders	Number of shares	% interest in share capital	Number of votes at the General Shareholders' Meeting	% share in the total number of votes at the General Shareholders' Meeting
BNP Paribas, in 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 shareholding structure in the 2017.

As at 31 December 2017, the Bank's share capital amounted to PLN 84,238 thousand.

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

The Bank's shares are ordinary bearer and registered shares (as of 31 December 2017, there were 13,024,915 registered shares, including four B series shares).

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

However, four B series registered shares in the Bank are preference shares with respect to payment of the full nominal 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 nominal value of those shares.

The Bank's Statute does not impose any limitations as to exercising the voting rights or contain any provisions whereby the equity rights attached to securities are separated from the holding of securities 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 of 31 December 2017, none of the Members of the Management Board or Supervisory Board of the Bank declared holding any shares of Bank BGŻ BNP Paribas S.A., which has not changed from the date of presenting the report for the third quarter of 2017, i.e. 9 November 2017.

### **Investor obligations of BNP Paribas regarding the liquidity of the Bank's shares**

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

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

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

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

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

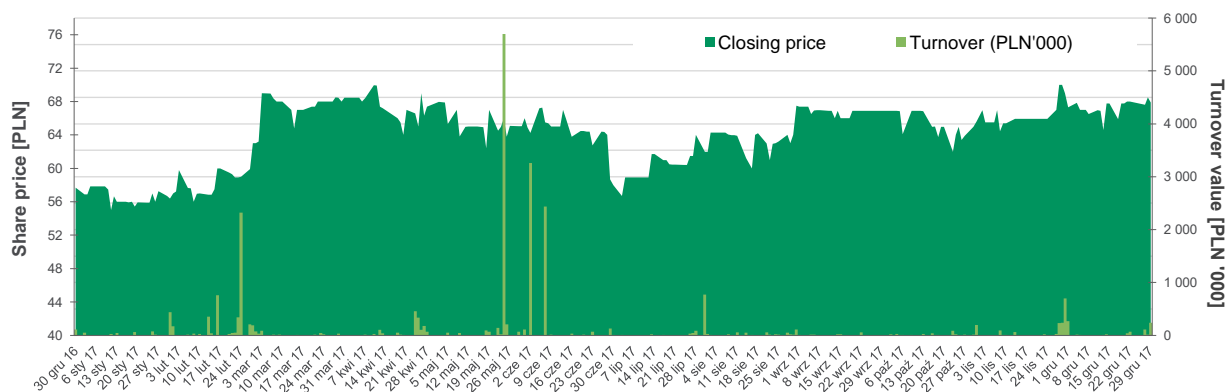
During the session on 30 December 2016 the share price was PLN 57.70. Over 2017 the price increased by 17.66%, to the level of PLN 67.89 as of 29 December 2017. The share price has reached its maximum on 28 and 29 November 2017 (PLN 70.00). In the same period WIG-Banki index grew by 35.42%.

The average price of the Bank's shares in 2017 was PLN 64.05 (an increase by 26.77% as compared to 2016). The average trading volume of the Bank's shares was 1,512.98 shares per session, while the average value of the Bank's shares traded per session was PLN 95.83 thousand.

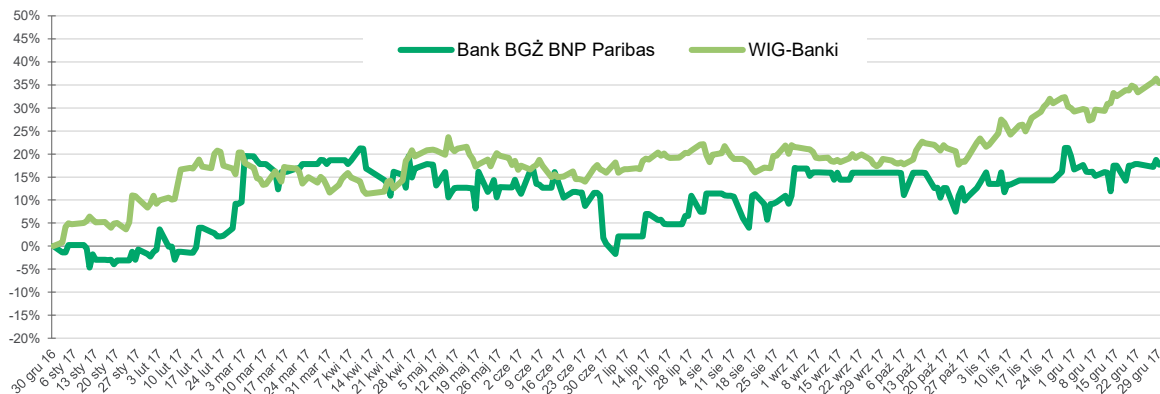
For a significant part of the first quarter of 2017, the share price remained relatively stable. The increase in the share price commenced at the beginning of March which was reflected in the rise in the average share price from PLN 60.97 in the first quarter to PLN 65.64 in the second quarter of 2017.

The second quarter of 2017 is also the period of the highest turnover. The average daily trading volume in the second quarter amounted to 3,128.8 shares (1,529.7 items in the first quarter), and the average trading value per session was PLN 228.26 thousand (PLN 89.29 thousand in the first quarter). The average share price after a slight decrease in the third quarter (PLN 63.43) increased again in the last quarter of 2017, reaching PLN 66.34. Compared to the first half of the year, however, the average daily trading volume decreased (in the third quarter 396.95 shares, in the fourth quarter 641.52 shares) and the average trading value per session (third quarter - PLN 24.95 thousand, fourth quarter - PLN 43.08 thousand).

**Chart 5. The Bank's share price from 30 December 2016 to 29 December 2017**



**Chart 6. Change in Bank's share price vs. WIG-Banki from 30 December 2016 to 29 December 2017 (30 December 2016 = 100%)**



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

### 9.1. Separate statement of profit or loss

In 2017 Bank BGŻ BNP Paribas S.A. generated a net profit of PLN 298,389 thousand, that is six times higher than the amount achieved in 2016.

The net income on banking activity amounted to PLN 2,685,147 thousand and was 7.7% higher than in the same period last year. At the same time, the Bank's operating expenses (including depreciation and amortization) totalled to PLN 1,665,605 thousand, being reduced by 6.7% as compared to 2016. The third factor influencing the growth of net profit in 2017 as compared to 2016 was the balance of impairment losses on financial assets and provisions for contingent liabilities, which was lower by 11.3% and amounted to PLN -342,419 thousand.

An important factor determining the comparison of the Bank's results realized in the analysed periods was the merger process of Bank BGŻ BNP Paribas S.A. and Sygma Bank Polska S.A. completed in 2016. The comparability was distorted by the fact of including the results of Sygma Bank Polska S.A. in the Bank's results starting from 31 May 2016.

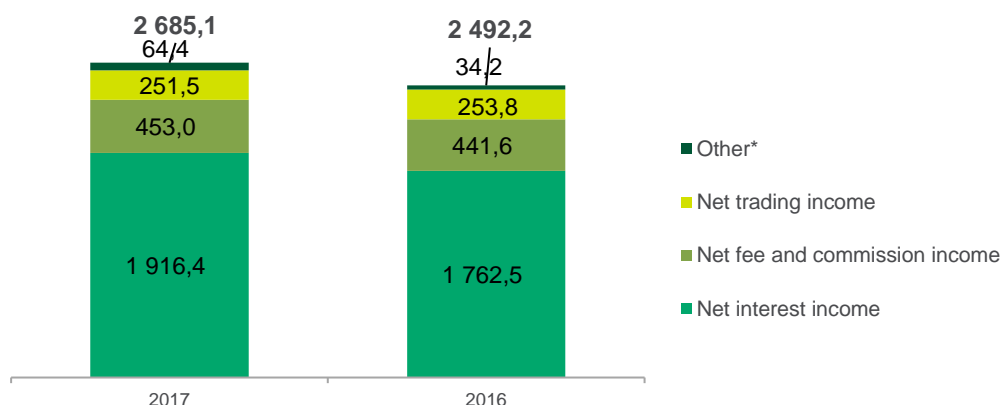
Additionally, in 2016, the Bank incurred significant costs related to the merger processes of BGŻ S.A., BNP Paribas Bank Polska S.A. and Sygma Bank Polska S.A. The costs of integration processes of the banks in 2017 were lower by 79.5% (i.e. by PLN 137,812 thousand) as compared to 2016 and amounted to PLN 35,641 thousand.

Had the integration cost been eliminated in the analysed periods, the Bank's net profit in 2017 would amount to PLN 327,258 thousand, and would have been 72.3% (i.e. PLN 137,373 thousand) higher than the profit of the previous year.

In 2017 and 2016 the following events independent of the Bank have influenced the level of the results:

- In 2017, due to the amendment of the Bank Guarantee Fund (BFG) act, the methodology of calculating the fee for the guarantee fund and the forced bank restructuring fund has changed. The cycle of paying the restructuring fund has also been changed (from quarterly to annual, with payment deadline for the year 2017 due on 20<sup>th</sup> of July). The total fees paid to BFG recognized in 2017 were lower than those incurred in the previous year by PLN 31,141 thousand, i.e. by 24.6%.
- In 2016, the acquisition of Visa Europe Limited by Visa Inc. took place (positive impact on the Bank's gross profit amounted to PLN 41,817 thousand).
- In 2016 (by the Act on Tax on the assets of certain financial institutions of 15 January 2016), a taxation of banks' assets was introduced starting from February, at a monthly rate of 0.0366%. Due to the time of introduction of this tax - the results of 2016 were charged with lower costs than the results of 2017 (by PLN 19,990 thousand).
- In 2016, the sale of receivables increased the Bank's result by PLN 53,160 thousand. In 2017, as a result of the sale of receivables, the income was equal to PLN 34,881 thousand.

**Chart 7. Structure of net income on banking activity in PLN million**

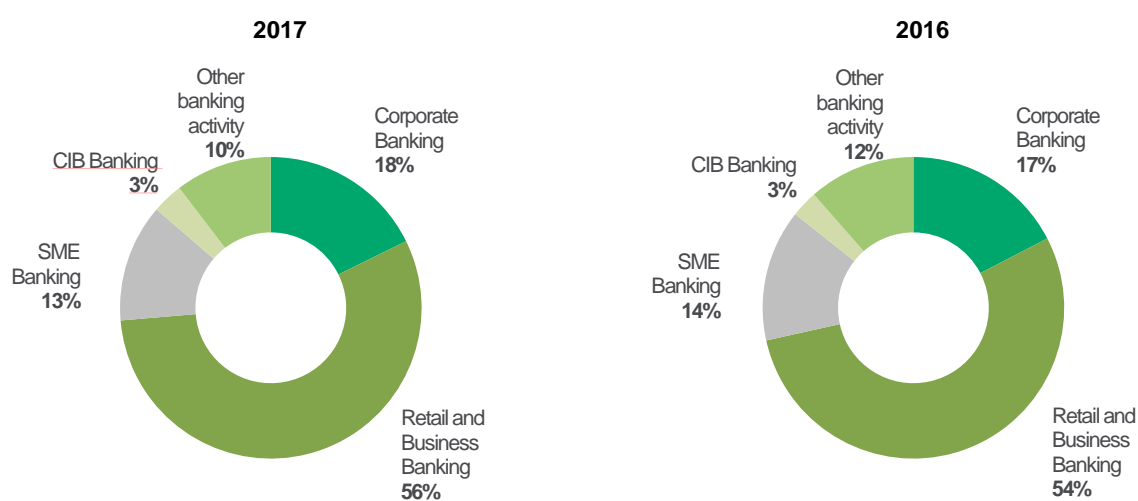


\* "Other" class comprises net investment income, result on hedge accounting, dividend income as well as other operating income and expenses.

**Table 11. Statement of profit or loss**

PLN '000	12 months ended 31.12.2017	12 months ended 31.12.2016	Change y/y	
			PLN '000	%
Net interest income	1,916,372	1,762,532	153,840	8.7%
Net fee and commission income	452,955	441,633	11,322	2.6%
Dividend income	38,177	14,561	23,616	162.2%
Net trading income	251,455	253,845	(2,390)	(0.9%)
Net investment income	28,398	28,761	(363)	(1.3%)
Result on hedge accounting	3,304	(77)	3,381	(4,390.9%)
Other operating income and expenses	(5,514)	(9,007)	3,493	(38.8%)
<b>Net income on banking activity</b>	<b>2,685,147</b>	<b>2,492,248</b>	<b>192,899</b>	<b>7.7%</b>
Net impairment losses on financial assets and provisions for contingent liabilities	(342,419)	(385,930)	43,511	(11.3%)
General administrative expenses	(1,492,071)	(1,589,377)	97,306	(6.1%)
Depreciation and amortization	(173,534)	(196,716)	23,182	(11.8%)
<b>Operating result</b>	<b>677,123</b>	<b>320,225</b>	<b>356,898</b>	<b>111.5%</b>
Tax on financial institutions	(205,866)	(185,876)	(19,990)	10.8%
<b>Profit before income tax</b>	<b>471,257</b>	<b>134,349</b>	<b>336,908</b>	<b>250.8%</b>
Income tax expense	(172,868)	(84,961)	(87,907)	103.5%
<b>Net profit for the period</b>	<b>298,389</b>	<b>49,388</b>	<b>249,001</b>	<b>504.2%</b>
<i>Integration costs</i>	<i>(35,641)</i>	<i>(173,453)</i>	<i>137,812</i>	<i>(79.5%)</i>
<b>Net profit for the period excluding integration costs</b>	<b>327,258</b>	<b>189,885</b>	<b>137,373</b>	<b>72.3%</b>

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

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

## Net interest income

In 2017, the net interest income, which represents the main source of the Bank's income, increased by PLN 153,840 thousand i.e. by 8.7%, which was the effect of an increase in interest income by PLN 147,720 thousand, i.e. 5.9% y/y with a simultaneous decrease in interest expenses by PLN 6,120 thousand, i.e. by 0.8% y/y. The level of interest income and expenses in 2017 was influenced by the growth rate of commercial volumes and a decrease in financing costs.

**Table 12. Net interest income**

PLN '000	12 months ended 31.12.2017	12 months ended 31.12.2016	Change y/y	
			PLN '000	%
Amounts due from banks	29,342	29,355	(13)	(0.0%)
Overdrafts to customers	364,729	367,980	(3,251)	(0.9%)
Loans and advances to customers	1,847,555	1,753,099	94,456	5.4%
Derivatives under fair value hedge accounting	80,978	78,754	2,224	2.8%
Debt securities	314,986	260,682	54,304	20.8%
<b>Interest income</b>	<b>2,637,590</b>	<b>2,489,870</b>	<b>147,720</b>	<b>5.9%</b>
Amounts due to banks	(61,199)	(74,120)	12,921	(17.4%)
Debt securities issued	(11,630)	(12,781)	1,151	(9.0%)
Amounts due to customers	(573,895)	(560,641)	(13,254)	2.4%
Derivatives under fair value hedge accounting	(73,377)	(79,796)	6,419	(8.0%)
Repo transactions	(1,117)	-	(1,117)	x
<b>Interest expense</b>	<b>(721,218)</b>	<b>(727,338)</b>	<b>6,120</b>	<b>(0.8%)</b>
<b>Net interest income</b>	<b>1,916,372</b>	<b>1,762,532</b>	<b>153,840</b>	<b>8.7%</b>

Among external factors affecting the level of net interest income, NBP's policy regarding the development of key interest rates and their stabilization at record low level (the reference rate as of March 2015 amounts to 1.5%) and market trends in shaping interest rates on deposits should be mentioned. Among the internal factors, the increase in the scale of operations with a simultaneous decrease in the cost of financing, which allowed the Bank to increase the net interest margin (calculated as the ratio of net interest income and average quarterly assets) from 2.65% in 2016 to 2.73% in 2017, had the largest impact on the level of net interest income.

In the structure of the Bank's interest income, the largest item, i.e. 70.0%, is the income from interest on loans and advances to customers, the value of which increased by PLN 94,456 thousand, i.e. by 5.4% as compared to 2016. This increase was largely caused by the inclusion of the results of Sygma Bank Polska S.A. to the Bank's results only from 31 May 2016.

In addition, interest income on debt securities significantly increased: by PLN 54,304 thousand, i.e. by 20.8%. This growth was the result of the increase in the scale of operations and the increase in the size of the portfolio of assets available for sale (by 11.4% y/y).

The increase in the net interest income was influenced by the improvement of margins on customer deposits (cost reduction), primarily in the case of amounts due to households, which remain the group with the largest share in the total amounts due to customers. The above-mentioned drop in the cost of acquisition was the reason for the nominal increase in interest costs being much slower (+2.4% y/y) despite an increase in the average balance of amounts due to customers (by 6.1% y/y).

The visible decrease in nominal interest expenses from amounts due to banks resulted from the replacement of part of wholesale financing (loans and advances received from banks) with financing obtained from customers. Interest expenses from amounts due to banks in 2017 were lower by PLN 12,921 thousand (i.e. by 17.4%) compared to the previous year.

At the end of 2017, the Bank applied fair value hedge accounting. The change in the fair value measurement of hedging transactions is recognized in the result on hedge accounting. Interest on IRS transactions and hedged items is recognized in net interest income.

Net interest income on hedging relationships (the sum of interest income and interest expense from derivatives under fair value hedge accounting) for 2017 amounted to PLN +7,601 thousand as compared to the negative value at the level of PLN -1,042 thousand for 2016.

## Net fee and commission income

Net result on fee and commission in 2017 amounted to PLN 452,955 thousand, and was higher by PLN 11,322 thousand, (i.e. by 2.6% y/y) as a result of an increase in fee and commission income by PLN 28,782 thousand (i.e. 5.2% y/y), with a simultaneous increase in commission expenses by PLN 17,460 thousand (i.e. 16.2%).

**Table 13. Net fee and commission income**

PLN '000	12 months ended 31.12.2017	12 months ended 31.12.2016	Change y/y	
			PLN '000	%
<b>Fee and commission income</b>				
– loans and advances	188,432	169,521	18,911	11.2%
– account maintenance and settlements	158,682	180,412	(21,730)	(12.0%)
– guarantees	29,430	27,957	1,473	5.3%
– brokerage operations	34,576	19,945	14,631	73.4%
– payment cards	90,692	76,791	13,901	18.1%
– bancassurance	20,829	26,940	(6,111)	(22.7%)
– asset management	7,104	2,391	4,713	197.1%
– other	48,215	45,221	2,994	6.6%
<b>Fee and commission income</b>	<b>577,960</b>	<b>549,178</b>	<b>28,782</b>	<b>5.2%</b>
<b>Fee and commission expense</b>				
– loans and advances	(132)	(1,702)	1,570	(92.2%)
– payment cards	(67,103)	(54,407)	(12,696)	23.3%
– bancassurance	(21,170)	(7,751)	(13,419)	173.1%
– related to the partner network	(7,431)	(9,632)	2,201	(22.9%)
– other	(29,169)	(34,053)	4,884	(14.3%)
<b>Fee and commission expense</b>	<b>(125,005)</b>	<b>(107,545)</b>	<b>(17,460)</b>	<b>16.2%</b>
<b>Net fee and commission income</b>	<b>452,955</b>	<b>441,633</b>	<b>11,322</b>	<b>2.6%</b>

The increase in fee and commission income was recorded in almost all commission categories, in particular from the following items:

- increase in loans and advances by PLN 18,911 thousand, i.e. by 11.2%;
- increase in brokerage operations by PLN 14,631 thousand, i.e. by 73.4%;
- increase in payment cards by PLN 13,901 thousand, i.e. by 18.1%;
- increase in asset management by PLN 4,713 thousand, i.e. by 197.1%.

The increase in fees and commissions was mainly caused by:

- higher by PLN 13,419 thousand, i.e. by 173.1%, expenses of fees and commissions on bancassurance,
- higher by PLN 12,696 thousand, i.e. by 23.3%, commission expenses related to payment cards, incurred in favour of payment card operators due to the greater number of transactions carried out by the Bank's clients.

## Dividend income

Dividend income in 2017 came from the profits of companies for 2016, in which the Bank held minority interests, i.e. : Krajowa Izba Rozliczeniowa S.A. (KIR, PLN 827/5 thousand), Biuro Informacji Kredytowej S.A. (BIK, PLN 3,881.0 thousand) and VISA (PLN 65.9 thousand), as well as from the profits of subsidiaries of BNP Paribas Group Service Center S.A. (PLN 14,899.6 thousand) and BGŻ BNP Paribas Faktoring Sp. z o.o. (PLN 5,645.6 thousand). In addition, the Bank received an advance dividend from the profit of BNP Paribas Group Service Center S.A. for 2017 in the amount of PLN 12,197.2 thousand.

## Net trading income and net investment income

**The net trading income** in 2017 amounted to PLN 251,455 thousand and was lower by PLN 2,390 thousand, i.e. by 0.9% y/y. The level and volatility of this result are mainly determined by the valuation of derivative instruments and the result on foreign exchange transaction.

**Result on investment activities** in 2017 amounted to PLN 28,398 thousand and was lower by 363 thousand, i.e. by 1.3% as compared to the result achieved in 2016.

The result generated in 2016 was mainly influenced by the remuneration resulting from the settlement of the Visa Europe Limited acquisition by Visa Inc. As a result of this settlement, the Bank received EUR 6.9 million in cash (i.e. PLN 30,518 thousand, translated at the exchange rate at 4.3945 of 20 June 2016) and 2,521 preferential shares of Visa Inc. Series C. The total profit due to the execution of this transaction amounted to PLN 41,817 thousand.

The result for 2017 consists of profits from the sale of a portfolio of securities available for sale in the amount of PLN 25,543 thousand and profit from the sale of shares: PLN 2,855 thousand (including the sale of BGŻ BNP Paribas Faktoring Sp. z o.o. carried out in the fourth quarter of 2017 in the amount of PLN 2,757 thousand).

## Other operating income

In 2017, other operating income amounted to PLN 133,374 thousand and was higher by PLN 26,353 thousand, i.e. by 24.6% as compared to the previous year. This was mainly due to:

- increase of the other operating income item by PLN 25,063 thousand, i.e. by 88.4% (among others: higher revenues due to the reimbursement of brokerage expenses by BNP Paribas Leasing Services Sp. z o.o., revenues related to re-invoicing costs and release of provisions for legal risks);
- an increase in profits on the sale or liquidation of fixed assets and intangible assets by PLN 15,038 thousand, i.e. by 149.7% (profit on the sale or liquidation of Banks' fixed assets in 2017 was equal to PLN 15,098 thousand);
- an increase in income due to the recovery of debt collection costs by PLN 8,823 thousand, i.e. by 112.8%.

At the same time, revenues from the sale of goods and services, release of provisions for litigation and claims as well as revenues from the recovery of overdue debts, redeemed receivables, non-collectible debts and payment of receivables that were excluded from the consolidated statement of financial position were lower in comparison with 2016.

"Other operating income" includes, among others, an annual adjustment of VAT tax charged for 2016 in the amount of PLN 7,873 thousand (as compared to PLN 8,820 thousand in the previous year).



**Table 14. Other operating income**

PLN '000	12 months ended 31.12.2017	12 months ended 31.12.2016	Change y/y	
			PLN '000	%
Sale or liquidation of property, plant and equipment and intangible assets	25,083	10,045	15,038	149.7%
Sale of goods and services	2,155	12,439	(10,284)	(82.7%)
Release of provisions for litigation and claims and other liabilities	10,616	16,350	(5,734)	(35.1%)
Recovery of debt collection costs	16,643	7,820	8,823	112.8%
Recovery of overdue debts, redeemed receivables, non-collectible debts and payment of receivables that were excluded from the separate statement of financial position	2,520	7,295	(4,775)	(65.5%)
Income on leasing operations	22,948	24,726	(1,778)	(7.2%)
Other	53,409	28,346	25,063	88.4%
<b>Total other operating income</b>	<b>133,374</b>	<b>107,021</b>	<b>26,353</b>	<b>24.6%</b>

**Other operating expenses**

In 2017, other operating expenses totalled to PLN 138,888 thousand and were higher by PLN 22,860 thousand PLN (i.e. by 19.7%) as compared to 2016, which resulted mainly from the following:

- an increase in costs due to created impairment losses on other receivables by PLN 9,554 thousand. The creation of provision for unsettled balances of card transactions resulting from the migration process in the first quarter of 2017 had the largest impact on this item,
- an increase of PLN 7,126 thousand, i.e. by 27.0%, of the costs of debt collection,
- an increase of PLN 20,662 thousand, i.e. by 153.7% of the balance of other operating expenses (among others higher brokerage expenses related to sale of BNP Paribas Leasing Services Sp. z o.o. products).

**Table 15. Other operating expenses**

PLN '000	12 months ended 31.12.2017	12 months ended 31.12.2016	Change y/y	
			PLN '000	%
Loss on sale or liquidation of property, plant and equipment and intangible assets	(26,709)	(28,596)	1,887	(6.6%)
Impairment charges on other receivables	(10,244)	(690)	(9,554)	1,384.6%
Provisions for restructuring of assets, litigation and claim and other liabilities	(8,607)	(8,812)	205	(2.3%)
Debt collection	(33,500)	(26,374)	(7,126)	27.0%
Donations made	(2,686)	(3,561)	875	(24.6%)
Costs of leasing operations	(23,039)	(23,104)	65	(0.3%)
Costs of compensations, penalties and fines	-	(11,450)	11,450	(100.0%)
Other operating expenses	(34,103)	(13,441)	(20,662)	153.7%
<b>Total other operating expenses</b>	<b>(138,888)</b>	<b>(116,028)</b>	<b>(22,860)</b>	<b>19.7%</b>

In 2016 and 2017, other operating expenses included the costs related to the integration of banks - they relate primarily to the write-off of intangible assets, costs of liquidation of fixed assets and additional costs incurred due to termination of cooperation with one of the companies performing non-cash financial settlements. In 2016 the total amount of integration



costs included in other operating costs was PLN 18,947 thousand, while in 2017 the impact of this category was positive and amounted to PLN 126 thousand.

## Net impairment losses on financial assets and provisions for contingent liabilities

The result of impairment losses on financial assets and provisions for contingent liabilities in 2017 totalled to PLN - 342,419 thousand and its negative impact on the Bank's results was lower by PLN 43,511 thousand, i.e. by 11.3% as compared to 2016. The balance of impairment allowances in 2017 was lower despite the fact that the positive impact of the sale of receivables in 2016 was higher by PLN 18,279 thousand.

In 2017 the Bank entered into 9 agreements regarding the sale of the loan portfolio. The amount of receivables (covered by a significant part of impairment allowances, or written down in full from the Bank's balance sheet) sold under the agreements, amounted to PLN 651,152 thousand (principal amount, interest and other side receivables). The contractual price for the sale of these portfolios has been set at PLN 138,119 thousand. The net effect on the Bank's income from the sale of portfolios amounted to PLN 34,881 thousand and is presented in the result of impairment losses on financial assets and provisions for contingent liabilities.

In 2016 the Bank entered into 3 agreements regarding the sale of the loan portfolio. The amount of receivables sold under the agreements (covered by a significant part of impairment allowances, or written down in full from the Bank's balance sheet) amounted to PLN 545,133 thousand (principal amount, interest and other side receivables). The contractual price for the sale of these portfolios has been set at PLN 75,604 thousand. The net effect on the Bank's income from the sale of portfolios amounted to PLN 53,160 thousand and is presented in the result of impairment losses on financial assets and provisions for contingent liabilities.

The cost of credit risk exposure expressed as the ratio of net impairment losses to net loans and advances to customers (calculated on the basis of balances at the end of quarters) was 0.64% in 2017 and improved by 11 bps as compared to 2016 (0.75%).

Considering the key operating segments<sup>1</sup>:

- the Retail and Business Banking segment recorded an improvement in the balance of allowances by PLN 44,610 thousand y/y,
- SME Banking segment - improvement by PLN 14,475 thousand y/y,
- Corporate Banking segment (including CIB) - improvement by PLN 2,995 thousand y/y.

## General administrative expenses, depreciation and amortization

The general administrative expenses of the Bank incurred from 1 January to 31 December 2017 amounted to PLN 1,492,071 thousand and were lower by PLN 97,306 thousand i.e. 6.1% as compared to the previous year. It should be emphasized that in 2016, exSygma costs were included in the administrative costs of the Bank from the moment of legal merger, i.e. from 31 May 2016 (7 months).

The reduction in costs in 2017 was, among others, influenced by lower integration costs incurred by the Bank. In 2017 these costs amounted to PLN 35.6 million (in 2016 - PLN 173.4 million), of which:

- PLN 36.3 million was included in the general administrative expenses, depreciation and amortization (in 2016 - PLN 154.5 million);
- PLN 0.71 million as a reduction of other operating expenses (in 2016, PLN 18.9 million as operating expenses).

The integration costs in 2017 include mainly:

- expenses related to accelerated depreciation and amortization of systems and liquidation of assets in connection with the merger of banks - PLN 9.3 million,
- projects implemented due to the integration - PLN 21.9 million (including: operational integration with Sygma - PLN 15.3 million).

<sup>1</sup> Information based on the note with operating segments included in the Separate Financial Statements of the Bank BGŻ BNP Paribas S.A. for the year ended on 31 December 2017.

The largest decrease in administrative expenses concerns employee costs, which were lower by PLN 35,457 thousand as compared to the previous year. The impact on the decrease of expenses was reduction of employment by 592 FTEs (FTE as of 31.12.2017 - 7,386, as of 31.12.2016 - 7,978) and by PLN 23.5 million lower than the costs of the restructuring provision, which in 2016 amounted to PLN 26 million.

The decrease in expenses in 2017 was also recorded in the BFG fee item. In total, the BFG premiums booked by the Bank in 2017 expenses were PLN 95.5 million and are PLN 31.1 million lower than in the previous year. This is due to the implementation of the Act of 10 June 2016 on the Bank Guarantee Fund, deposit guarantee system and forced restructuring (Journal of Laws, item 996 from 2016). The implementation of the Act introduced changes in the method of calculating the base and indicators for the purpose of calculating fees for BFG, which resulted in reduction of costs incurred by the Bank in this respect.

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

PLN '000	12 months ended 31.12.2017	12 months ended 31.12.2016	Change y/y	
			PLN '000	%
Personnel expenses	(815,175)	(850,632)	35,457	(4.2%)
Marketing	(92,140)	(88,142)	(3,998)	4.5%
IT and telecom costs	(130,149)	(136,060)	5,911	(4.3%)
Rental costs	(162,845)	(175,560)	12,715	(7.2%)
Other non-personnel expenses	(157,781)	(171,877)	14,096	(8.2%)
Business travels	(10,801)	(8,923)	(1,878)	21.0%
ATM and cash handling costs	(3,448)	(3,544)	96	(2.7%)
Costs of outsourcing in leasing operations	(19,453)	(23,497)	4,044	(17.2%)
Bank Guarantee Fund fee	(95,483)	(126,624)	31,141	(24.6%)
Polish Financial Supervision Authority fee	(4,796)	(4,518)	(278)	6.2%
<b>Total general administrative expenses</b>	<b>(1,492,071)</b>	<b>(1,589,377)</b>	<b>97,306</b>	<b>(6.1%)</b>
Depreciation and amortization	(173,534)	(196,716)	23,182	(11.8%)
<b>Total expenses*</b>	<b>(1,665,605)</b>	<b>(1,786,093)</b>	<b>120,488</b>	<b>(6.7%)</b>

\* for the purpose of Cost/Income ratio calculation, total costs are adjusted by integration costs of PLN 35.7 million (2017) and PLN 154.5 million (2016)

**Table 16a. Personnel expenses**

PLN '000	12 months ended 31.12.2017	12 months ended 31.12.2016	Change y/y	
			PLN '000	%
Payroll expenses	(663,905)	(666,966)	3,061	(0.5%)
Payroll charges	(115,484)	(102,255)	(13,229)	12.9%
Employee benefits	(16,265)	(23,879)	7,614	(31.9%)
Costs of restructuring provision	(2,489)	(26,000)	23,511	(90.4%)
Costs of provision for future liabilities arising from unused annual leave and retirement benefits	(6,876)	(9,498)	2,622	(27.6%)
Appropriations to Social Benefits Fund	(8,850)	(8,539)	(311)	3.6%
Other	(1,306)	(13,495)	12,189	(90.3%)
<b>Total personnel expenses</b>	<b>(815,175)</b>	<b>(850,632)</b>	<b>35,457</b>	<b>(4.2%)</b>

**Depreciation and amortization expenses** incurred in 2017 decreased by PLN 23,182 thousand, i.e. by 11.8% as compared to 2016. This was primarily caused by cease of the use of assets which after completion of the operational merger with BNPP Bank Polska were liquidated, as well as lower by PLN 15.2 million costs of accelerated depreciation and amortization.

## 9.2. Statement of comprehensive income

In 2017 the comprehensive income of the Bank was higher by PLN 589,629 thousand than in the corresponding period of the previous year. The immediate reason for the observed improvement was a significant change in the valuation of available-for-sale financial assets (a positive effect of PLN 424,333 thousand) and a significant increase in net profit generated in the periods compared.

**Table 17. Statement of comprehensive income**

PLN '000	12 months	12 months	Change y/y	
	ended 31.12.2017	ended 31.12.2016	PLN '000	%
<b>Net profit for the period</b>	<b>298,389</b>	<b>49,388</b>	<b>249,001</b>	<b>504.2%</b>
<b>Other comprehensive income</b>				
<b>Items that will be reclassified subsequently to profit or loss upon fulfilment of certain conditions</b>	<b>141,486</b>	<b>(202,628)</b>	<b>344,114</b>	<b>(169.8%)</b>
Net change in measurement of financial assets available for sale	174,084	(250,249)	424,333	(169.6%)
Deferred tax	(32,598)	47,621	(80,219)	(168.5%)
<b>Items that will not be reclassified to profit or loss</b>	<b>983</b>	<b>4,469</b>	<b>(3,486)</b>	<b>(78.0%)</b>
Actuarial valuation of employee benefits	1,857	4,874	(3,017)	(61.9%)
Deferred tax	(874)	(405)	(469)	115.8%
<b>Other comprehensive income (net of tax)</b>	<b>142,469</b>	<b>(198,159)</b>	<b>340,628</b>	<b>(171.9%)</b>
<b>Total comprehensive income for the period</b>	<b>440,858</b>	<b>(148,771)</b>	<b>589,629</b>	<b>(396.3%)</b>

## 9.3. Statement of financial position

### Assets

At the end of December 2017, the Bank's balance sheet total amounted to PLN 71,897,892 thousand and was PLN 1,515,959 thousand (2.2%) higher than at the end of December 2016.

The key changes in the structure of Bank's assets during 2017 included: a growth in the share of receivables from banks and in financial assets available for sale, accompanied with a decrease in the share of loans and advances to customers. Loans and advances to customers, which accounted for 72.6% of total assets as at the end of December 2017 vs. 75.6% at the end of 2016, were the key items in the structure of assets. In terms of value, net loans and advances decreased by PLN 984,514 thousand, i.e. 1.9%, which was mainly caused by the decrease in the value of foreign exchange mortgage loans, which resulted from the Polish zloty strengthening

Financial assets available for sale were the second largest asset item and constituted 19.4% of the balance sheet total at the end of 2017 (vs. 17.8% at the end of 2016). In 2017, their value increased by PLN 1,429,656 thousand, i.e. by 11.4%, mostly as a result of extension of the money bills portfolio (an increase by PLN 1,099,470 thousand) and a purchase of NBP treasury bonds of PLN 329,620 thousand.

Changes in earning assets were accompanied by an increase in the share of receivables from banks to 3.5%. These receivables (net) increased by PLN 1,289,545 thousand, i.e. by 105.2%, mainly due to the increase of current accounts by PLN 1,410,982 thousand.

**Table 18. Assets**

PLN '000	31.12.2017	31.12.2016	Change y/y	
			PLN '000	%
Cash and balances at Central Bank	998,035	1,302,847	(304,812)	(23.4%)
Amounts due from banks	2,515,457	1,225,912	1,289,545	105.2%
Derivative financial instruments	474,421	324,005	150,416	46.4%
Differences from hedge accounting regarding the fair value of hedged items	32,730	18,671	14,059	75.3%
Loans and advances to customers	52,195,203	53,179,717	(984,514)	(1.9%)
Available for sale financial assets	13,921,889	12,497,233	1,424,656	11.4%
Investments in subsidiaries	63,404	70,828	(7,424)	(10.5%)
Intangible assets	287,907	244,571	43,336	17.7%
Property, plant and equipment	500,348	545,480	(45,132)	(8.3%)
Deferred tax assets	468,617	522,392	(53,775)	(10.3%)
Other assets	439,881	450,277	(10,396)	(2.3%)
<b>Total assets</b>	<b>71,897,892</b>	<b>70,381,933</b>	<b>1,515,959</b>	<b>2.2%</b>

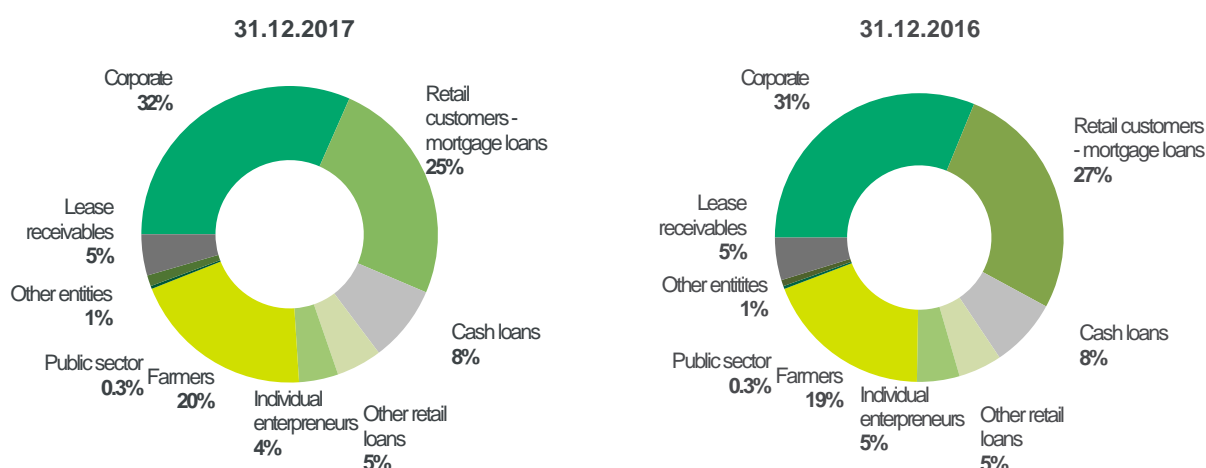
## Loan portfolio

### Structure and quality of the loan portfolio

At the end of 2017, gross loans and advances to customers amounted to PLN 54,967,103 thousand and decreased by PLN 1,209,529 thousand (2.2%) as compared to 2016. The decrease was mainly caused by strengthening of Polish zloty and revaluation of the portfolio of foreign currency mortgage loans. Without including this category, gross value of loan portfolio would increase by PLN 187,253 thousand, i.e. 0.4% y/y.

**Table 19. Loan portfolio structure**

PLN '000	31.12.2017		31.12.2016	
	PLN '000	Percentage share	PLN '000	Percentage share
<b>Gross loans and advances</b>	<b>54,967,103</b>	<b>100.0%</b>	<b>56,176,632</b>	<b>100.0%</b>
Corporate	17,373,879	31.6%	17,528,482	31.2%
Retail customers – mortgage loans	13,628,114	24.8%	15,005,546	26.7%
– in PLN	8,209,418	14.9%	8,190,068	14.6%
– in foreign currencies	5,418,696	9.9%	6,815,478	12.1%
Cash loans	4,575,410	8.3%	4,323,496	7.7%
Other retail loans	2,735,532	5.0%	2,740,156	4.9%
Individual entrepreneurs	2,354,470	4.3%	2,680,285	4.8%
Farmers	11,004,011	20.0%	10,644,765	18.9%
Public sector	172,173	0.3%	185,572	0.3%
Other entities	657,684	1.2%	391,989	0.7%
Lease receivables	2,465,830	4.5%	2,676,341	4.8%

**Chart 9. Structure of gross loans and advances**

Loans and advances to enterprises decreased by 0.9% and represented 31.6% of the gross loan portfolio (31.2% at the end of 2016). Loans and advances to households (including individual entrepreneurs and farmers) decreased by PLN 1,096,711 thousand, i.e. 3.1%. Mortgage loans, totalling PLN 13,628,114 thousand at the end of December 2017, represented 39.7% of loans and advances to households (42.4% at the end of 2016).

**Table 20. Quality of the loan portfolio**

PLN '000	31.12.2017			31.12.2016		
	Total gross value	Including impaired exposures	Percentage share	Total gross value	Including impaired exposures	Percentage share
<b>Gross loans and advances</b>	<b>54,967,103</b>	<b>4,114,988</b>	<b>7.5%</b>	<b>56,176,632</b>	<b>4,482,959</b>	<b>8.0%</b>
Retail customers - mortgage	13,628,114	596,147	4.4%	15,005,546	657,624	4.3%
- in PLN	8,209,418	205,186	2.5%	8,190,068	203,155	2.6%
- in foreign currencies	5,418,696	390,961	7.2%	6,815,478	454,469	6.1%
Cash loans	4,575,410	524,805	11.5%	4,323,496	631,552	11.5%
Other retail loans	2,735,532	189,460	6.9%	2,740,156	224,471	10.5%
Farmers	11,004,011	616,591	5.6%	10,644,765	442,187	3.1%
Institutional customers, excluding farmers	20,558,206	2,083,673	10.1%	20,786,328	2,410,177	11.2%
Lease receivables	2,465,830	104,312	4.2%	2,676,341	116,948	5.7%

The share of impaired exposures in gross loans and advances to customers increased to 7.5% at the end of 2017 as compared to 8.0% at the end of 2016.

**Table 21. Loan portfolio quality ratios**

PLN '000	31.12.2017	31.12.2016	Change	
			PLN '000	%
Total gross loans and advances to customers	54,967,103	56,176,632	(1,209,529)	(2.2%)
Impairment allowances	(2,771,900)	(2,996,915)	225,015	(7.5%)
<b>Total net loans and advances to customers</b>	<b>52,195,203</b>	<b>53,179,717</b>	<b>(984,514)</b>	<b>(1.9%)</b>
<b>Non-impaired exposures</b>				
Gross exposure	50,852,116	51,693,673	(841,557)	(1.6%)
IBNR provision	(278,626)	(312,218)	33,592	(10.8%)
<b>Net exposure</b>	<b>50,573,490</b>	<b>51,381,455</b>	<b>(807,965)</b>	<b>(1.6%)</b>
<b>Impaired exposures</b>				
Gross exposure	4,114,987	4,482,959	(367,972)	(8.2%)
Impairment allowances	(2,493,274)	(2,684,697)	191,423	(7.1%)
<b>Net exposure</b>	<b>1,621,713</b>	<b>1,798,262</b>	<b>(176,549)</b>	<b>(9.8%)</b>
<b>Ratios</b>				
Share of impaired exposures in gross portfolio	7.5%	8.0%		(0.5 pp)
Coverage of impaired exposures	(60.6%)	(59.9%)		(0.7 pp)

In December 2017, the Bank performed a securitization transaction on the portfolio of cash and car loans. The transaction is a traditional securitization involving the transfer of ownership of the securitized receivables to SPV (BGZ Poland ABS1 DAC based in Ireland). The revolving period is 24 months.

SPV issued bonds with a total value of PLN 2,180,850 thousand on the basis of securitized assets and received a loan of PLN 119,621 thousand, which was secured by a registered pledge on the rights to cash flows from securitized assets.

As a result of securitization, the Bank obtained financing in return for the transfer of rights to future cash flows resulting from the securitized loan portfolio in the amount of PLN 2,300,471 thousand as at 22 November 2017 (cut-off). The maximum deadline for full redemption of bonds and repayment of the loan is 27 April 2032.

The main benefit of the performed transaction is a positive impact on capital adequacy ratios and improvement of liquidity and diversification of financing sources.

In the light of the provisions of IAS 39, the contractual terms of the securitization do not fulfil the conditions for derecognition of securitized assets. In connection with the above, the Bank recognizes securitized assets in "Loans and advances to customers" as at 31 December 2017 at net value of PLN 2,106,698 thousand. At the same time, the Bank recognizes a liability due to cash flows from securitizations in "Liabilities due to customers" in the amount equal to PLN 2,300,471 thousand as at 31 December 2017. As at 31 December 2017, the Bank held receivables due to settlements with a securitization company in the amount of PLN 87,699 thousand. These receivables are presented in "Other assets".

The Bank acts as a servicing entity in the transaction.

## Liabilities and equity

As at the end of December 2017, the Bank's total liabilities amounted to PLN 65,336,633 thousand and were higher by PLN 1,075,914 thousand, i.e. 1.7% than at the end of 2016.

At the end of 2017, the share of liabilities in the total of liabilities and equity was 90.9%, i.e. 0.4 pp lower than at the end of December 2016. The main change in the structure of liabilities in 2017 was the increase in the share of amounts due to customers, accompanied by a decrease in amounts due to banks.

At the end of December 2017, amounts due to customers increased by PLN 3,360,743 thousand (6.1%) as compared to the end of December 2016 and amounted to PLN 58,658,067 thousand. Due to a material increase of the volume, their share in the total of liabilities increased to 89.8% as compared to 86.1% at the end of 2016.

In 2017 the reduction of debt arising from loans and advances received from Banks continued, which resulted in a drop in the share of liabilities to banks in the total liabilities. At the end of 2017 the share amounted to 4.5%, compared to 8.2% at the end of 2016. At the end of December 2017, amounts due to banks amounted to PLN 2,926,396 thousand and were lower by PLN 2,356,063 thousand (i.e. 44.7%) than in the previous financial year.

**Table 22. Liabilities and equity**

PLN '000	31.12.2017	31.12.2016	Change	
			PLN '000	%
Amounts due to banks	2,926,396	5,291,459	(2,365,063)	(44.7%)
Differences from hedge accounting regarding the fair value of hedged items	(2,992)	(4,080)	1,088	(26.7%)
Derivative financial instruments	427,710	271,757	155,953	57.4%
Amounts due to customers	58,658,067	55,297,324	3,360,743	6.1%
Debt securities issued	288,553	397,909	(109,356)	(27.5%)
Subordinated liabilities	1,645,102	1,768,458	(123,356)	(7.0%)
Other liabilities	1,204,865	1,116,905	87,960	7.9%
Current tax liabilities	112,235	4,593	107,642	2,343.6%
Provisions	76,697	116,394	(39,697)	(34.1%)
<b>Total liabilities</b>	<b>65,336,633</b>	<b>64,260,719</b>	<b>1,075,914</b>	<b>1.7%</b>
Share capital	84,238	84,238	0.0	0.0%
Supplementary capital	5,127,086	5,127,899	(813)	(0.0%)
Other reserve capital	909,629	860,241	49,388	5.7%
Revaluation reserve	141,917	(552)	142,469	(25,809.6%)
Retained earnings	298,389	49,388	249,001	504.2%
- retained profit	-	-	-	-
- net profit for the period	298,389	49,388	249,001	504.2%
<b>Total equity</b>	<b>6,561,259</b>	<b>6,121,214</b>	<b>440,045</b>	<b>7.2%</b>
<b>Total liabilities and equity</b>	<b>71,897,892</b>	<b>70,381,933</b>	<b>1,515,959</b>	<b>2.2%</b>

## Amounts due to customers

At the end of December 2017, amounts due to customers reached PLN 58,658,067 thousand and increased by 6.1% as compared to the end of December 2016. This increase concerned all sectors, primarily corporate clients and other



financial entities, which resulted from the execution of securitization transactions in the consumer loan portfolio and obtaining new financing sources. The share of current liabilities increased in maturity structure.

The share of current accounts in the total structure of amounts due to customers increased from 50.0% at the end of December 2016 to 51.7% at the end of December 2017. The value of funds deposited in current accounts increased by PLN 2,684,522 thousand, i.e. 9.7%.

On the other hand, the share of term deposits in the total structure of amounts due to customers decreased from 45.6% at the end of December 2016 to 41.0% at the end of 2017. Term deposits value decreased by PLN 1,153,736 thousand, i.e. 4.6% as compared to December 2016.

Amounts due to customers at the end of 2017 also include the amount of PLN 2,303,210 thousand, which concerned liabilities due to securitization settlements, which constituted 3.9% of the amounts due to customers.

Loans and advances received from other financial institutions decreased by PLN 547,978 thousand.

**Table 23. Amounts due to customers by products**

PLN '000	31.12.2017		31.12.2016	
	PLN '000	Percentage share	PLN '000	Percentage share
<b>Amounts due to customers</b>	<b>58,658,067</b>	<b>100.0%</b>	<b>55,297,324</b>	<b>100.0%</b>
Current accounts	30,351,041	51.7%	27,666,519	50.0%
Term deposits	24,055,426	41.0%	25,209,162	45.6%
Settlements of securitization transaction	2,303,210	3.9%	-	-
Loans and advances received	1,475,684	2.5%	2,023,662	3.7%
Other liabilities	472,706	0.8%	397,981	0.7%

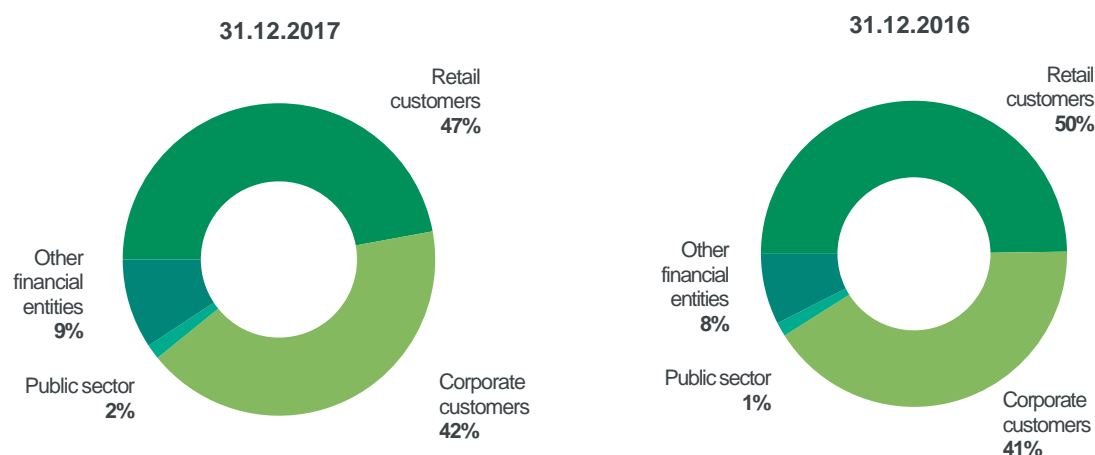
Amounts due to retail customers increased by PLN 114,739 thousand, i.e. 0.4%, and accounted for 47.1% of all amounts due to customers at the end of December 2017 (decrease by 2.7 pp as compared to the end of December 2016).

Amounts due to corporate customers increased by PLN 1,843,816 thousand, i.e. 8.1%. Their share in total amounts due to customers grew from 41.3% at the end of December 2016 to 42.0% at the end of 2017.

As a result of securitization transaction of the portfolio of consumer loans, amounts due to other financial institutions increased (by PLN 1,314,110 thousand). Their share in the total structure of amounts due to customers increased from 7.5% at the end of December 2016 to 9.3% at the end of 2017.

In the case of the public sector, the increase in liabilities amounted to PLN 88,078 thousand, while their share at the end of 2017 remained at the level of 1.5% of total amounts due to customers.

**Chart 10. Structure of amounts due to customers**





## Equity

As at the end of December 2017, the Bank's equity amounted to PLN 6,561,259 thousand and was higher by PLN 440,045 thousand than at the end of 2016.

The change resulted mostly from the increase in the net profit by PLN 249,001 recorded by the Bank in 2017 versus 2016. The positive impact on equity resulted also from the increase in the value of revaluation reserve (from PLN -552.0 thousand at the end of 2016 to PLN 141,917 thousand at the end of 2017) as a result of a positive revaluation of financial assets available for sale.

### 9.4. Equity and capital ratios

As at 31 December 2017, the total capital ratio of the Bank amounted to 13.92% and was 1.02 pp lower than at the end of December 2016.

The Common Equity Tier 1 capital ratio (CET I) and the Tier 1 ratio of the Bank as at the end of 2017 were identical and amounted to 10.95%.

**Table 24. Equity and capital ratios of the Bank**

PLN '000	31.12.2017	31.12.2016	Change	
			PLN '000	%
<b>Tier 1 capital</b>				
– share capital	84,238	84,238	0	0.0%
– supplementary capital	3,272,502	3,272,502	0	0.0%
– reserve capital	2,137,060	2,137,873	(813)	(0.4%)
– general banking risk fund	627,153	577,765	49,388	8.5%
– intangible assets	(287,906)	(244,571)	(43,335)	(17.7%)
– other items of equity included in Tier 1 capital	223,848	41,241	182,607	442.8%
<b>Total Tier 1 capital</b>	<b>6,056,895</b>	<b>5,869,048</b>	<b>187,547</b>	<b>3.2%</b>
<b>Tier 2 capital</b>				
– subordinated liabilities classified as own funds	1,642,424	1,765,435	(123,011)	(7.0%)
<b>Total own funds</b>	<b>7,699,319</b>	<b>7,634,483</b>	<b>64,836</b>	<b>0.8%</b>
<b>Risk exposure due to:</b>				
– credit risk	50,303,478	46,359,046	3,944,432	8.5%
– market risk	270,215	207,745	62,470	30.1%
– operational risk	4,521,329	4,477,691	43,638	1.0%
– credit valuation adjustment	212,959	54,045	158,914	294.0%
<b>Total risk exposure</b>	<b>55,307,981</b>	<b>51,098,527</b>	<b>4,209,454</b>	<b>8.2%</b>
<b>Separate capital ratios of the Bank</b>				
Total capital requirement	13.92%	14.94%		(1.02 pp)
Tier 1 ratio	10.95%	11.49%		(0.54 pp)

As at 31 December 2017, total own funds increased by PLN 64,836 thousand as compared to 31 December 2016, primarily due to:

- retaining profit of Bank BGŻ BNP Paribas for 2016 in the amount of PLN 49,388 thousand for the general banking risk fund following a resolution of the Ordinary General Shareholders' Meeting of Bank BGŻ BNP Paribas of 22 June 2017;
- recognizing a part of current year profit for the period from 1 January 2017 to 30 June 2017 in the amount of PLN 130,029 thousand in equity, in accordance with the PFSA decision issued on 23 November 2017.

In the analysed period, the total risk exposure amounted to PLN 55,307,981 thousand and increased by PLN 4,209,455 thousand y/y.

On 28 November 2017, the Bank received a recommendation from the Polish Financial Supervision Authority concerning the Bank's maintenance of own funds necessary to cover an additional capital requirement at the level of 0.62 pp in order to hedge the risk resulting from foreign currency mortgage loans granted to households, which should consist at least in 75% of Tier 1 capital (corresponding to 0.47 pp) and at least in 56% of Common Equity Tier 1 capital (corresponding to 0.35 pp).

On 29 December 2017, the Bank received a decision from the Polish Financial Supervision Authority dated 19 December 2017 concerning imposing on the Bank (on a consolidated and individual basis) a buffer of other systemically important institution equivalent to 0.25% of the total risk exposure amount.

In connection with the above, the minimal capital ratios obligatory for the Bank until the end of 2017, considering both the above-mentioned decisions and additional recommendations of the PFSA were:

- 10.85% for the Common Equity Tier 1 ratio (CET 1);
- 10.97% for Tier 1 capital ratio;
- 14.12% for the total capital ratio TCR.

At the same time, as at 31 December 2017, the required levels of the separate capital ratio CET 1, Tier 1 and TCR resulting from the 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, the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial sector as well as taking into account the PFSA decisions, were:

- 6.35% for the Common Equity Tier 1 ratio (CET 1);
- 7.97% for Tier 1 capital ratio;
- 10.12% for the total capital ratio TCR.

As at 31 December 2017, the Bank's capital ratios exceeded the above levels, meeting the requirement of the combined buffer indicated in Article 60 of the Act of 5 August 2015 on macro-prudential supervision over the financial system and crisis management in the financial sector.

In accordance with the Act of 5 August 2015 on macro-prudential supervision over the financial system and crisis management in the financial sector, and the Regulation of the Minister of Finance, from 1 January 2018, the capital requirements applicable to banks in Poland increased through:

- introducing a systemic risk buffer of 3%;
- increase in the capital conservation buffer level from 1.25% to 1.875%.

As a result of the above changes, in accordance with the "Position of the PFSA on minimum levels of capital ratios" obligatory for banks in 2018, published on 24 November 2017, the minimal capital ratios of Bank BGŻ BNP Paribas S.A. from 1 January 2018 should be:

- 9.98% for the Common Equity Tier 1 ratio (CET 1);
- 11.60% for Tier 1 capital ratio;
- 13.75% for the total capital ratio TCR.

On 6 February 2018, after the preparation of the opening balance as at 1 January 2018, which takes into account the implementation of IFRS 9, the Management Board of Bank BGŻ BNP Paribas S.A. learned information on the level of solvency ratios as of 1 January 2018. Tier 1 capital ratio (Tier 1) in separate terms was below the new requirements. Solvency ratios as at 1 January 2018, on a standalone basis, amounted to:

- CET 1 - 10.84%,
- Tier 1 - 10.84%,
- TCR - 13.79%.

Taking into account the above mentioned situation, the Management Board of the Bank decided to immediately take additional actions to meet the new regulatory requirements. Among various other activities, the Bank is planning to increase the share capital by issuing new shares. The BNP Paribas Capital Group provided the support to the Bank's Management Board in the implementation of the planned activities aimed at achieving the required capital ratios. The capital increase should be realized at the turn of 2nd and 3rd quarter of 2018, provided that the consents required by law are obtained.

On 12 December 2017, the European Parliament and the EU Council adopted the Regulation No. 2017/2395 amending the Regulation No. 575/2013 regarding transitional arrangements to mitigate the impact of implementing IFRS 9 on equity and the solutions regarding the fact of treating some exposures to public sector entities, which are denominated in the national currency of any Member State, as large exposures. This Regulation entered into force on the day following its publication in the Official Journal of the European Union and has been applicable since 1 January 2018. The European Parliament and the Council (EU) considered that the implementation of IFRS 9 could possibly lead to a sudden increase in impairment allowances for expected credit losses, and hence, the decrease in Tier 1 capital.

The Bank, after analysing the requirements of Regulation No. 2017/2395, decided to apply the transitional provisions provided for in this Regulation, which means that the full impact of the implementation of IFRS 9 will not be taken into account for the purpose of assessing capital adequacy of the Bank and the Group. As a result of adjusting the calculation of regulatory capital requirements it was estimated that the full impact of IFRS 9 implementation would decrease the total capital ratio of the Bank by 53 basis points.

## 9.5. Financial ratios

The ROE of the Bank, calculated after excluding the impact of integration costs in 2017, was 5.2%. The increase in comparison to 2016 is caused by an improvement in the net income on banking activity, primarily the net interest income. The return rate on assets, calculated after excluding the impact of integration costs, was 0.5% and increased by 0.2 pp as compared to 2016.

The change in the cost to income ratio is indicative of the improvement of the main activity profitability. This ratio improved as a result of an increase in revenues with a simultaneous decrease in operating costs (excluding integration costs). The Cost / Income ratio (excluding integration costs) is at the level of 60.7%, lower by 4.3 pp compared to 65.0% at the end of 2016. For the purpose of calculating the above mentioned ratio, the denominator is the category of net income on banking activity, which is the sum of net interest income, net fee and commission income, dividend income, trading income, investment income, result on hedge accounting and other operating income and expenses.

Presentation of the ratios calculated based on the profit and loss account, excluding integration costs (understood as additional costs related to the merger processes of BGŻ SA, BNP Paribas Polska SA and Sygma Bank Polska SA), aims to provide an additional information to assess the current potential of merged banks.

Net interest margin, calculated in relation to assets, improved (by 8 bps) to the level of 2.7%, as a result of the increase in the share of interest-bearing assets in the structure of assets.

The risk cost ratio decreased compared to the level recorded in 2016 by 9 bps and amounted to 0.6%.

The value of the ratio constituting the relation of net loans and advances to deposits improved compared to the end of 2016 due to the increase in the share of customer deposits in financing the Bank's activity, with a simultaneous decrease in the value of net loans and advances.

**Table 25. Financial ratios**

	31.12.2017	31.12.2016	31.12.2015	Change y/y in pp
Return on equity <sup>(1)</sup>	5.2%*	3.0%*	3.3%*	2.2 pp
Return on assets <sup>(2)</sup>	0.5%*	0.3%*	0.3%*	0.2 pp
Net interest margin <sup>(3)</sup>	2.7%	2.6%	2.6%	0.1 pp
Cost/Income <sup>(4)</sup>	60.7%*	65.0%*	73.9%*	(4.3) pp
Cost of credit risk <sup>(5)</sup>	(0.6%)	(0.7%)	(0.7%)	0.1 pp
Net loans and advances/Deposits <sup>(6)</sup>	91.3%	99.8%	112.3%	(8.5) pp
Gross loans and advances/Total source of funding <sup>(7)</sup>	87.1%	90.0%	97.4%	(2.9) pp

\* Normalised values, excluding integration costs. The impact of integration costs on the net profit was estimated using the standard 19% income tax rate. In the case of the "costs" category, the amount included in the financial statements was reduced by the amount of integration costs recorded as general administrative expenses and depreciation. In the case of the "income" category, the amounts of the profit or loss statement comprising the net income on banking activities was adjusted for integration costs recorded under other operating costs.

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

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

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

(4) Total general administrative expenses, amortization and depreciation in relation to total net banking income, calculated as the total of net interest income, net fee and commission income, dividend income, net trading income, net investment income, result on hedge accounting and other operating income and expenses.

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

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

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

## 9.6. Average interest rates used by the Bank

Table 26. Average interest rates used by the Bank in 2017\*

Product	PLN	EUR
<b>Deposits</b>	<b>0.87%</b>	<b>0.00%</b>
<b>Households and non-commercial institutions</b>	<b>0.70%</b>	<b>0.00%</b>
current	0.00%	0.00%
term	1.62%	
<b>Corporate</b>	<b>1.16%</b>	<b>0.00%</b>
current	0.76%	0.00%
term	1.60%	
<b>Loans and advances</b>	<b>4.52%</b>	<b>1.32%</b>
<b>Households and non-commercial institutions</b>	<b>4.97%</b>	<b>1.48%</b>
credit cards	9.36%	
consumer loans	5.81%	
mortgage loans	3.60%	
other loans	5.23%	
<b>Corporate</b>	<b>3.50%</b>	<b>1.31%</b>
current account	3.12%	1.31%
credit account	3.76%	

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

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

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

- **Implementation of IFRS 9**, which changes the principles for creating specific provisions for loans, e.g. by change from the incurred credit loss model to the expected credit loss model.
- **Implementation of the Payment Services Directive ("PSD II")** related to payment services within the EU internal market in the Polish law. PSD II will introduce, among others, an online access service to customer account data and payment initiation service at the customer's request. The above mentioned services may be provided by third parties. The Directive imposes on banks the obligation to provide public application interfaces software (APIs) and to implement additional security requirements.
- **Implementation of the EU PAD directive** on free basic payment account. The account, together with a specific package of free services, will have to be included in the offer of banks, payment institutions and credit unions. It will be available to current bank account holders, provided they have previously closed their bank accounts.
- **Implementation of Markets in Financial Instruments Directive (MIFID II)** - regarding markets and financial instruments. The regulation is aimed at increasing the security of clients, e.g. through greater transparency or changes in the remuneration models of distributors via a top-down limitation of management fees in investment funds.
- **A draft of bill on support for people having problems with timely payment of mortgage loans.** The bill prepared by the Chancellery of the President assumes the creation of a new Restructuring Fund. The fund will be financed from quarterly contributions paid by banks, depending on the volume of their own portfolios of denominated and indexed loans (maximum 0.5% of the balance sheet value of the loan portfolio). The Bill assumes that the maximum annual burden on the banking sector will not exceed PLN 3.2 billion.
- **The economic situation in Poland.** Fast economic growth amounting to 5% y/y on average (and 1-1.5% q/q) in the second half of 2017 and stabilization of the leading indicators on high levels suggest the occurrence similarly high GDP growth in the first months of 2018. Its structure should be more balanced than in the first half of 2017, taking into account both higher wage growth rate, strong foreign demand and the acceleration of absorption of EU funds. Nevertheless, the relatively low credit growth and fully utilized production capacity (positive output gap, and the increasingly noticeable shortage of qualified employees) may suggest a significant weakening of GDP growth in 2018. An additional risk factor for the growth rate of household consumption will be a significant reduction in trade on Sundays (starting from 1 March 2018, each month there will be only two commercial Sundays - the first and the last one).
- **The situation on the domestic labour market.** Lowering of the retirement age at the end of last year and the abolition of visas for Ukrainian citizens by EU countries, (in the absence of an increase in professional activity) may cause a reduction in labour supply in the forthcoming quarters. According to the Social Insurance Institution (ZUS) data, by 1 December 2017 350 thousand applications for early retirement were filed. On the other hand, according to NBP analyses, the scale of legal employment of Ukrainian citizens in Poland in the previous year was about 770 thousand. In the short term, a reduction in labour supply may increase the wage pressure, while in the medium and long term, it may reduce the potential and real GDP growth.
- **Faster increase in core inflation**, resulting from rising wage and demand pressure, which may cause re-emergence of expectations regarding interest rate increases in Poland. The increasing market interest rates in the major world economies resulting from tightening of the monetary policy in the USA, together with the announcement of the expiration of the ECB asset purchase program. As a result, despite the recent gentle messages of the Monetary Policy Council (MPC), the MPC may decide to raise interest rates in 2018 in order to prevent excessive inflation expectations among households in the face of the observed tightening in the labour market, including a rapid decline of the unemployment rate.
- **Increased imbalance in public finances.** Despite the acceleration of tax revenue growth and the improvement of the central budget balance, the fiscal risk may start to increase again next year. The lowering of the retirement age (starting from the last quarter of 2017) caused a rapid increase in the number of retirees, which, as a consequence, will increase the Social Insurance Fund's expenses by approximately PLN 10 billion (0.5% of GDP) in 2018.

- **Potential weakening of Polish zloty exchange rate against key currencies**, which may be caused by the drop in real interest rates and their declining difference in real interest rates in the United States and the euro area, which is caused by higher inflation in Poland.
- **Potential further strengthening of Polish zloty exchange rate against key currencies**, which in the light of growing domestic labour costs may reduce the competitiveness of Polish exports and, consequently, deteriorate the trade balance and current account, as well as weaken the pace of economic growth.
- **Further increase in market interest rates in the world**, as a potential risk factor for Polish bonds and Polish zloty exchange rate, as well as for the medium term economic growth rate.
- **Potential increase in volatility and risk aversion on the European financial markets**, resulting from the tightening of monetary policy parameters by the ECB, including restrictions on the scale of assets purchase from the beginning of 2018 and announcements of its completion at the end of this year. Higher risk aversion on the European bond market may increase the risk premium for Polish assets and increase the profitability of Polish Treasury securities (especially at the long end of the yield curve).



# 11. OPERATIONS OF BANK BGŻ BNP PARIBAS S.A. IN 2017

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

- **Retail and Business Banking** providing comprehensive services to:

- retail customers and
- business customers (microenterprises), including:
  - entrepreneurs whose annual net income for the preceding financial year is below PLN 10 million and the Bank's credit exposure to a customer is less than PLN 2 million;
  - farmers, whose credit is less than PLN 2 million and Standard Output<sup>2</sup> in the preceding financial year was less than EUR 75 thousand or EUR 100 thousand, depending on the region.

The Bank has also identified **Personal Finance Banking**, which is responsible, in particular, for development of the product offering and management of consumer credit distributed through the branch network of Retail and Business Banking as well as external distribution channels.

- **SME Banking** providing services to:

- institutional customers with net annual income for the preceding financial year of PLN 10-60 million or the Bank's credit exposure of PLN 2-25 million;
- farmers with the Bank's credit exposure of PLN 2-25 million or the Standard Output<sup>3</sup> in the preceding financial year was equal or higher than EUR 75 thousand or EUR 100 thousand, depending on the region;
- Agro entrepreneurs with full financial reporting and sales income of PLN 10-60 million or the Bank's credit exposure of PLN 2-25 million, including agricultural producer groups.

- **Corporate Banking** providing services to institutional customers with net annual income for the preceding financial year equal to or exceeding PLN 60 million or the Bank's credit exposure of PLN 25 million or more.

- **Corporate and Institutional Banking (CIB)** supports sales of products of the Capital Group of BNP Paribas dedicated to the largest Polish enterprises. It comprises services to strategic customers and the Financial Markets Division.

- **Other banking operations** carried out mainly through the ALM Treasury.

## 11.1. Branches and ATM network

### Branches

As at 31 December 2017, the Bank had 476 retail and business banking branches. The branch network is supported by two external cash desks handling both cash and cashless transactions and seven Private Banking Centres. The retail network is further supported by 102 Customer Service Points.

In 2017, 13 branches and 5 external cash desks were liquidated, 1 new branch was opened and 4 were relocated.

Banking products and services dedicated to corporate customers were sold by 44 SME Business Centres, operating within 7 SME Banking Regional Branches and by 8 Corporate Business Centres.

### ATM and Cash Deposit Machine (CDM) Network

As at the end of 2017, the Bank operated 100 cash deposit machines (CDMs) and 412 ATMs in retail and corporate branches. All the machines are owned by IT Card company.

Both the ATMs and the CDMs carry the logo of Bank BGŻ BNP Paribas.

<sup>2</sup> Parameter determining economic value of farms according to the Community Typology of Agricultural Farms.

<sup>3</sup> See above

## 11.2. Alternative distribution channels

### Online and mobile banking

In 2017 the Bank recorded an increase in the number of customers using online and mobile banking services. There has also been an increase in the number of operations carried out online.

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

Specification	Name of the system	31.12.2017	31.12.2016
Number of customers with access	PI@net	1,131,751	928,825
	BiznesPI@net	154,134	135,791
Number of active users	PI@net	503,364	452,794
	BiznesPI@net	107,323	95,431
Average monthly number of transactions	PI@net	2,011,233	677,610
	BiznesPI@net	2,890,928	1,297,345
Number of customers with access	Mobile PI@net	82,000	35,636
	Mobile BiznesPI@net	3,325	969

Changes in online banking offer introduced in 2017:

- March – providing the users with the PI@net system having the function of submitting an application to the Tax Office for the preparation of an annual tax return,
- October – implementation of the Bank's new mobile application: GOMobile,
- December – providing customers with the access to the BLIK payment system.

In the second half of 2017 the clients of the former Sygma Bank migrated to the PI@net system.

As part of Digital Market, the following functionalities have been implemented:

- online cash loan for users of PI@net internet banking
- dynamic profiling – the possibility of generating individual, dedicated product offers,
- access to the online banking service activated through an online application,
- online password reset for PI@net internet banking,
- dashboard – an online monitoring platform for Digital Market processes (a multi-channel platform providing support and monitoring online sales).

Modification of the Bank's offering was accompanied by ongoing updates to the PI@net and Market (Digital Market) online banking platforms.

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

- order of real-time transfers to the Social Insurance Institution (ZUS) and the Tax Office;
- automatic transfer confirmations to a specified e-mail address;
- feature of separating logins for company accounts in BiznesPI@net from individual accounts in PI@net (defining aliases and providing alias access passwords);
- an added feature enabling the user 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 Loans module;
- additional, dedicated template to generate "SAF Bank Statements";

- sharing PDF bank statements through Web Services;
- availability of BiznesPI@net for PayU/PayByNet payments;
- enabled execution of foreign orders in CNY currency (Chinese yuan);
- file import in Multicash Pli template with MD5 checksum;
- added feature enabling customers using the MBR service (monitoring of accounts, both Polish and global, via Bank BGŻ BNP Paribas S.A.) to see an additional field on the MT940 statement, with information about transaction parameters;
- system adjustments due to changes in the handling of orders by the Social Insurance Institution (introduced on 1 January 2018).

## Bank cards

As regards the issuing and servicing of payment cards, Bank BGŻ BNP Paribas S.A. cooperates with organizations such as MasterCard and Visa. The card portfolio includes debit, credit and deferred payment cards. As at 31 December 2017, the number of cards issued amounted to 1,372.0 thousand, which was 68.4 thousand less than the year before. The reported decrease relates primarily to credit card retail customers.

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

Thousand	31.12.2017	31.12.2016	Change y/y	
			thousand	%
Debit cards – retail customers	722.9	708.6	14.3	2.0%
Credit cards – retail customers	545.8	636.9	(91.1)	(14.3%)
Debit cards – business	86.3	78.0	8.3	10.6%
Deferred payments cards – business	6.3	6.0	0.3	5.0%
Credit cards – business	1.1	1.0	0.1	9.1%
Prepaid cards	9.6	9.9	(0.3)	(3.0%)
<b>Total number of cards issued</b>	<b>1,372.0</b>	<b>1,440.4</b>	<b>(68.4)</b>	<b>(4.7%)</b>

## Cooperation with intermediaries

At the end of 2017, the Bank actively cooperated with 13 network intermediaries, such as: Open Finance, Notus, Expander, and three local intermediaries. The scope of the cooperation included acquisition of banking products.

## 11.3. Retail and Business Banking

**Retail and Business Banking** provides financial services to individuals, private banking customers as well as businesses (micro-enterprises). Additionally, the Bank offers advisory services pertaining to day-to-day banking transactions, savings, investment and loan products. The following customer segments are the focus of Retail and Business Banking:

- Retail Customers:
  - Mass;
  - Premium (Personal Banking until 31 March 2017) — customers investing in the Bank or through its services, assets of at least PLN 100,000 or those whose monthly account receipts are at least PLN 7,500 (or at least PLN 5,000 per month for clients of former Personal Banking);
  - 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);
- Business Customers (micro-enterprises):

- Professionals: entrepreneurs with limited financial reporting, in conformity with the principles specified in the Accounting Act, and following occupations defined in a separate document;
- Entrepreneurs:
  - o with limited financial reporting, in accordance with the principles specified in the Accounting Act;
  - o with full financial reporting, in accordance with the Accounting Act, and those whose net annual income for the preceding financial year is lower than PLN 10 million, while the Bank's exposure is lower than PLN 2 million;
  - o Agro entrepreneurs (both with and without full financial reporting), whose activities are classified based on selected PKD 2007 codes;
- farmers, whose credit is less than PLN 2 million and Standard Output<sup>4</sup> in the preceding financial year was less than EUR 75,000 or EUR 100,000, depending on the region;
- Non-profit organizations (e.g. foundations, associations);
- Flat owners associations.

## Products offered

Currently, the Bank's retail client offer includes three tariff plans for personal accounts:

- „Konto Optymalne” (Optimal Account), offering:
  - o PLN 0 for the account;
  - o PLN 0 for management of debit cards;
  - o PLN 0 for using the Bank's ATMs (over 2 thousand Planet Cash ATMs in Poland);
  - o PLN 0 for ATMs abroad belonging to the BNP Paribas Group and Global Alliance (52 thousand ATMs in more than 50 countries).
- „Konto Maksymalne” (Maximum Account), offering:
  - o PLN 0 for the account;
  - o PLN 0 for management of debit cards issued for account holders under the age of 26 (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);
  - o PLN 0 for cash withdrawals from all ATMs in Poland and abroad.
- „Konto Premium” (Premium Account) for affluent clients who meet the criteria of the Premium segment, offering i.a.:
  - o PLN 0 for the account;
  - o PLN 0 for a two-currency card, for the account holder;
  - o PLN 0 for cash deposits and withdrawals as well as for domestic transfers, ordered at branches,
  - o PLN 0 for cash withdrawals from all ATMs in Poland and abroad;
  - o access to a dedicated offer of other products.

„Konto Optymalne” and „Konto Maksymalne” were introduced in May 2017 and are offered both at branches and online.

As concerns management of the retail and business banking product offer for 2017, the Bank focused on improving the efficiency of operations and the profitability of products. All business processes were fully standardized, as were regulations and price lists.

The extension of product offer was accompanied by two advertising campaigns on television, in cinemas and online. The first campaign, conducted between 26 May and 9 July 2017, included a special offer addressed to new account holders — a 2% refund for purchases made with a debit card in points of sale and online, with a maximum refund of PLN 300 per year. The second campaign lasted from 26 October to 29 December 2017. It promoted personal accounts by presenting the functionality of payments with the new GOMobile application, a debit card registered in the Android Pay application and a debit card in the MasterPass system. The campaign included a special offer, which granted the client a bonus of

<sup>4</sup> A parameter defining the economic size of farms according to the Community Typology of Agricultural Holdings.

PLN 1 for each of the aforementioned transactions (GOMobile, Android Pay and MasterPass), up to PLN 25 within a 12 months period from entering the promotion. The special offer was available to new customers.

Simultaneously, the Bank is introducing cash deposit machines (CDMs) at its branches, which enable customers to make cash deposits without the teller's assistance. The service is free of charge. In addition to cash deposits, the devices handle cash withdrawals, including the contactless ones. The first cash deposit machines of this kind were made available in selected cities in May, another 100 were installed by the end of the year.

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

As concerns online PI@net banking, new products were launched: the MasterCard debit card and proximity sticker in March 2017 and currency accounts in April 2017.

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 affluent 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) with free insurance, dedicated foreign exchange rates and a dedicated offering of deposit products (the *Autooszczędzanie* account, the Premium Deposit and seasonal special offers).

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. 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 which satisfy various customer needs relating to the funding of their business activity, transactional banking and investments.

The Bank provides a comprehensive business offer with regard to transactional banking:

- for micro-enterprises not subject to the Accounting Act: the *Biznes Lider Ekstra* package;
- for customers who apply a full accounting system: *Biznes Lider Premium* - an account adjusted to the individual needs of enterprises;
- for farmers: the *Agro Lider* package;
- for NGOs: the *Spółeczny Lider* package;
- for flat owners associations: the *Lider Wspólnot* package; and
- for companies that use POS terminals in their business operations: package with POS.

The design of the individual packages provides customers with tailored products and services which facilitate using their current account and taking care of settlements related to their business activity. The specified range of products and services is covered by a single fee.

In May 2017 - with the aim of a comprehensive service for flat owners associations in mind - the Bank introduced the *Lider Wspólnot* Package, which provides comprehensive services for accounts opened and maintained by flat owners associations and property managers.

In June 2017, the Bank introduced a deposit for farmers (the offer was addressed to new customers), for a period of 1 to 12 months, with a promotional interest rate of 1.5%. The campaign aims to support the sale of the *Agro Lider* package.

As regards POS terminals for business customers, the Bank cooperates with Elavon.

Every 3-4 months, the Bank updates its payment terminals offering.

In the fourth quarter, the offer was expanded to include mPOS. Furthermore, the Bank prepared for a government project aimed at the country's terminalisation. The project has been postponed to 2018.

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

Regular marketing initiatives, tailored to individual industry needs, enable the Bank to keep its customers informed about products suited to their business activity, new services and special offers. This form of advertising is used primarily for services which directly impact business growth, i.e. overdrafts, cash advances (extended for any purpose related to business activity), investment loans, subsidised loans and cash advances extended to farmers for any purpose related to their agricultural business.

As it is the Bank's objective to strengthen its position within the farmers and Agro businesses segment, between January and mid-May 2017 a promotional campaign was launched for products dedicated for the segment, such as working capital, preferential/EU/investment loans. The Bank's Agro sector products were advertised in industry magazines, online, on 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 with the goal of encouraging 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.sasiedzkibiznes.pl](http://www.sasiedzkibiznes.pl), providing both enterprises and consumers with information on the initiative itself, on the benefits of participation and providing them with the possibility of registration. This year, nearly 6,600 local businesses in more than 1,500 locations across Poland participated in the initiative. The "Neighbourhood Business Week" preceding immediately the "European Neighbours' Day" on 29 May 2017 was the main point of the event. Robert Makłowicz was the ambassador of this year's edition. As part of an educational campaign, the Bank organized 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 firm. 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 Bank's current deposit offer includes:

- 3 types of savings accounts:
  - a. *Konto Dobrze Oszczędnościowe*, with regularly introduced offers for new funds,
  - b. *Rachunek Sejf*, which does not require the use of other Bank services, personal account included,
  - c. *Autooszczędzanie* – savings account dedicated to customers with a *Premium Account*, allowing for automatic saving of financial surpluses.

Promotions related to standard interest rates are introduced periodically for all of the aforementioned accounts and for *Konto Dobrze Oszczędnościowe* and *Rachunek Sejf* additional retention offers are introduced.

- 4 types of deposits:
  - a. *PI@net Deposit* – available only through the PI@net online banking system with placement periods from 7 days to 6 months
  - b. *Special Offer Deposit* – a deposit with attractive interest-rates which may be opened at branches and in the PI@net banking system
  - c. *Progressive Deposit* – a 12 month deposit with a growing interest rate. In the case of cancellation of this deposit, interest is charged for the period of the deposit,
  - d. *Premium Deposit* – a deposit available through all channels, but only to *Premium Account* customers (affluent customers). The deposit location period is subject to the customers' choice, ranging from 1 to 730 days.

In the first half of 2017, IT system changes were introduced to improve the functionality of the offered products, including:

- extension of the transfer count functionality (cash withdrawals were included);
- changes to new term deposit confirmations (it is no longer necessary to complete the *Lokata Progresywna* term deposit form manually)
- increase in the number of term deposits available through the *Product Market* (standard term deposits).

The second half of 2017, much like the years 2015-2016, saw the NBP interest rates at the lowest level in the history. Despite such demanding macroeconomic conditions, the Bank's deposit activity focused both on ensuring stability of the retail customer savings portfolio as well as on preparing offers aimed at acquiring new deposits. Special offers for retail customers were periodically introduced:

- special offer term deposits;



- promotional interest rates on savings accounts, rewarding customers who deposited new funds in the Bank;
- retention offers.

The key campaigns promoted:

- “new” and “old” funds accumulated in the *Konto Dobrze Oszczędnościowe* savings account;
- the Progressive Deposit (Lokata Progresywna);
- the Special Offer Deposits (Lokaty Promocyjne).

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

In 2017 the Bank 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* (“*Indywidualne Konto Emerytalne*”, 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;
- 4 Portfolios - strategies based on BGŻ BNP Paribas FIO subfunds;
- Profit Plus term deposits linked to investment funds;
- subscriptions to 7 investment deposits;
- Indywidualne Konto Emerytalne and Indywidualne Konto Zabezpieczenia Emerytalnego in the form of an investment fund - from 6 November 2017.

In 2017, the BGŻ BNP Paribas Brokerage Office infrastructure was utilised to successfully launch the sales of a new savings and investment product: IBV structured certificates. The issuer of these financial instruments is BNP Paribas Arbitrage Issuance B.V. based in the Netherlands, the guarantor is BNP Paribas, based in France. Structured certificates are aimed at Private Banking, Premium and BGŻOptima customers. Since the end of 2017, they have been admitted to regulated trading on the Warsaw main market. The key features of the certificates are their flexibility in the use of underlying assets, formulas for the payment of the invested capital and the completed investment result.

As far as investment products for experienced retail investors are concerned, in 2017 the Bank released a new version of the transaction platform for the Warsaw Stock Exchange under the name SIDOMA WEB. This version provides the feature of utilising the automated investment consulting service.

Through the BGŻ BNP Paribas Brokerage Office, the Bank also developed a product offer for clients of the Private Banking segment in the field of asset management services (DPM). Among others, new investment strategies and a number of improvements attractive to affluent clients were introduced.

## BGŻOptima

BGŻOptima is a brand of Bank BGŻ BNP Paribas under which savings and investment products are offered in the direct model. For the past six years it has been at the top of the rankings in terms of the interest rate on 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. Moreover, it is also involved in educational initiatives and information campaigns addressed to customers and aimed to inform them of multiplying their savings and available forms of savings and investment products. Every year, BGŻOptima publishes a report on the approach of Polish customers to savings and investments.

The volume of BGŻOptima deposits at the end of 2017 totalled PLN 8.5 billion.

## Loans

The retail customer loan offer encompasses:

- mortgage loans in PLN (including „*Mieszkanie dla Młodych*” loans),



- mortgage advances in PLN,
- personal account loans (renewable loans).

The above are selected based on the needs and expectations of customers.

To address the needs of its customers, in 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 NBP average exchange rate as well as waiving the request for additional collateral from customers. At the same time, special offers were prepared for customers who make earlier payments in excess and in higher amounts of their CHF loans – the margin on the outstanding loan amount in CHF was reduced.

For customers who expect comprehensive solutions a special offer for a mortgage loan combined with a personal account was prepared, including life and job loss insurance. In addition, as regards acquisition offers, customers were offered preferential terms for a mortgage loan combined with a personal account and a transfer of the client's income.

In July 2017 the Act on mortgage loans and the supervision of mortgage brokers and agents came into force. Hence, the Bank accordingly adjusted the regulations and processes regarding the granting of mortgage products to retail customers.

Support for mortgage product services was implemented through the centralization of after-sales processes, in particular in the area of collateral updates such as mortgage or real estate insurance.

With a view to ensuring top quality service to its retail customers, the Bank continued to sell revolving overdrafts through the Rat@tu system. In order to make the offering of personal accounts more attractive, the Bank launched a widely available pricing offer which enabled customers to obtain revolving loans with an arrangement fee of PLN 0. The offer lasted until 30 September 2017.

The loans offered in the business segment to finance daily operations and investment needs are addressed to micro-enterprises, 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 (secured and unsecured);
- revolving/non-revolving working capital loans;
- cash loans (fixed term);
- investment loans.

The parameters of each loan are designed to suit the individual needs of micro-enterprises and farmers.

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

Another initiative implemented to make the loan offering dedicated to micro-enterprises more attractive was the Cardif insurance for overdrafts 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 extended the range of products for micro-enterprises 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, micro-enterprises may use EU loans, subsidised loans, guarantees and currency risk management products.

In 2017, the Bank commenced cooperation with Arval, thus offering entrepreneurs attractive long-term car rental opportunities, which constitutes an interesting alternative to leasing and car loans.

An important goal was also to increase the automation of the loan process for companies and farmers. Therefore, automation processes in relation to these tasks were carried out throughout the year, increasing the number of automatically generated contracts (for various products) and automatically commencing them.

## Bank guarantees and letters of credit

In terms of guarantees the Bank offers fast and comprehensive services based on dedicated IT tools.

In 2017, the Bank issued 105 bank guarantees at the request of business customers with a total value of PLN 8.62 million.

## Commercial volumes

As at 31 December 2017, consolidated Retail and Business Banking deposits amounted to PLN 33,177 million and were higher by PLN 281 million, i.e. 0.9% than at the end of 2016. The increase concerned funds on current accounts with simultaneous decreases in other categories.

**Table 29. Retail and Business Banking deposits and loans <sup>5</sup>**

PLN '000	31.12.2017	31.12.2016	Change y/y	
			PLN '000	%
Current accounts	9,047,002	7,745,397	1,301,605	17%
Savings accounts	9,747,175	10,390,023	(642,848)	(6%)
Term deposits	13,736,201	14,055,853	(319,652)	(2%)
Overnight deposits	646,144	704,442	(58,298)	8%
<b>Deposits</b>	<b>33,176,522</b>	<b>32,895,716</b>	<b>280,807</b>	<b>1%</b>
<i>Including: BGŻOptima</i>	<i>8,519,607</i>	<i>8,715,740</i>	<i>(196,133)</i>	<i>(2%)</i>
Consumer loans	6,057,102	5,755,656	301,446	5%
Investment loans	4,314,359	4,488,287	(173,929)	(4%)
Overdrafts	2,792,794	2,836,950	(44,156)	(2%)
Mortgage loans	13,423,212	14,769,947	(1,346,735)	(9%)
Lease receivables	329,583	539,065	(209,482)	(39%)
Credit cards	658,907	710,564	(51,656)	(7%)
Short-term loans	334,566	201,880	132,687	66%
Other loans	45,940	67,346	(21,406)	(32%)
<b>Net loans and advances</b>	<b>27,956,463</b>	<b>29,369,694</b>	<b>(1,413,231)</b>	<b>(5%)</b>

As at 31 December 2017 the value of the loan portfolio in the Retail and Business Banking segment amounted to PLN 27,956 million, i.e. 4.8% less than at the end of 2016. The drop concerned primarily mortgage loans, which decreased by PLN 1,347 million, as a result of the depreciation of the CHF. In the analysed period, the volume of FX mortgage loans (withdrawn from the offer in 2008-2009) amounted to PLN 5,419 million, including loans granted in CHF which constituted 98.7% of this portfolio. The highest volume increase was recorded in consumer loans: by PLN 301 million, and in short-term loans: by PLN 133 million. Without including the category of foreign exchange mortgage loans, the loan portfolio of Retail Banking would remain at the same level as in 2016.

<sup>5</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.

## Gross profit of the segment – Retail and Business Banking

The gross profit in the Retail and Business Banking segment for 2017 amounted to PLN 24.0 million. The improved result was primarily due to the increase in revenues and a better net impairment result. The net income on banking activity of Retail and Business Banking in 2017 amounted to PLN 1,502.2 million and was 11% higher as compared to 2016. This result accounts for 55.9% of the total net income on banking activity of the Bank in 2017. Personal Finance generated 34.6% of the net income on banking activity in this segment.

**Table 30. Gross profit of the segment – Retail and Business Banking<sup>6</sup>**

PLN '000	12 months ended 31.12.2017	12 months ended 31.12.2016	Change y/y	
			PLN '000	%
Net interest income	1,185,452	1,053,135	132,317	13%
Net fee and commission income	254,166	246,869	7,297	3%
Net trading and other income	62,546	48,954	13,592	28%
<b>Net income on banking activity</b>	<b>1,502,164</b>	<b>1,348,958</b>	<b>153,206</b>	<b>11%</b>
Net impairment losses	(228,855)	(273,465)	44,610	(16%)
Operating expenses and amortisation and depreciation	(809,959)	(791,728)	(18,231)	2%
Expense allocation	(330,359)	(340,793)	10,434	(3%)
<b>Operating result</b>	<b>132,990</b>	<b>(57,030)</b>	<b>190,020</b>	<b>-</b>
Tax on financial institutions	(108,972)	(98,737)	(10,235)	10%
<b>Gross profit of the segment</b>	<b>24,018</b>	<b>(155,767)</b>	<b>179,785</b>	<b>-</b>

## 11.4. Personal Finance

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

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

<sup>6</sup> Information based on the segmentation note included in Separate Financial Statements of Bank BGŻ BNP Paribas S.A. for the year ended 31 December 2017

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

It also assumes responsibility for the following key processes:

- authorization of consumer loans and micro-enterprise 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.

## Products offered

### Cash loans

In 2017, the Bank launched the following offers related to cash loans:

- the possibility to apply for a loan for an extended term of up to 120 months (compared to the maximum of 84 months before);
- the possibility to apply for a loan of up to PLN 200 thousand (as compared to the maximum of PLN 150 thousand before);
- the “*Happy End*” offer with the very attractive interest rate of 4.4% and the “*Last Year without Interest*” promotional offer. 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;
- 4 changes in pricing conditions (the last one: 29 September 2017);
- relaunch of the cash loan offer as a package with the current account from 17 July 2017;
- introduction of an Optimum consolidation loan: internal consolidation with a dedicated price offer;
- the possibility of applying for a loan with a co-borrower other than the wife/husband - starting from December.

### 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 retail 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.

Within the period from June to October 2017, all commercial partners intermediating in the sale of instalment loans migrated to the Bank's front-end platform, i.e. Rat@tu.

### Car loans

In 2017, the Bank introduced the following offer of car loans:

- a new promotional offer: 4.4%;
- increased flexibility of price parameters with respect to interest rates (changes by 0.2 pp);
- 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 20,000 (PLN 5,000 for new motorcycle dealers) to PLN 500,000 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 2017, the Bank launched the following offers related to car leasing:

- new, more attractive minimum financing thresholds;
- acceptance of a wider range of lease applications submitted by entrepreneurs;

- a wider range of vehicles financed, including 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 websites.

#### Leasing advance

As of the end of 2016, the range of products offered to business customers has been widened to include a leasing advance offered in partnership with BNP Paribas Leasing Services Sp. z o.o. through authorized car dealers and dealers of used car. 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 leasing advance 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 pp);
- 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 vehicle rental

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 2017, the Bank's sales of the long-term vehicle 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 in 2018.

#### 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 a 9.3% market share as at the end of 2017.

In November 2017, the Bank carried out the migration of ex-Sygma credit cards to a new system (Visiona), which was completed without major impact on the Bank's ecosystem and retail clients. It was the largest migration of the credit card portfolio that have been carried out on the Polish market so far.

In addition, the Bank improved and introduced new solutions, functions and services for card holders after the migration (3D Secure, Skip Payment, the option to change the billing period, monthly statements available via new channels: e-mail and Home Banking, Android Pay, access to the PI@net system and mobile banking, TRP in the Visiona system, balance transfer, payment for bills in the Ratat system).

At present, the Bank offers credit cards in all of its branches and 102 Customer Service Points 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 loan agreement, a car loan agreement or an instalment loan agreement with a credit card. The available limits range from PLN 2,000 to PLN 6,000.

The launched acquisition campaigns for branches and stands in cooperation with the Empik network (in November and December 2017, 2,000 credit cards were opened in branches) and the Carrefour network (the project assumes obtaining several dozen of thousands of new clients in 2018).

In 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 shops 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 S.A. focus on the 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 of portfolio management and investment consulting. Investment consulting 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 2017, the Brokerage Office sold units in more than 300 funds managed by 16 investment fund management companies. As at the end of 2017, the value of investment fund management company assets sold through Bank BGŻ BNP Paribas was PLN 2.95 billion.

Fee and commission income on sales of units in investment fund management companies (through the Bank's branches) amounted to PLN 27.68 million in 2017 as compared to PLN 18.60 million in 2016. In 2017, brokerage fee and commission income totalled PLN 14.97 million compared to PLN 6.67 million in 2016.

In the analysed period, the total fee and commission income of the Brokerage Office increased by PLN 17.39 million compared to 2016.

**Table 31. Fee and commission income of the Bank's Brokerage Office**

PLN '000	12 months ended 31.12.2017	12 months ended 31.12.2016	Change y/y	
			PLN '000	%
Brokerage fees and commissions	14,976	6,668	8,308	124%
Fees on sales of units in investment funds	27,682	18,596	9,086	49%
<b>Fee and commission income</b>	<b>42,658</b>	<b>25,264</b>	<b>17,394</b>	<b>69%</b>

**Table 32. Share of the Bank's Brokerage Office in WSE trading volume**

		31.12.2017		31.12.2016	
		volume	share	volume	share
Shares	PLN million	1,651.15	0.35%	884.76	0.23%
Bonds	PLN million	29.78	1.06%	39.75	1.46%
Contracts	number	62,209	0.45%	54,609	0.37%
Investment certificates	PLN million	2.21	1.41%	1.20	0.98%
Options	number	6,927	1.36%	5,360	0.75%

## 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<sup>7</sup> equal or higher than 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.

<sup>7</sup> A parameter defining the economic size of farms according to the Community Typology of Agricultural Holdings.



The SME sub-segment also includes 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 by 44 dedicated SME Business Centres located around the country. A key element of service at Bank BGŻ BNP Paribas is the individual assistance of a consultant, responsible for the entirety of the client's relationship with the Bank. Furthermore, SME customers are served by dedicated teams of product specialists offering a 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. Additionally, customers may use the ongoing operating services provided by the retail network, as well as operating and information phone support offered by the Business Centre.

## Product offer

The Bank has a broad product range addressed to SME segment customers. The offering developed for SME segment includes products such 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 an individual basis, deposits made through the online banking system as well as deposit accounts for flexible surplus cash management);
- **loan products** providing funding for the daily running of the business as well as implementation of investment and development projects, refinancing expenditure that has already been incurred or loans granted by other banks (overdrafts, revolving and non-revolving working capital loans and investment loans);
- **trade finance products**, export and import documentary letters of credit, documentary collection, letter of credit discounts, as well as issuing guarantees and processing external guarantees. The Bank offers fast and comprehensive services based on dedicated IT solutions;
- **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. and BNP Paribas Leasing Solutions).

These products are very flexible, as a result of which numerous parameters may be matched to individual customer needs.

## New product offer for 2017

In November 2016, FX Planet currency platform was launched. In the first half of 2017, it was supplied with new functionalities, i.e. new currency pairs, 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 the needs. The factoring limit available for a customer 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.

In October, a new offer addressed to the SME sector was implemented in order to increase competitiveness. Entrepreneurs can choose between five specially profiled bank packages:

- **FX BOX** – package for companies which use foreign exchange, 2 auxiliary bills included, competitive rates for online cross-border transfers, special offer for currency exchange;
- **Cash BOX** – package for companies with high turnover, special POS terminal offer, special offer for closed cash with convoy;
- **Turbo BOX** – the package is available for companies with revenues of up to PLN 10 million (for new customers), it is characterized by a low package and self-service price as well as a special POS terminal offer;
- **Multi BOX** – negotiable package intended for companies with individual requirements;
- **Agro BOX** – the package is available to the Farmer sub-segment regardless of the form of settlements with the Tax Office.



## 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 subsidised loans are particularly popular among the Bank's customers.

As a consequence of the new law, which changes rules pertaining to agricultural land trade and establishing mortgage on agricultural property, the Bank had to make adjustments to its internal rules on financing investments in agricultural farms, especially regarding land trade.

Apart from its own offering, the Bank provides additional services addressed to farmers, developed in cooperation with third parties.

### Subsidised loans

In 2017, the Bank continued granting subsidised 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 agro 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 be granted: 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.

Since 2017 the Bank may charge up to 2% of front-end commission, with the margin remaining at 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 a ZC loan, intended for agricultural producers to repay their liabilities under civil law.

Typically, subsidised 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 processing sector enterprises.

### Produce purchase loans

In June 2017, the Bank started the campaign of selling produce purchase loans for the 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 2017 the Bank launched a debt consolidation loan aimed at assuming liabilities of SME farmers contracted with other banks, financial institutions or the 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 production cooperatives.

Customers' liabilities may be consolidated 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 consolidated:

- 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 for 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 of 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 from 20 February 2017 to 7 April 2017, in which Bank’s customers took part.

### Cooperation with the Lewiatan Confederation

In cooperation with Lewiatan, the Bank participates in a series of conferences “**Innovation, financing, science, development – The Voice of Business 2017**”, addressed to beneficiaries from the SME sector, looking for adequate programs and sources to fund innovation.

### Leasing advance

In cooperation with BGŻ BNP Paribas Leasing, in January 2017 Bank BGŻ BNP Paribas provided its customers with access to leasing advances, 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 advances:

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

The leasing advance (*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.

## Business line development in 2017

A new solution aimed at shortening the duration of the loan granting process in the SME segment is the risk appetite which specifies additional financing, that the Bank is willing to provide over the amount actually applied for by the client.

The Bank implemented a simplified loan process pilot for less complex funding structures in specific ranges by limiting the scope of information required from the client at the application stage (existing clients) and processed by the Bank during the verification of the application.

A set of eligibility criteria to the VIP group for clients with good financial standing was also developed and a priority path to credit renewal for these clients was implemented.

Furthermore, improvements have been introduced to the monitoring system of loan exposure collaterals, including a prompt reminding clients of the upcoming need to provide documents confirming the acceptance or extension of loan collateral validity.

Simplifications have been introduced in the quarterly monitoring of clients subject to the Accounting Act (in the fourth quarter of 2017, 557 of 1,397 customers, i.e. around 40%, were included in the simplified mode of monitoring).

A new application - “Electronic Loan Application” - was introduced. It enables the Credit Analyst to supplement the credit application on a tablet during the customer's visit and thus allows for a faster loan granting process.

The **FirmApp** application - a communication platform between the Bank and the SME client was introduced. The application has intuitive navigation, a well ordered structure and a rich content, all of which contribute to ease of use. The main goals of the application are to strengthen the relationship with SME clients, to introduce modern communication and to change the mode and style of communication. The application provides access to, among others, bank reports and industry analyses, daily business information (e.g. business news), free invitations to conferences and trainings, and free invitations to concerts and events (including local ones).

The Bank conducted educational workshops for SMEs entitled “**How to finance the development of an SME - an overview of options and practitioners' experiences**”. During these workshops, entrepreneurs were able to broaden their knowledge on issues such as raising capital, share financing, the impact of foreign expansion, and changing priorities in financing options. During the workshops, participants had the opportunity to exchange their experiences and

learn from each other. The exchange of best practices was conducive to high efficiency and improvement of business skills.

Yet another series of meetings for key clients of the so-called "**Customer Council**" was organised. With the comfort of customers and easy access to modern technologies in mind, this year's edition of the Customer Council was enriched with the presentation of the most interesting young technology companies and solutions that can support the development of the clients' businesses. In total, 6 meetings took place in different regions of the country.

## Trade finance products for SME segment customers

The offer of trade financing products for SME customers includes export and import documentary letters of credit, documentary collection regarding import and export, discount of a letters of credit as well as nostro and loro guarantees.

### Bank guarantees and letters of credit

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

In 2017, the Bank issued 702 bank guarantees at the request of SME customers with a total value of PLN 131.13 million.

In 2017, the Bank opened 165 import letters of credit with a total value of PLN 26.17 million at the request of customers from this segment, and handled 105 export letters of credit with a total value of PLN 37.96 million issued by third-party banks for the benefit of those customers.

## Commercial volumes

As at 31 December 2017, consolidated SME Banking deposits amounted to PLN 6,167 million and were PLN 556 million, i.e. 10% higher than at the end of 2016. The increase in current account balances compensated for the decreases in other deposit products.

As at 31 December 2017 the value of loans and advances portfolio in the SME Banking amounted to 10,782 million, and therefore was lower by 3% than at the end of 2016.

**Table 33. Deposits and loans - SME Banking<sup>8</sup>**

PLN '000	31.12.2017	31.12.2016	Change y/y	
			PLN '000	%
Current accounts	4,843,210	3,644,228	1,198,982	33%
Savings accounts	275,405	363,600	(88,194)	(24%)
Term deposits	729,732	1,014,368	(284,636)	(28%)
Overnight deposits	318,263	588,277	(270,014)	(46%)
<b>Deposits</b>	<b>6,166,610</b>	<b>5,610,472</b>	<b>556,138</b>	<b>10%</b>
Customer credit	698	791	(93)	(12%)
Investment loans	6,978,146	7,154,189	(176,043)	(2%)
Overdrafts	2,435,113	2,210,189	224,924	10%
Lease receivables	553,286	541,182	12,104	2%
Credit cards	824	657	167	25%
Short-term loans	813,815	1,161,959	(348,145)	(30%)
<b>Net loans and advances</b>	<b>10,781,882</b>	<b>11,068,968</b>	<b>(287,085)</b>	<b>(3%)</b>

<sup>8</sup> See: footnote on p. 56

## Gross profit of the segment – SME Banking

In 2017, gross result of the SME segment was PLN 37.7 million, which denotes an almost threefold rise compared to the previous year. The increase was mainly due to the lower level of operating expenses and a better net result of impairment losses.

The net income on SME banking activity in 2017 amounted to PLN 339.6 million and was 4% lower compared to 2016. This result constitutes 12.6% of the Bank's total net income on banking activity.

**Table 34. Gross profit of the segment – SME Banking<sup>9</sup>**

PLN '000	12 months ended 31.12.2017	12 months ended 31.12.2016	Change y/y	
			PLN '000	%
Net interest income	234,849	230,511	4,338	2%
Net fee and commission income	83,969	87,834	(3,865)	(4%)
Net trading and other income	20,816	34,113	(13,297)	(39%)
<b>Net income on banking activity</b>	<b>339,634</b>	<b>352,458</b>	<b>(12,824)</b>	<b>(4%)</b>
Net impairment losses	(74,984)	(89,459)	14,475	(16%)
Operating expenses and amortisation and depreciation	(99,908)	(111,230)	11,322	(10%)
Expense allocation	(86,440)	(100,285)	13,845	(14%)
<b>Operating result</b>	<b>78,301</b>	<b>51,485</b>	<b>26,816</b>	<b>52%</b>
Tax on financial institutions	(40,612)	(37,786)	(2,826)	7%
<b>Gross profit of the segment</b>	<b>37,689</b>	<b>13,699</b>	<b>23,990</b>	<b>175%</b>

## 11.7. Corporate Banking

**Corporate Banking** offers a wide variety of financial services to large and medium-sized enterprises as well as to local government entities with annual turnover exceeding PLN 60 million or the Bank's exposure to a customer of PLN 25 million or more and 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);
- international customers (companies operating in international 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 are a part of the aforesaid groups.

In 2017, Corporate Banking developed operations based on stable customer relations, special emphasis was placed on the high standard and quality of provided services, as well as on the competence of the sales network and product specialists.

The priority for the corporate segment was cooperation with companies focused on international expansion and on the development of foreign trade products.

Through analyses of market and customer expectations, the Bank developed existing tools and electronic platforms such as BiznesPI@net, Mobile BiznesPI@et and the FX PI@net electronic currency platform.

In 2017, the FX PI@net currency platform and new currency trading opportunities were made available to clients 24 hours per day.

<sup>9</sup> See: footnote on p.57

The Bank focused its operations on increased product specialization and on the development of selected sectors: automotive, construction and real estate financing, wood and furniture, agricultural and food industry.

### Distribution channels

Corporate Banking services are provided by 8 business centres located in: Warsaw, Łódź, Gdańsk, Poznań, Wrocław, Katowice, Kraków and Lublin. In addition to the existing centres, services are provided to customers by dedicated relationship managers in 5 local service points: Białystok, Bydgoszcz, Olsztyn, Rzeszów and Szczecin.

### 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** – current accounts, payroll accounts, custody accounts, escrow accounts, cash management, payments, Cash Pool, balance consolidation, cards: debit, charge, credit;
- **Deposits** – placement accounts, progressive accounts, deposits: overnight, term, negotiated;
- **Financing** – current operations, investments, financing for agro companies;
- **Trade services and financing** – bank guarantees, documentary letters of credit, documentary collection, export financing;
- **Online banking** – BiznesPI@net, Mobile BiznesPI@net, MultiCash, Connexis, FX PI@net;
- **Mid-caps 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;
- **Investment banking services** – provided by specialists, including merger and acquisition advisory support, project funding, capital markets and debt securities;
- **Financial market products** – including spot and forward transactions made by the Bank's dealers or via the FX PI@net electronic currency platform;
- **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.

### Trade finance products for Corporate Banking customers

The trade finance products offered to Corporate Banking customers include: export and import documentary letters of credit, export and import documentary collection, discount of letters of credit, receivables financing as well as nostro and loro guarantees.

### Bank guarantees and letters of credit

The Bank offers fast and comprehensive services related to guarantees and letters of credit, based on dedicated IT solutions.

In 2017, the Bank issued 2,435 bank guarantees at the request of Corporate Segment customers, with a total value of PLN 1,848.26 million.

In 2017, the Bank opened 1,053 import letters of credit with a total value of PLN 369.96 million at the request of customers from this segment and handled 266 export letters of credit with a total value of PLN 1,020.10 million issued by other banks for the benefit of those customers.

## Commercial volumes

As at 31 December 2017, consolidated Corporate Banking deposits amounted to PLN 15,829 million and were PLN 1,301 million, i.e. 9% higher than at the end of 2016.

As at 31 December 2017 the value of loans and advances portfolio in the Corporate Banking segment amounted to PLN 12,905 million, i.e. 4% more than at the end of 2016.

The highest increase of volume was recorded in the current account loans (by PLN 375 million) and investment loans (by PLN 294 million).

**Table 35. Deposits and loans - Corporate Banking <sup>10</sup>**

PLN '000	31.12.2017	31.12.2016	Change y/y	
			PLN '000	%
Current accounts	6,969,640	5,644,611	1,325,028	23%
Saving accounts	11,311	5,455	5,856	107%
Term deposits	7,060,692	6,452,894	607,798	9%
Overnight deposits	1,787,431	2,425,608	(638,177)	(26%)
<b>Deposits</b>	<b>15,829,074</b>	<b>14,528,568</b>	<b>1,300,506</b>	<b>9%</b>
Consumer loans	25	117	(92)	(79%)
Investment loans	6,145,369	5,850,991	294,378	5%
Overdrafts	3,007,400	2,632,005	375,395	14%
Lease receivables	1,489,447	1,487,051	2,396	0%
Credit cards	1,809	2,003	(194)	(10%)
Short-term loans	2,236,104	2,352,338	(116,235)	(5%)
Other loans	2,153	7,170	(5,017)	(70%)
Factoring	21,771	18,547	3,224	17%
<b>Net loans and advances</b>	<b>12,904,077</b>	<b>12,350,221</b>	<b>553,856</b>	<b>4%</b>

## Gross profit of the segment – Corporate Banking

In 2017, the gross result of Corporate Banking was PLN 186.0 million, which increased by 31% y/y as compared to gross result in previous year. This increase was primarily the result of a significant improvement in the segment's revenues as well as a decrease in costs and an improvement with regard to impairment losses.

In 2017, the banking income of Corporate Banking was PLN 475.7 million, which is 10% more than at the end of 2016. It represented 17.7% of the total net income on banking activity.

<sup>10</sup> See: footnote on p.56

**Table 36. Gross profit of the segment – Corporate Banking <sup>11</sup>**

PLN '000	12 months ended 31.12.2017	12 months ended 31.12.2016	Change y/y	
			PLN '000	%
Net interest income	270,543	237,752	32,791	14%
Net fee and commission income	116,259	106,992	9,267	9%
Net trading and other income	88,927	88,749	178	0%
<b>Net income on banking activity</b>	<b>475,729</b>	<b>433,493</b>	<b>42,236</b>	<b>10%</b>
Net impairment losses	(36,145)	(39,240)	3,095	(8%)
Operating expenses and amortisation and depreciation	(126,848)	(147,158)	20,310	(14%)
Expense allocation	(81,557)	(64,538)	(17,019)	26%
<b>Operating result</b>	<b>231,179</b>	<b>182,556</b>	<b>48,623</b>	<b>27%</b>
Tax on financial institutions	(45,203)	(40,626)	(4,577)	11%
<b>Gross profit of the segment</b>	<b>185,976</b>	<b>141,930</b>	<b>44,046</b>	<b>31%</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, including 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 daily operations and investments carried out by enterprises;
- advisory services related to mergers and acquisitions;
- structured finance: financing acquisitions and investment projects;
- cash flow and liquidity management, working capital optimization;
- financial and commodity risk management.

CIB offers world-class quality expertise to customers by combining the knowledge of the Polish market with experience gained on international markets as well as top-class industry experts' competence. CIB supports the development of Polish enterprises and the implementation of projects of strategic importance to Poland, through the financing of industrial, commercial and technological infrastructure as well as strategic mergers and acquisitions.

### 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;

<sup>11</sup> See: footnote on p. 57



- 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.

## 11.9. Other banking activity

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, as well as reducing sensitivity of the Bank's net interest income to changes in market interest rates.

The AML 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 AML Treasury focuses on both prudential (compliance with external and internal regulations) and optimization aspects (financing cost management and generating profit through 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 a 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 the 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, coordinating the securitization of non-bank customer portfolio of and organizing the work of Asset-Liability Committee (ALCO).

## 11.10. Cooperation with financial institutions

As at 31 December 2017, the Bank was a correspondent bank of ca. 1000 other banks, and held 41 nostro accounts for 25 major currencies in 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.

In 2017, the Bank continued its cooperation with other domestic and international financial institutions, including investment funds, insurance companies, pension fund companies, brokers and banks, which enabled the conclusion of a wide range of treasury and deposit transactions. A number of contracts were concluded with new and existing contractors from these segments and actions were taken towards the signing of new contracts, in line with ISDA and Polish Bank Association ("ZBP") recommendations.

## 11.11. Human resource management

### Headcount

At the end of December 2017, Bank BGŻ BNP Paribas had 7,386 FTEs (including employees on maternity leave, childcare leave and longer sick leave) as compared to 7,978 FTEs at the end of December 2016. The Bank's headcount at the end of December 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 Bank's employment structure in FTEs.

**Table 37. Headcount in the Bank**

	31.12.2017	31.12.2016	31.12.2015
<b>Total Bank, including:</b>	<b>7,386</b>	<b>7,978</b>	<b>7,588</b>
Head Office	3,410	3,627	3,189
Branches	3,833	4,204	4,242
Mobile Relationship Managers	93	95	88
Brokerage Office	35	38	54
Training Centre	11	10	11
Trade Unions	4	4	4

## Employee remuneration policy

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

The Bank has adopted a *Remuneration 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 PFSA and the requirements of CDR IV and which was approved by the Supervisory Board on 9 September 2016. In December 2017, the above Remuneration Policy was revised in connection with the entry into force of the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management and internal control systems, policy of remuneration and detailed manner of calculating internal capital in banks (Journal of Laws of 2017, item 637).

The Bank has established an HR and Remuneration Committee, which supports the Supervisory Board in the fulfilment of its supervisory duties in the respect of human resource management, by monitoring and overseeing the key processes, specifically succession plans, professional development of employees and remuneration 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 remuneration determined and granted to such Members.

## Incentive schemes

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

The Bank has implemented:

- bonus schemes for direct sales staff, which were brought into line with the tasks assigned to each business line of the Bank: Retail and Corporate Banking, Personal Finance, SME Banking, Corporate Banking, Private Banking;
- bonus scheme defining the rules for granting and payment of variable remuneration, including bonuses, to managers 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 2017, training activity was carried out in close cooperation with the Bank's business lines. The total number of training participants was 131,842, including 114,366 e-learning participants.

Major training initiatives in 2017:

- courses dedicated to the new product offering and use of the operating systems;
- courses increasing leadership competencies of managers, focusing in particular on salesforce management – Manager’s Academy at Bank BGŻ BNP Paribas;
- courses supporting the development of personal competences as part of the Holidays with Development program;
- 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 the 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 the compliance department, regarding the monitoring and reporting as to 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 the individual needs of the participants and to support the realization of the Bank’s strategy;
- “Leaders for Tomorrow” initiative – a development program of the Capital Group of BNP Paribas aimed at the development of leadership skills. Participants can make the most of development sessions conducted in different companies of the Group, get to know the companies’ mode of operations in other countries and share experiences;
- “Development is Our Strength” program – aimed to develop the competencies of managers through diverse training and coaching activities;
- Internal Labour Market – continuation of an initiative launched in 2014 with the aim of enhancing the occupational mobility of employees inside the organization;
- Occupational Mobility Days – an initiative supporting the occupational mobility of employees, who can familiarize themselves with the nature of work in specific business areas and attend meetings (in classrooms and online) focusing on professional development. The Occupational Mobility Days include training courses and conferences on building a professional career;
- HR Library – the newly-opened library offers literature on: motivation, sales, personal development, management and leadership;
- “Leadership Impact” – a program which focuses on the development of leadership competences;
- Coaching processes for managers.

**Internship and traineeship programs**

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

- “Bankformers” – an internship program lasting from July to September addressed to 4th and 5th year students and offering the possibility to participate in selected projects at the Bank. Trainees are guided by a professional supervisor and an HR supervisor who support them in their daily tasks. Also offered as part of the program are courses containing, i.a., project management modules. Recruitment for the program begins in March of every year;
- “Focus on Development” – yearly internship program for 2nd and later 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 – aimed at building the Bank’s image of an attractive employer through the actions of two Bank representatives working in cooperation at five universities: University of Warsaw, University of Economics in

Krakow, Warsaw University of Technology, AGH University of Science and Technology and the Warsaw School of Economics. In the future, the program will be extended to include further higher education institutions.

## 11.12. Information technology

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

- 1) **operational integration of Bank BGŻ BNP Paribas S.A. with Sygma Bank Polska S.A.** – a major undertaking was the migration of customers from exSygma Bank systems to the target systems of Bank BGŻ BNP Paribas. It took place on October 20-22 and was the last stage of the banks' operational integration.
- 2) **projects related to the daily operations of the Bank** are primarily based on transformation in several key areas: digitization of customer service, optimization, and development of IT services and data management. The digitization of customer service includes tools such as the website, online banking in the retail and corporate area as well as mobile applications. Works in this area are ongoing and will continue in 2018. As part of the optimization, each business line has achieved tangible benefits due to dedicated optimization projects. In addition, the Robot Farm was launched, a program which successively automates processes in the area of operations.
- 3) **regulatory compliance projects** – the Bank implemented approx. 30 regulatory projects, including 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 several cybersecurity projects were also implemented.

In 2017, 86 projects were implemented, totalling PLN 200 million. 122 projects are being implemented at present.

### Major completed IT initiatives

Projects related to the preparation for the operational merger of BGŻ BNP Paribas S.A. and Sygma Bank Polska S.A., 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 impact on customers.

Key IT tasks completed as part of the Banks' full integration process in 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 of 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.
- July – as part of the operational merger with Sygma Bank, a new SEP registration module was implemented to service several dozen thousand business partners, new functionalities were implemented in the PI@net system: Family 500+ applications and instant transfers to the Social Insurance Institution (ZUS) and Tax Offices,
- August – (i) introduction of the contactless cash withdrawal feature in newly installed ATMs,
- September - the Android Pay application made available to the Bank's customers for contactless mobile payments,
- October - (i) completion of the Sygma Bank client data migration process: over one million active customers of the former Sygma Bank were moved, including approx. 700 thousand loans, 500 thousand credit card accounts and 560 thousand insurance contracts. In addition, 13,000 trade partners have been connected to the Bank's systems, (ii) launch of the GOMobile mobile application for the Bank's customers - the application offers, i.a.: instant transfers, opening of deposits, topping up phones, balance checks before log-in, exchange rate information and the geolocation of branches and ATMs,
- November - (i) implementation of the Forcepoint Email Security system – one of the most modern mail security system. The new solution will identify and dispose of modern cyber attacks, such as: spam, malware, phishing, (ii) providing the BLIK payment application to the Bank's customers. The application allows customers to make withdrawals from ATMs and payments at online and stationary stores. It also allows customers to make transfers to a telephone number,
- December - (i) implementation of ServiceNow - tool for reporting incidents and problems related to applications and equipment and for submitting service applications, e.g. increasing mailbox capacity, creating audio conferences, etc.,

(ii) automation and robotization of 16 business processes, resulting in reduced manual labour, simplification and improvements to processes affecting efficiency, automation of the complaint process, which improve customer service quality.

#### Infrastructure projects at the Bank:

- implementation of Skype for Business;
- redevelopment of the Bank's network — Internet security system;
- implementation of an application firewall for the online banking system;
- launch of an additional server room 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;
- implementation of a new conference room booking system;
- Secure Email Gateway upgrade;
- exSygma mailbox migration;
- implementation of a new MDM tool for 2400 new smartphone users in the Bank and migration of 2,000 existing users to the new system;
- transfer of ExSygma Bank Data Processing Centre (basic and back-up) to the target location of Bank BGŻ BNP Paribas.

#### In addition to the integration works, 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: new currency pairs, FX alerts, 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 lease advances in the Lease Offers application.

## **11.13. Agreements concluded with central banks and supervisory authorities**

### **Agreements with the National Bank of Poland (NBP)**

- Amendment No. 8 of 19 January 2017 to the Agreement of 18 February 2015 on the rules of Polish currency supply to banks and related activities - changes introduced to Annex No. 1: introduction of the full name of the entrepreneur (CIT) responsible (on behalf of the Bank) for cash income and outgo to/from regional branches of the central bank.
- Amendment No. 9 of 31 August 2017 to the Agreement of 18 February 2015 on the rules of Polish currency supply to banks and related activities - changes introduced to Annex No. 1: introduction of a new sort code for the Bank.
- 21 December 2017 – Agreement with NBP regarding the Bank's role of a Money Market Dealer. Agreement concluded for the period from 1 January 2018 to 31 December 2018.

## 12. KEY RISK MANAGEMENT

The Bank identifies, measures, monitors and manages the risks involved in its business operations. In particular, the following risks are identified by the Bank 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 (break-even risk);
- reputation risk;
- strategic risk;
- leverage risk;
- model risk;
- insolvency risk.

**Material 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 monitors all of the above mentioned risks on a current basis and they are subject to periodical reviews.

The Bank has developed detailed procedures applicable to particular risks, defining the applicable limits for measurable risks, which specify the risk appetite.

All methods and procedures are reviewed periodically in terms of their appropriateness and reliability and are subject to validation tests, stress tests as well as back testing.

For non-measurable risks, the procedures are analysed and monitored within the prescribed time limits based on various qualitative methods.

The risk management system of the Bank comprises mainly the Supervisory Board, the Management Board, dedicated committees (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, Doubtful Debts Committee as well as New Products, Businesses and Organization Committee), Internal Control Coordination Committee, Risk Departments, Compliance as well as Security and Continuity of Business Department.

The key role in the risk management system at the Bank is fulfilled by the Management Board, which defines the risk policy and adopts the risk management principles in addition to the material risk limit policy and risk control procedures. The risk management principles are derived from the *Risk Management Strategy* defined by the Management Board and accepted by the Supervisory Board.



## 12.1. Credit risk

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

The Bank's credit risk management system has been defined in the *Credit Policy of Bank BGŻ BNP Paribas S.A.* adopted by the Management Board. Detailed financing principles and criteria applicable to the product offering of each business line, types of available loans, objectives, financing terms and limits have been defined in the credit policies of each business line. It is the Bank's intention, in accordance with the criteria established in the credit policy, to cooperate with customers enjoying good reputation and a good economic and financial condition.

Additionally, the aforementioned credit policies specify 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 the Risk Division, 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 Capital Group. The decision-making model takes into account the structure of the business lines, determines the number of decision levels, the scope of their competence as well as the principles, criteria and conditions to be satisfied in the credit decision-making process. The value thresholds for the decision-making competence depend on such criteria as the customer segment, risk profile and the tenor. At each competence level, credit decisions are taken by two employees (two-man rule), namely a representative of the business line and a representative of the organizational unit responsible for customer and transaction risk assessment performed independently of the business line. For customers whose credit risk assessment is performed in accordance with simplified risk assessment principles or models, including scoring models approved by the Risk Management Committee or the Retail Banking/Personal Finance Risk Committees, credit decisions may be taken by one representative of the business line.

Credit risk management principles adopted by the Bank:

- each credit transaction requires comprehensive credit risk assessment expressed in internal rating or scoring,
- in-depth and careful financial analysis serves as the basis for regarding the customer's financial information and collateral-related data as reliable; prudential analyses performed by the Bank always take into account a margin of safety,
- as a rule, financing is provided to the customer based on its ability to generate cash flows that ensure payment of its liabilities to the Bank,
- the credit risk assessment is additionally verified by credit risk assessment personnel, independent of the business,
- the pricing terms of a credit transaction have to take account of the risk involved in such a transaction,
- credit risk is diversified on such dimensions as geographical regions, industries, products and customers,
- credit decisions may only be taken by competent employees,
- the customer and the transactions made with the customer are monitored transparently from the perspective of the customer, in a manner that strengthens the relationship between the Bank and the customer.

### Debt restructuring and collection

In 2017, the Bank obtained a total of PLN 615.7million of receivables, of which:

- PLN 255.8 million – at a result of debt collection (SME – PLN 132.8 million, Personal Finance – PLN 54 million, micro enterprises – PLN 38 million, mortgages – PLN 16 million, corporate entities – PLN 15 million);
- PLN 240.5 million – as a result of portfolio restructuring;
- PLN 119.4 million – as a result of the NPL portfolio sale.

The total number of enforcement titles issued by the Bank in 2017 was 9,500.



## 12.2. Liquidity, currency and interest rate risk

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

- finance assets and discharge the Bank's obligations on a timely basis in the course of its daily 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;
- obtain alternative funds and supplementary funds 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 risks are 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 maintaining the reported values below the limit is obliged to employ measures enabling reduction of the risk value in accordance with the procedures in place at the Bank. The information system used for purposes of risk management ensures collection of data concerning operations and transactions, along with their effect on the Bank's risk profile.

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

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

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 scope of their responsibilities is 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, at the same time, makes the Bank sensitive to crises in each of such environments.

The following types of liquidity are distinguished by the Bank:

- immediate liquidity (intraday) – present day,
- future liquidity – beyond the present day, additionally divided into:
  - current liquidity – within 7 days;
  - short-term liquidity – more than 7 days to 1 month;
  - medium- and long-term liquidity – over 1 month.

Liquidity risk is defined as the risk of the Bank losing its ability to:

- fulfil its payment obligations on a timely basis;
- secure alternative funds and supplementary funds 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 undertake actions aimed at restoring confidence of both customers and financial institutions as soon as practicable;
- ensuring high quality of liquidity management standards. Actions aimed at improving the quality of liquidity management at the Bank are its top priority.

Amounts due to customers, medium- and long-term lines of credit and equity are the major sources of funding used by the Bank. Medium- and long-term lines of credit, including subordinated loans and the funds obtained in the process of loan portfolio securitization, are provided mainly by the BNP Paribas Group, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and the Council of Europe Development Bank and other financial institutions.

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 limits the risk of financing, which is associated with the risk of having insufficient stable sources of financing in the medium and long term and with the need to incur an unacceptable level of losses.

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 and with the use of funds deposited in the accounts of non-banking institutions.

**Table 38. Structure of loan portfolio financing**

PLN million	31.12.2017
<b>Net loans and advances</b>	<b>52,195</b>
<b>Total sources of funding</b>	<b>65,397</b>
Customer deposits, including:	57,182
- retail customers	27,638
- corporate	25,569
- other financial institutions	3,976
Long-term lines of credit	7,926
Debt securities issued	289

The Bank's loans in foreign currencies are financed with the use of customer deposits and - in their absence - medium- and long-term loans from the BNP Paribas Group, which provides stable funding to address such shortages in EUR, USD and CHF. This concerns, in particular, the CHF mortgage loan portfolio, for which a stable level of funding has been secured by the Bank. As at 31 December 2017, the structure of open long-term lines of credit (including those obtained in the process of loan portfolio securitization) was as follows:

**Table 39. Structure of loans from the BNP Paribas Group**

million	31.12.2017
CHF	894
EUR	225
PLN	735

**Table 40. Structure of loans from the EBRD, EBI and EIB**

million	31.12.2017
EUR	131
PLN	2,520

## 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 values of currency position in particular currencies, 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 analyzed on a quarterly basis. The test involves a comparison of the forecast figures and those determined on the basis of actual changes in foreign exchange rates, assuming that the currency position is maintained (back-testing). The comparative period covers the last 250 business days.

The historical verifications of VaR model in 2017 did not identify the necessity to make any adjustments.

## Interest rate risk in the banking portfolio

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

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

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

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

- a mismatch between the repricing dates of assets and liabilities ("gapping"), collectively and by the main currencies for standard portfolio;
- a mismatch between the repricing dates of assets and liabilities ("gapping"), collectively and by the main currencies for total ALM Treasury portfolio;
- earnings at risk (EaR) – simulations of future net interest income (within the next year, two and three years) assuming different yield curve scenarios, where EaR is the difference between the highest and the lowest result relative to the base result (determined by reference to market rates);
- One Year Equivalent (OYE) – a measure of sensitivity of the fair value of the balance sheet, expressed as the nominal value of the annual transaction (item) with the same sensitivity.

The aforesaid analyses are the major component of the system used for purposes of mitigating the interest rate risk in the banking book. The analyses are performed for the relevant portfolios on a daily, monthly or quarterly basis,

depending on the type of analysis and the portfolio. Additionally, the Bank conducts sensitivity analyses for its banking portfolio, where the changes in interest rates are more considerable than those typically observed (stress tests).

The table below presents the cumulative interest rate gap for the banking portfolio as at 31 December 2017.

Utilization of set limits is below the maximum values.

**Table 41. Interest rate gap (PLN million)**

Term	Gap
1M	-4,716
3M	912
6M	-107
1Y	-1,822
2Y	-4,171
3Y	-4,027
5Y	-1,076
10Y	406

### 12.3. Counterparty risk

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

As at 31 December 2017, the counterparty risk was calculated for the following types of transactions contained in the trading portfolio of the Bank: foreign exchange transactions, interest rate swap transactions, FX options, interest rate options and commodity derivatives.

Counterparty credit risk for transactions which generate counterparty risk is assessed using the same methodology as the one applied to loans. This denotes that in the credit process these transactions are subject to limits, the value of which results directly from the 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 regulated 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. The Bank has transparent principles for securing the counterparty risk exposures.

### 12.4. Country risk

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

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

As at 31 December 2017, treasury transactions (including deposits and derivatives) represented nearly a half (44%) of the Bank's exposure towards countries, foreign lending operations of the Bank accounted for 32%, while the remaining part, i.e. 32%, was related to international trade transactions (letters of credit and guarantees). France accounted for 63%, the Netherlands for 9%, Great Britain for 7%, Belgium for 7%, and Switzerland for 5% of the exposure. The remaining exposure was related to Germany, Luxembourg, Italy and China.

## 12.5. Operational risk

The Bank's operational risk is defined in accordance with the resolution of the Polish Financial Supervision Authority and the requirements of Recommendation M of the PFSA as the possibility of incurring a loss or an unreasonable cost through the fault of inappropriate or unreliable internal processes, people, and 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 daily control;
- counteracting an elevated level of operational risk, to include risk transfer;
- calculation of the capital requirement related to operational risk.

Compliance with the operational risk policy is verified by the Bank's Management Board periodically and, if necessary, the required adjustments are made in order to improve the system. To that purpose, 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 Bank's operations, in addition to court and administrative proceedings which affect the Bank. The Compliance Department is responsible for day-to-day compliance risk analysis as well as development of appropriate risk control techniques and their improvement.

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



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

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

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

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

Internal control system. The internal control system principles have been formulated in the *Internal Control Policy of the Bank*, which was approved by the Management Board of the Bank. 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 principles are described in the "*Functional Control Rules in BANK BGŻ 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. In accordance with the applicable regulations, the Bank designates regulatory capital to cover the operational risk. The Bank uses the standard method (STA) for calculation. In the scope of subsidiaries of the Bank, on a consolidated basis, the requirements relating to these entities are determined according to the base indicator method (BIA).

## Subsidiaries of the Bank

In accordance with supervisory regulations, the Bank supervises the operational risk related to the operations of its subsidiaries. Supervision is performed in the form of:

- the Bank's participation in developing and modifying operational risk management policies in its subsidiaries;
- providing with substantive support in the field of operational risk management methods by the Bank;
- participation of the Bank's representatives in selected activities in the field of operational risk management in subsidiaries;
- verification of compliance of operational risk management in subsidiaries with the strategy and policy of the Bank and the BNP Paribas Group.

As part of the implemented operational risk strategy and policy, subsidiaries of the Bank introduce, in particular, the principles of operational risk management and create organizational units (or independent positions or functions) responsible for operational risk management. At the same time, they cooperate in this respect with the Operational Risk Department, ensuring the implementation of supervisory activities over the operational risk management processes in the Group. Moreover, the Bank's subsidiaries adopted the definitions of risks in line with the definitions in force at the Bank for the needs of operational risk management. In accordance with the requirements of supervisory regulations, the Bank records operational losses of its subsidiaries on the basis of information provided by these entities.



## 12.6. Legal risk

As at 31 December 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 31 December 2017, the total value of the litigation initiated against the Bank (except adverse claims and proceedings for annulment of the effected legal actions) was PLN 172,581,301.02. The total value of the litigation initiated by the Bank was PLN 466,379,455.96.

### Court decision regarding calculation of the interchange fee

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

The total fine levied on Bank BGŻ BNP Paribas amounted to PLN 12,544 thousand and included: i) a fine for the practice of Bank Gospodarki Żywnościowej in the amount of PLN 9,650 thousand; and ii) a fine for the practice of Fortis Bank Polska S.A. (FBP) in the amount of PLN 2,895 thousand. The penalty was paid by the Bank on 19 October 2015. The Bank brought a last resort appeal against the aforesaid court decision on 25 April 2016. During the meeting on 4 April 2017, the Supreme Court accepted the case for reconsideration. By a ruling issued on 25 October 2017, the Supreme Court quashed the verdict of the Warsaw Court of Appeal and referred the case for reconsideration.

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

Until 31 December 2017 the Bank has received 26 requests for settlement from companies. 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 denominated loan agreements

As at 31 December 2017, the Bank was the defendant in (47) forty-seven court cases in which the Bank's customers demand to declare the mortgage loan contract is invalid in terms of granting a foreign currency loan, denominated or indexed to CHF by determining that the Bank granted a loan in PLN without denomination to a foreign currency or compensation for abuse of the entity's right by the Bank, including the principles of social coexistence and misleading the customer or depriving the executory title of enforceability.

The total value of claims claimed in the abovementioned cases is PLN 13.96 million.

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

## 13.1. Statement of compliance with corporate governance principles in 2016

In accordance with Paragraph 91.5.4) of the Regulation of the Minister of Finance of 19 February 2009 concerning current and periodic information reported by issuers of securities and conditions for recognizing as equivalent information required under the law of a non-member state (consolidated text: Journal of Laws of 2014, item 133), the Management Board of Bank BGŻ BNP Paribas S.A. presents the following information regarding compliance with corporate governance principles in 2017.

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

In 2017, the Bank has been bound by the "Principles of Corporate Governance for Supervised Institutions" of 22 July 2014, issued by the Polish Financial Supervision Authority (the "Principles of Corporate Governance"). The aforesaid principles were adopted by the Bank's Management Board and Supervisory Board in December 2014 and by the General Shareholders' Meeting in February 2015. They are available to the public on the website of the Polish Financial Supervision Authority at:

[https://www.knf.gov.pl/dla\\_rynku/Zasady\\_ladu\\_korporacyjnego](https://www.knf.gov.pl/dla_rynku/Zasady_ladu_korporacyjnego)

The Bank's position with respect to the application of the Corporate Governance Principles was updated in 2017 and expressed in the Resolution of the Bank's Management Board dated 26 April 2017, subsequently confirmed by the Supervisory Board on 11 May 2017 and adopted by the General Shareholder's Meeting on 22 June 2017 r.

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

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

#### Principle:

Paragraph 8.4 – A supervised institution, when justified by the number of shareholders, should strive towards the participation of all shareholders in the General Shareholders' Meeting of the supervised institution, among others, through ensuring the possibility of active electronic participation in the General Shareholders' Meeting.

#### Reasons:

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

Situation as at 31 December 2017:

As 94.99% of the Bank's shares are held by three shareholders, who are physically present at the General Shareholders' Meetings, the Bank will continue not to apply the aforementioned principle.

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

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

The Management Board of the Bank hereby declares that the Bank and its governing bodies complied with the adopted Principles of Corporate Governance in 2017. In the reporting period, the Principles of Corporate Governance adopted by the Bank were not violated.

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

The Bank's internal control system complies with the requirements imposed by the Polish supervisory authorities and is in compliance with the internal control policy in place at the BNP Paribas Group.

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

The Bank applies an internal control management policy, approved by the Management Board of the Bank.

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

- efficiency and effectiveness of the Bank's operations;
- reliability of the financial reporting process;
- adherence to risk management principles in the Bank,
- compliance of the Bank's operations with the laws, internal regulations and market standards.

The internal control system is an element of the Bank's management system and consists of three lines of defence: control and risk control mechanisms, compliance control of the Bank's operations with legal and internal regulations as well as internal audit.

The internal control plays a key role in the risk management of processes taking place at the Bank. Individual units/cells' risk management responsibility is a system of three independent lines of responsibility, known as "defence lines", namely:

- 1) the first line of defence: organizational units from particular areas of banking and support, responsible for implementing and supporting professional and honest behaviour in accordance with existing rules, standards and regulations. It is also responsible for the ongoing supervision, development and implementation of control mechanisms in operational processes, and for the detection, early warning and signalling of irregularities. The first line of defence is responsible for risk management in subordinate processes;
- 2) the second line of defence: organizational cells responsible for risk management, organizational units/cells independent from risk management on the first line of defence, and a compliance cell. These, taking into account the requirements set by supervisory authorities and business needs (including the risk appetite adopted by the Bank) create a framework and principles of risk management and control; the second line of defence monitors compliance with control mechanisms and is responsible for reports on performance, risk management and risk control;
- 3) the third line of defence is an independent and objective internal audit unit that verifies the proper functioning of the first and second lines of defence.

The control function consist of:

- 1) risk control mechanisms and control mechanisms;
- 2) independent monitoring of control mechanisms, mentioned in 1) above;
- 3) reporting within the control function.

The risk control mechanisms implemented within the first and second lines of defence are tailored to the Bank's specific needs and include, in particular principles, limits and procedures of supervisory nature, functioning as part of the Bank's operations.

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

The Bank has established an Internal Control Coordination Committee, which is an advisory body supporting the Management Board. The main task of the Internal Control Coordination Committee is to supervise the consistency, comprehensiveness and effectiveness of the internal control system and of the operational risk management processes.

It also manages key risks related to the internal control system of the Bank and its subsidiaries (including the operational risk management, compliance risk and fraud prevention).

The Supervisory Board is supported by the Audit Committee in (among others) monitoring the effectiveness of the internal control system and by the Risk Committee in the field of risk management.

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

The objective of the risk management system is to identify, measure or estimate, monitor and manage the risks inherent in the Bank's operations. The key role in the risk management system at the Bank is fulfilled by the Management Board, which defines the risk policy and adopts the risk management principles in addition to the material risk limit policy and risk control procedures. The risk management principles are derived from the Risk Management Strategy defined by the Management Board and accepted by the Supervisory Board.

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

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

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

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

As at 31 December 2017, the following entities were the major shareholders of the Bank:

- BNP Paribas SA with its registered office in Paris (Boulevard des Italiens, 1675009 Paris, France) holding directly 50,524,889 shares of the Bank, representing 59.98% of the share capital of the Bank. The core business of BNP Paribas SA is carrying out banking activity and provision of banking services;
- BNP Paribas Fortis NV/SA with its registered office in Brussels (Rue Montagne du Parc 3, B-1000, Brussels, Belgium) holding directly 23,884,975 shares of the Bank, which represents 28.35% interest in the share capital of the Bank. The core business of BNP Paribas Fortis SA is carrying out banking activity and the provision of banking services;
- Rabobank International Holding B.V. with its registered office in Utrecht (Croeselaan 18, 3521 CB Utrecht, the Netherlands) [RIH] holding directly 5,613,875 shares of the Bank, which represents 6.66% interest in the share capital of the Bank. RIH is the holding company in the Rabobank Group of companies whose core business is carrying out banking activity and provision of banking services.

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

## **Shareholders with special control rights, including a description of such rights**

The Bank's shares are ordinary bearer or registered shares (as at 31 December 2017, there were 13,024,915 registered shares, including 4 B series shares). No special control rights are attached to the ordinary bearer shares.

On the other hand, registered B series shares of the Bank (as at 31 December 2017: four shares) are preference shares with respect to payment of the full nominal value per share in the event of the Bank's liquidation, once the creditors'

claims have been satisfied, with priority over payments per ordinary shares, which, once the rights attached to the preference shares have been exercised, may be insufficient to cover the total nominal value of those shares.

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

The Bank's Statute does not impose any limitations as to exercising the voting rights or set forth any provisions whereby the equity rights attached to securities would be separated from the holding itself. Under Paragraph 10.4 of the Bank's Statute, one vote at the General Shareholders' Meeting is attached to each share.

### **Limitations on transferring the title to the issuer's securities**

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

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

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

The Management Board is composed of the President, Vice-Presidents and/or Members of the Management Board, who are appointed, removed or suspended by the Supervisory Board. At least two members of the Management Board, including the President, should have expertise and experience enabling stable and prudential management of the Bank. At least half of the Management Board members need to possess in-depth knowledge of the banking market in Poland, i.e. need to be permanently residing in Poland, be fluent in Polish and have relevant experience on the Polish market, (Paragraph 21.2-21.4 of the Statute).

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

### **Introduction of amendments to the issuer's statute**

Any amendment to the Bank's Statute requires a resolution of the General Shareholders' Meeting and an entry in the Register of Entrepreneurs of the National Court Register. Amendments to the Statute in respect of the matters specified in Article 34.2 of the Banking Law of 29 August 1997 (consolidated text: Journal of Laws of 2016, item 1988, as amended) require consent of the Polish Financial Supervision Authority.

The Management Board's motions which aim to amend the Bank's Statute and those concerning other matters to be examined by the General Shareholders' Meeting, should be consulted upon with the Supervisory Board in advance. Resolutions of the General Shareholders' Meeting to amend the Statute, in particular, change the Bank's name, registered office, business profile as referred to in Paragraph 5.2 of the Statute, increase or reduce its share capital, issue of convertible bond or bond with priority to take-up shares of the Bank or subscribe warrants, liquidation or dissolution of the Bank, and the sale of all or part of the bank, require the majority of 3/4 of votes cast. A resolution regarding a merger of the Bank with another bank or another credit institution requires 2/3 of votes cast at the General Shareholders' Meeting (Paragraph 13.2 of the Statute).

In accordance with Paragraph 20.1.1m) of the Bank's Statute, immediately after the General Shareholders' Meeting adopting amendments to the Bank's Statute has been held, the Supervisory Board shall draft the consolidated text of the Statute and introduce other editorial changes to the Statute, as specified in the relevant resolution of the General Shareholders' Meeting.



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Supervisory Board exercises permanent supervision concerning the Bank's operations by evaluating the Management Board's reports on the activities of the Bank and its Capital Group as well as the financial statements of the Bank and its Capital Group for the prior financial year, as regards their compliance with accounting records and documents as well as facts, in addition to examining the Management Board's motions to distribute profits or cover losses.

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

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

In 2017, the Supervisory Board held 7 meetings and adopted 109 resolutions.

The Supervisory Board appoints internal committees out of its members:

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



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

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

In accordance with its powers, in 2017, the Committee became acknowledged with, i.a., financial statements of the Bank and the Group for 2016, interim financial statements for 2017 quarters and half-year periods, operation plans of the Compliance Department, information on monitored recommendations and the implementation of the instructions of the Polish Financial Supervision Authority, reports on the activities of the Internal Audit Department, reports on audit function performance in the Brokerage Office, reports on Compliance Department operations and on compliance function performance in the Brokerage Office, the effectiveness assessment of mechanisms and internal control processes, changes introduced by IRFS 9, IRFS 15 and IFRS 16. In addition, the Committee issued recommendations to the Supervisory Board regarding the selection of the entity authorized to audit the Bank's financial statements. The recommendations further pertained to the adoption of the Bank's Policy and the procedure for the selection of an auditing company and the Policy whereby the auditing company, entities related to the auditing company and members of the auditing company network, were to provide approved services outside the scope of the study. The Committee accepted audit and non-audit (i.e. tax and accounting advisory) services provided to the Bank by an entity authorized to audit financial statements, monitored compliance with the principle of independence and objectivity of the external auditor and the entity authorized to audit financial statements. It also supervised the work performed by external auditors.

The Committee is composed of at least three members of the Supervisory Board, including two independent members of the Supervisory Board.

#### **Composition of the Bank's Audit Committee in 2017**

- Mariusz Warych – Chairman
- Jarosław Bauc – Member
- Monika Nachyła – Member (to 21 October 2017, due to Ms Monika Nachyła's resignation from the position of Audit Committee Member)
- Jean-Paul Sabet – Member

**The HR and Remuneration Committee** supports the Supervisory Board in the fulfilment of its supervisory duties in the respect of human resource management by monitoring and overseeing key processes, specifically: succession plans, professional development of employees and remuneration policy.

A detailed scope of duties and procedures of the HR and Remuneration Committee have been defined in its regulations adopted by the Supervisory Board.

In fulfilment of its duties in 2017, the HR and Remuneration Committee, i.a., discussed changes in the Management Board composition, reviewed the degree of key objective accomplishment by Members of the Management Board and determined the deferred part of variable remuneration for 2013, 2014 and 2015, determined the base amount of variable remuneration for 2016 for Management Board Members, determined the non-deferred part of variable remuneration and the percentage share of the financial instrument, became acquainted with the new terms and conditions for the employment of Management Board Members, discussed the principles and amount of remuneration for new management board Members, employment and payroll information, information on the monitoring of variable remuneration for those holding managerial positions related to risk management and compliance with laws or internal regulations, issues regarding discretionary bonuses, implementation of objectives by Management Board Members in the previous year and setting goals for 2017, matters of awards, remuneration policy of employees exerting a considerable influence on the risk profile of Bank BGŻ BNP Paribas S.A., the Regulations of assignment and payment of variable remuneration to Management Board Members, agreement changing employment contracts of Management Board Members. In addition, the Committee reviewed the remuneration policy, discussed the procedure for identifying employees with significant impact on the risk profile of Bank BGŻ BNP Paribas S.A., the adequacy policy for Supervisory Board Members, Members of the Management Board and employees holding key positions at Bank BGŻ BNP Paribas S.A. and the Remuneration policy for the Supervisory Board at Bank BGŻ BNP Paribas S.A.

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

**Composition of the HR and Remuneration Committee in 2017:**

- Jean-Paul Sabet – Chairman
- Stefaan Decraene – Member
- Józef Wancer – Member

**The Risk Committee's** responsibility is to support the Supervisory Board in its fulfilment of supervisory duties in the risk management area, particularly including: giving opinion on the Bank's current and future ability to take risk, giving opinion on the risk management strategy in the Bank's operations prepared by the Management Board and on information from Management Board concerning execution of this strategy, supporting the Supervisory Board in supervision over implementation of risk management strategy in the Bank by executive employees, verifying whether prices of liabilities and assets offered to clients reflect in full the business model of the Bank and its risk strategy, presenting to the Management Board recommendations on how to ensure the adequacy of prices of liabilities and assets with risk categories.

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

In fulfilment of its duties in 2017, the Committee discussed, i.a.: credit and operational risk dashboard, ALMT risk dashboard as well as market, liquidity, counterparty and capital requirements risk information, changes in the emergency liquidity plan and liquidity stress tests in the Stress test procedure, changes to the Bank's Principles of capital management, updated list of Key Risk Indicators, information on the methodology for assessing the adequacy of liquidity resources and reviewing the ILAAP process at the Bank, information on legal risk, update of Methodology of stress test analysis of interest rates, FX rate, liquidity and capital sensitivity, reports on the internal capital adequacy assessment process (ICAAP), updating the ICAAP methodology, information on outsourcing risks, information on the implementation of a retail credit exposure risk management policy, risk management strategy in the Bank, updating the Bank's Emergency Capital Plan, Operational Risk Mapping Report. The Committee also approved the tolerance level for risk models.

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

**Composition of the Risk Committee in 2017:**

- Jean-Paul Sabet – Chairman
- Monika Nachyła – Member
- Mariusz Warych – Member

## 13.2. Information concerning the Bank's compliance with the recommendations and principles of the Best practices for WSE listed companies 2016

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

The *Best Practices for WSE Listed Companies 2016* is available on the Warsaw Stock Exchange website at: [https://static.gpw.pl/pub/files/PDF/RG/DPSN2016\\_GPW.pdf](https://static.gpw.pl/pub/files/PDF/RG/DPSN2016_GPW.pdf).

In its Resolution No. 7/BZ/3/2016 of 20 January 2016, the Bank's Management Board adopted the principles of corporate governance described in the "*Best Practices for WSE Listed Companies 2016*", except for the recommendation IV.R.2. and principles I.Z.1.16., I.Z.1.20., IV.Z.2. and (in part) V.Z.5. Additionally, it was assumed that principle I.Z.1.10. and III.Z.6. and recommendation IV.R.3 do not apply to the Bank.

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

At the beginning of 2018, an analysis of the application of "*Best practices for WSE listed companies 2016*" in the year 2017 was carried out by the Bank. According to actual status of applying "*Best practices for WSE listed companies 2016*", the Bank does not apply recommendations IV.R.2 and principles I.Z.1.16, I.Z.1.20, IV.Z.2, and (in part) V.Z.5. Additionally, it was assumed that principle I.Z.1.10, III.Z.6 and recommendation IV.R.3 do not apply to the Bank.

## Information policy and communication with investors

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

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

Principle I.Z.1.10. does not apply.

Comment: the Bank does not publish financial projections.

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

Principle I.Z.1.16. is not applied by the Bank.

Comment: Neither the Statute nor the Regulations of the General Shareholders' Meeting provide for the transmission of General Shareholders' Meetings. Furthermore, currently 5% of free float shares on the Warsaw Stock Exchange and low interest justify the Bank's non-application of the aforesaid principle.

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

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

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

## Systems and internal functions

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

The principle III.Z.6 does not apply.

Comment: In the organizational structure of the Bank, the internal audit function was established and the Audit Committee was appointed at the Supervisory Board.

## General shareholders' meeting and relations with shareholders

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

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

Recommendation IV.R.2. is not applied by the Bank.

Comment: Neither the Statute nor the Regulations of the General Shareholders' Meeting provide for transmission of General Shareholders' Meetings. Furthermore, currently 5% of free float shares on the Warsaw Stock Exchange and low interest justify the Bank's non-application of the aforesaid recommendation.

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

Recommendation IV.R.3. does not apply.

Comment: The Bank's shares are listed on Warsaw Stock Exchange only.

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

Principle IV.Z.2. is not applied by the Bank.

Comment: Neither the Statute nor the Regulations of the General Shareholders' Meeting provide for transmission of General Shareholders' Meetings. Furthermore, currently 5% of free float shares on the Warsaw Stock Exchange and low interest justify the Bank's non-application of the aforesaid principle.

## Conflict of interest and related parties transactions

**V.Z.5.** *Before the company concludes a significant agreement with a shareholder who holds at least 5% of the total vote in the company or with a related party, the management board should request the supervisory board's approval of the transaction. Before giving its approval, the supervisory board should evaluate the impact of the transaction on the interest of the company. The foregoing obligation does not apply to typical transactions and transactions at arm's-length*

*made as part of the company's operations between the company and members of its group. If the decision concerning the company's significant agreement with a related party is made by the general shareholders' meeting, the company should give all shareholders access to information necessary to assess the impact of the transaction on the interest of the company before the decision is made.*

Principle V.Z.5. is partially applied by the Bank with comment.

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

## 14. INFORMATION ON CERTIFIED AUDITOR

On 11 June 2015, acting pursuant to Paragraph 20.1.1g) of the Bank's Statute and in conformity with the applicable laws and professional standards, the Supervisory Board of the Bank appointed Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office at al. Jana Pawła II 22 in Warsaw 00-133 ("Deloitte"), as the entity authorized to audit the separate financial statements of Bank BGŻ BNP Paribas S.A. and the consolidated financial statements of the Capital Group of Bank BGŻ BNP Paribas S.A. for the years 2015-2017.

Deloitte is listed by the National Council of Statutory Auditors, as an entity authorized to audit financial statements, under the number 73.

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

- auditing the annual financial statements of the Bank and the annual consolidated financial statements of the Capital Group of the Bank;
  - reviewing the interim (semi-annual) financial statements of the Bank and the Capital Group of the Bank;
- the above are to be in conformity with the International Financial Reporting Standards.

On 21 September 2017, acting pursuant to Paragraph 20.1.1g) of the Bank's Statute and in conformity with the applicable laws and professional standards, the Supervisory Board of the Bank prolonged, for the duration of two years, the existing agreement concluded on 12 June 2015 with Deloitte as the entity authorized to audit the separate financial statements of Bank BGŻ BNP Paribas S.A. and the consolidated financial statements of the Capital Group of Bank BGŻ BNP Paribas S.A.

Deloitte will be obliged to provide the following services:

- auditing the annual financial statements of the Bank and the annual consolidated financial statements of the Capital Group of the Bank, in accordance with International Financial Reporting Standards and International Accounting Standards for the years 2018-2019;
- reviewing the interim (semi-annual) financial statements of the Bank and the Capital Group of the Bank, according to the rules and regulations for listed companies for the years 2018-2019.

The agreement with Deloitte will be concluded for the period necessary to carry out the above-mentioned works.

**Table 42. Auditor's fees by service type**

PLN '000 (including VAT)	12 months ended 31.12.2017			12 months ended 31.12.2016		
	Bank	Subsidiaries	<b>Total</b>	Bank	Subsidiaries	<b>Total</b>
Statutory audit of financial statements	584	60	<b>644</b>	698	97	<b>795</b>
Other assurance services	1 342	106	<b>1 448</b>	730	70	<b>800</b>
Tax advisory services	59		<b>59</b>	75		<b>75</b>
Other services	15	197	<b>212</b>	50	177	<b>227</b>
<b>Total</b>	<b>2 000</b>	<b>363</b>	<b>2 363</b>	<b>1 553</b>	<b>344</b>	<b>1 897</b>

# 15. CORPORATE SOCIAL RESPONSIBILITY (CSR)

## The responsible bank for a changing world

The Bank's statutory and business activities not only affect the economy, but also have impact on the environment in general. The latter aspect is therefore included in our business strategy and mission. This idea of CSR is realised through **four dimensions of responsibility**, i.e. economic, in the workplace, social, and environmental.

### I. Economic responsibility

A sustainable approach entails the long-term financing of the economy and building long-term relationships with clients and other stakeholders in accordance with ethical principles. Thus, it is possible to maintain a balance between the quality of transactions and the expected short- and long-term profit.

#### Responsible financing for the economy

The transaction monitoring process is consistently followed from the social, economic and environmental perspective in the sensitive sectors which have a considerable effect on the environment, such as the mining, coal fired power plants or agricultural industries. As a result of BNP Paribas Group's decision to cease financing the tobacco sector (announced in October 2017), the Bank commenced a gradual process of closing relations with tobacco producers, as well as with plantators, distributors and wholesalers for whom tobacco is the main source of income.

#### Ethical responsibility

The Bank follows the BNP Paribas Group Code of Conduct. Employees' ethical awareness is promoted and developed through various trainings. As a member of the Ethics Committee at the Polish Bank Association, the Bank also proactively contributes to building sector responsibility.

#### Responsible products

Responsible products and services are understood as the ones that meet the clients' needs. The flagship product in this sense, unique on the market, is the "Social Leader Package", a free of charge account for NGOs, which is widely recognized in the third sector. All necessary banking services are offered free of charge and the formalities are kept at a minimum (one agreement for all products). The package also provides the comprehensive assistance of a bank Relationship Manager and preferential conditions for services not included within the package. In the period since 2012 to the end of 2017, 14,759 accounts in Social Leader Package were open for non-profit organizations. In 2017, Bank BGŻ BNP Paribas received the title of Responsible and Sustainable Development Leader for the Social Leader Package. Within the *mamBONUS* loyalty program, the Bank's clients may support the operations of the BGŻ BNP Paribas Foundation. In the process of finance transactions made with the use of credit cards, clients are gathering points which may be exchanged for various discounts/prizes or vouchers supporting participants of the scholarship program "Classroom", realised by the Foundation.

## II. Responsibility in the workplace

Responsibility at the Bank is reflected mainly in creating an attractive work environment that supports professional development for the Bank's employees in addition to increasing their involvement. Their awareness is raised of the benefits that may be derived from openness, respect for diversity and readiness for professional mobility. The Bank puts great emphasis on the standards of the recruitment process, including internal recruitment through the Internal Labour Market that enables employees to develop their careers inside the organization. The bank implements adequate procedures for: enabling employees to develop their career paths based on a diagnosis of their professional potential, analyses of the employees' development needs, competence development management as well as the development and implementation of the recruitment policy and succession plans.

#### Diversity

One of the key values at the Bank, included in Management Rules and Corporate Social Responsibility Strategy, is to promote openness and respect for diversity. Diversity refers to many areas of the Bank's operations and concerns employees, shareholders, clients and activities resulting from local conditions, including cultural diversity. We believe that at an organization where diversity is respected and promoted, the risk of discrimination is minimized and a high level of cooperation is maintained, it has a positive effect on creativity, which translates into the level of achieved results. We promote diversity aspects within projects such as: Woman in Business, Diversity & Inclusion Week – Job Shadowing, Professional Mobility Days, Standards of disabled persons service, as well as different sectors initiatives, i.e. SheXO or a mentoring program for women in IT, carried out by Vital Voices Foundation.



Management within this area is regulated in the Diversity Policy and Diversity Management Rules. A Diversity Officer is responsible for adherence to diversity management guidelines. The Bank has signed the Diversity Card in Poland. BNP Paribas Group is a signatory of ILO Global Business & Disability Network Charter.

### **Building the image of the institution as a desirable employer (Employer branding)**

In 2017, the Bank continued its employer branding initiatives addressed to existing and prospective employees.

A Global People Survey (GPS) was conducted to assess the level of the employees' engagement and their perception of the employer. The survey was carried out for all business lines and support functions with a detailed analysis and discussion of results with executive directors and employees.

The results of the aforementioned surveys initiated numerous activities aimed to increase the level of involvement, satisfaction and motivation of employees. The Bank offers a wide range of internal and external training as well as development programs to its employees. These include: "Prestiż" Potential Development Program, Digital Ambassador Program, Leaders for Tomorrow Initiative, Leadership Impact Program.

In 2017, the Bank organised internships and apprenticeships dedicated to university students and graduates:

- „Bankformers” - an internship program connected with selected projects at the Bank. Recruitment for the program was preceded by Virtual Open Days at the Warsaw University of Technology. In the “Łazikiem po pracę” campaign students could use a control-console to operate a robot located in the Bank's headquarters (in Warsaw and Krakow) without leaving the university. They were also able to interact with employees and thus were given the opportunity to learn about the Bank's apprenticeship and internship programs.
- “Focus on Development” traineeship program aimed at sharing knowledge, getting students prepared for their profession and improving the Bank's image as a desirable employer;
- “Ambassador Duo” program - the aim of the program is to build the Bank's image of an attractive employer through close cooperation with universities.

The Bank's care for the highest quality of human resources management has been recognized and encouraged - Bank BGŻ BNP Paribas received again the Top Employer Polska 2017 title for its HR policy consistent with the best market practices.

In 2017, the Bank participated in the Absolvent Talent Days job fairs in Warsaw and Krakow and in the Engineering Job Fair in Krakow. The fairs connect employers from the IT industry with graduates of technical universities and young specialists.

Additionally, in order to build brand awareness among potential candidates, image-building activities continued on such websites as: Goldenline and LinkedIn.

## **III. Social responsibility**

The Bank's responsibility entails support for the civil society in the social environment where the Bank operates. The Bank focuses on areas where its contribution can most successfully translate into positive social change: counteracting social exclusion as well as supporting educational and cultural initiatives, in particular those in small communities.

### **Increasing the availability of products and services**

The Bank is working towards increasing the availability of products and services to older and disabled customers. In order to adequately diagnose their needs, the Bank cooperates with expert entities, including the Integration Foundation. The Bank's branches are equipped with magnifying screens and frames for signing documents (improvement for people with a sight disability). In 2017, the process of introducing the Polish Bank Association website standards (WCAG 2.0 standards) was continued and competences were raised, leading to a higher quality of service for disabled customers in the retail branch network. The Bank is subject to audits carried out by the Integration Foundation.

### **Support for local initiatives**

The Local Grants Program, started in 2011, is a model of supporting socially responsible initiatives, carried out by small local NGOs, with donations. The aim of the program is to increase the local society's life quality through the involvement of Bank employees and enhancing the Bank's position of a trustworthy local partner. Frequently, such relationships turn into long-term cooperation between the Bank and a local organization. The Banks' employees give grants to selected organizations which are actively operating for real social change. In the 7th edition of the Program the Bank received 71 applications and grants of up to PLN 5,000 were awarded to 27 local projects. Within 7 years of the program, grants worth over PLN 1 million have been donated.



### Employee social commitment and employee volunteering program

Bank BGŻ BNP Paribas offers to its employees many forms of social involvement. Employees are actively involved in volunteering, but also participate in the implementation of the BGŻ BNP Paribas Foundation programs, in the “I support year-long” (“Wspieram cały rok”) program, in annual campaigns organized by the Foundation (e.g. “Krwinka”, “Dobre Kilometry”) and in various social activities undertaken due to CSR Department initiatives, initiatives of the Foundation and of the employees themselves.

**In 2017, a total of 1,113 employees were involved in these activities.**

“You can count on me” (“Możesz na mnie polegać”) is the motto of an employee volunteering program at the Bank, coordinated by the CSR Department, with the support of the BGŻ BNP Paribas Foundation. The program is systematically being implemented, it involves education, the creation of various operational options as well as substantive and financial support for employees’ good ideas.

**Each employee is entitled to two days of leave per year for volunteering activities.** The employee may engage in individual volunteering (competence related activities, actions supporting a selected social organization, as well as participation in the BAKCYL project) and team volunteering (activities organized by a group of employees on their own or as part of the implementation of projects coordinated by the CSR Department and BGŻ BNP Paribas Foundation).

**In 2017, 594 bank volunteers worked for 5,004 hours, including:**

- **182 employees** participated in **individual volunteering** and supported a social organisation of their own choosing;
- **46 volunteers** conducted over 152 classes to over 3,500 students as part of the BAKCYL project, an initiative launched by the Warsaw Institute of Banking, whereby bank employees act as volunteer trainers and teach finance classes addressed to primary, secondary and high school students;
- **366 employees** participated in **team volunteering** projects – from which 116 completed 26 projects addressed to over 2,639 beneficiaries as part of the 5th edition of the social project Competition (a national grant Competition for Bank employees). These initiatives were chosen from 52 applications. The Competition winners receive funds for the implementation of their social assistance ideas, related to the environments in which they live and work, as well as the support of the CSR Department and the Foundation. Since 2011, over 450 employees have carried out 97 original volunteer projects in cooperation with local organizations.

## The BGŻ BNP Paribas Foundation

*The Foundation's mission is to responsibly invest in people, ideas and projects. By conducting and supporting innovative initiatives in the fields of education, culture and social solidarity, we inspire and create a stimulating environment, thus contributing to the development of a civil society.*

Since 2006 The Foundation has been involved in socially responsible projects in such fields as education, culture or social solidarity. Those activities are social investments with the aim of solving important local problems and of supporting the development of civil society. Within its statutory goals, the Foundation carries out its own programs and supports selected projects and organizations which are playing an important role in the building and maintaining of civil society. Furthermore, The Foundation coordinates initiatives which involve the Bank’s employees and thus contributes to solving important social problems.

### Classroom Scholarship Program

The *Classroom (Klasa)* scholarship program is the most important own initiative launched by the BGŻ BNP Paribas Foundation, the program has received numerous awards as one of the most effective educational and scholarship programs in Poland. The objective of the Program is to support talented teenagers from small towns/villages, who are in a difficult financial situation, by enabling them to attend prestigious high schools in five university cities, i.e. Warsaw, Wrocław, Krakow, Gdynia and Szczecin. In 2017 the Foundation launched the 15th edition of *Classroom*, accepting 40 new scholarship students to the Program. Since 2003, 700 junior high school graduates have received grants totalling approx. PLN 20 million.

### Agro-talents Scholarship Program

Since 2012 the Foundation has been carrying out a second own scholarship program, Agro-talents. As part of the Program, the Foundation offers scholarships for the winners of the Agricultural Knowledge and Skills Contest and bridge scholarships for best agriculture students. The objective of Agro-Talents is to improve the knowledge and skills possessed by young people and preparing them for their future profession and thus indirectly – development of the Polish countryside and stimulating innovation and the modernization of agriculture. Since 2012, 270 young farmer talents

have received support within the Agro-talents program. In 2017 the Foundation awarded grants to 50 students as part of the 6th edition of the Program.

### **Dream Up Educational Program**

Since 2015, the Foundation has been carrying out the Dream Up Program, a three-year project which offers musical classes conducted by professionals to support the development of children and teenagers from day-care centres located in Praga Warsaw. The initiative is carried out in cooperation with *Music is for everyone Foundation (Fundacja Muzyka jest dla wszystkich)* and *Towarzystwo Przyjaciół Dzieci (TPD)*. It involves music education, including regular instrument classes for the most engaged and motivated participants. Thanks to musical activity combined with educational classes, almost 100 children in TPD's charge are taught respect for one another, are developing their creativity and cultural competence. The program helps to shape the children's personality and fosters emotional harmony.

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

### **"I support all year-long" ("Wspieram cały rok") Program**

Voluntary salary deductions are a simple and convenient tool for individual philanthropy and a response to the needs of NGOs (systematic financial support). Since September 2017, every employee can declare a monthly deduction from the salary in order to contribute to a chosen objective: support for the Organization of the Year (chosen by employees through an annual vote) or additional support for scholarship holders of the BGŻ BNP Paribas Foundation's "Classroom" program. The donor can transfer his payments for both causes or indicate a single one. The first Organization of the Year chosen by employees was the "*Mali bracia Ubogich*" Association, which cares for elderly people living alone.

### **Partnership Programs**

#### **English Club**

The English Club project is the result of a multi-sector partnership between: JMP Flowers (a Bank BGŻ BNP Paribas client), a local social organization: "Towarzystwo Przyjaciół Steżycy" and the BGŻ BNP Paribas Foundation, which cooperate to support the clients' local development of education. In order to meet local society needs, English lessons were organized for secondary school pupils. The purpose of this initiative was to give equal educational opportunities to young people by enabling them to gain useful language competencies. During the school year, ca. 30 pupils participated in e-learning classes, traditional classes and trips. Particular emphasis is put on developing practical language and communication skills. The most motivated participants get a chance to take part in a summer language camp.

#### **Meetings with music**

Since 2011, the BGŻ BNP Paribas Foundation has been supporting educational projects implemented by the National Philharmonic Orchestra as part of the away Meetings with Music series. The Philharmony reaches children and teenagers in seven regions of Poland and presents outstanding musical performances with a detailed commentary explaining the art of sound to young audiences. This way, children from small towns, who have limited access to high culture on an everyday basis, are given the opportunity to experience systematically classic music, and consequently, to develop their own talent and new passions. In 2016/2017 over 300,000 listeners attended the meetings.

#### **Music Crazy Days ("Szalone Dni Muzyki") Festival**

In line with the idea of popularizing art and culture, in 2017 the BGŻ BNP Paribas Foundation lent its patronage (for the third time) to the *Music Crazy Days* Festival organized by the Sinfonia Varsovia Orchestra in Warsaw between 29 September and 1 October 2017. It was the eighth Polish edition of the international La Folle Journee Festival popularizing classical music around the world. Due to low ticket prices and a varied concert program, almost 40,000 people took part in the concerts. The event received the financial support of the BNP Paribas Foundation.

### **Cyclical social initiatives**

#### **"Good Kilometres" ("Dobre Kilometry")**

The project has been organized annually by the Foundation since 2015. As part of the campaign, Bank employees and their relatives count the kilometres travelled during various sports activities (running, Nordic walking, cycling or rollerblading) for one month with the goal of reaching a certain distance together, as a group. Kilometres are then converted into financial resources and transferred to a noble cause chosen by employees. In 2017 the accumulated funds were transferred to the "We give children a strength" ("Dajemy Dzieciom Siłę") Foundation.

**“Krwinka” action**

The BGŻ BNP Paribas Foundation and the Bank have been supporting the campaign "Your blood - my life" ("Twoja krew – moje życie") since 2011 by organizing, in cooperation with Regional Blood Donation Centres, the annual "Krwinka" action. Employees from the three Head Offices (Warsaw Kasprzaka, Warsaw Suwak and Kraków Awatar) can donate blood and register in the marrow donor database in specially adapted ambulances. 118 employees participated in this year's edition and thus 32 litres of blood were collected.

**Membership of BGŻ BNP Paribas Foundation in coalitions and partnerships****Membership in the Polish Donors Forum (since 2009)**

The Polish Donors Forum sees its role as an institution focusing on education and research involving financial and non-financial support to socially responsible initiatives. The Foundation's membership in the Forum is primarily the confirmation of the usefulness and transparency of its activities. It also creates the opportunity to participate actively in the projects carried out by the Forum, and thus to create and develop the Polish NGO sector and its initiatives. In 2017 the Foundation took part in "We are acting for a change" ("Działamy dla zmiany") project, co-creating (along with other members) the "Standards for measuring the effects of social activities".

**The Foundation is a partner of the BAKCYL – Bankers for Financial Education of the Young educational project** (since 2013), coordinated by the Warsaw Institute of Banking.

**Partnership in „Pomostowy” Scholarship Program** (since 2013), the program is realised by Fundacja Edukacyjna Przedsiębiorczości).

**Annual partner of the Agricultural Knowledge and Skills Contest** (since 2012) organised by the top 8 agricultural universities.

**IV. Environmental responsibility**

The Bank strives to minimize its negative effect on the environment through the following three dimensions:

- limiting the negative impact of operations and promoting eco-attitudes among employees;
- providing responsible financing for the economy and customers;
- cooperation and involvement in cross-sectoral initiatives.

In our daily operations we make every effort to minimize our organization's negative effect on the environment, both by reducing greenhouse gas emissions and by providing responsible financing for the economy through CSR monitoring in sensitive sector procedures, as well as by offering products and services which support the customers' transition to a low-emission economy.

**Minimizing the negative effect of operations**

In 2017 the Bank launched a BNP Paribas Group program, "Carbon Reduction 2020", which aims to reduce CO2 emissions by 25% by the year 2020. The program promotes energy efficiency in the Bank's buildings and optimizes business trips.

The energy saving projects carried out by the Bank within the past few years involve modifications including:

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

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

### **Promoting eco-friendly attitudes**

- The Bank regularly launches initiatives aimed at raising its employees' awareness of their individual impact on the natural environment, such as the **Car-Free Day**,
- **The CSR Month.** The Bank organizes CSR Days under the motto "*We are CSR*" for its employees during which education is provided on how small changes in everyday habits can affect not only the condition of the natural environment, but also the quality of life for individual employees. In 2017 the third edition of CSR Days was organised, during which various initiatives related to civic, economic, environmental and social responsibility were presented. As part of the campaign, employees were familiarized with the subject of the positive impact of responsible financing and well-being. A meeting with Jurek Owsiak was organized, who talked about the driving force of volunteering; funds were collected to support children from the Ukraine, cycling kilometres were counted, employees were familiarized with issues of sustainable development.
- **Apiary on the roof of the Headquarters.** With the urban ecosystem in mind and as part of the CSR Days (in cooperation with Pszczelarium), the "Apiary under the stars", consisting of four hives, was installed the roof of the Bank's Head Office in Warsaw. Thanks to the bees, the Bank can conduct bee workshops, and in the future it will be able to produce its own honey. The project is beneficial to plants on nearby plots, in parks and gardens. The creation of insect-friendly conditions translates into increased yields from nearby crops, affects the quality of fruit and plant seeds, and results in the increased biodiversity of our environment.
- **Responsible planning of business trips.** We make every effort to enhance our mobility and promote environmentally-friendly attitudes. We focus on responsible business travel planning, we increase the availability of teleconference and videoconference solutions and reduce the number of training trips by introducing e-learning courses.

### **Green investment Financing**

Since 2008, the Bank has been financing small and medium renewable energy projects: wind farms and biogas plants, small hydropower plants and photovoltaic installations. The Bank specializes in financing the projects of small and medium Polish entities, including Polish farmers. The Bank's team of renewable energy sources (RES) and AGRO experts supports customers in the planning of eco-projects as well as the planning of projects which contribute to sustainable economy and a transformation of the Polish energy-policy.

Entities running or undertaking activities in the field of RES energy production may utilise the Green Energy Loan, and, in the case of projects co-financed by EU (and national) subsidies or preferential loans (e.g. The National Fund for Environmental Protection and Water Management), they may also use the "*Unia+*" Loan.

The Bank has also achieved a significant position on the biogas plant financing market. 19 out of 95 biogas plants registered in Poland in the years 2008-2017 were financed by the Bank.

In 2017 Bank BGŻ BNP Paribas, in cooperation with selected partners from the photovoltaic industry, introduced an instalment loan to finance ecological energy sources. The offer is addressed to retail customers and offers up to 100% financing of: photovoltaic panels, water heaters, heat pumps, recuperators, home-use wind farms. In 2017 loans totalled PLN 3,999,349.

In cooperation with the European Bank for Reconstruction and Development (EBRD) and based on the Sustainable Energy Development Financing Program in Poland (PoISEFF), the Bank offers EKO Leasing PoISEFF to its customers, an attractive form of leasing with an Ecological Premium.

### **Together for climate**

The Bank is actively engaged in initiatives aimed at raising energy efficiency and increasing the role of RES on Poland's energy market. The initiatives include lending support for prosumer renewable energy installations and introducing a system of guaranteed tariffs for selected small installations (e.g. biogas plants and small hydro-electric power plants).

The Bank's experts participate in the works of, i.a.: The Renewable Energy Council of the Polish Confederation of Private Employers "Lewiatan", which assesses legal regulations and strategic documents regarding the energy and climate policy of Poland and the EU. They are also members of a special working group at the Polish Bank Association, dedicated to financing in the context of the RES Act.

In July 2017 the Bank became a supporting member of the Polish Association of Sustainable Agriculture "ASAP". As part of the cooperation, the Bank promotes sustainable agriculture by publishing articles on this topic in "Agro Kurier", a biannual agriculture-themed newspaper in a circulation of approx. 3,000 copies. In addition, the Bank participates in the creation of training materials for sustainable farm financing.

## The Bank among the leaders of the Polish CSR market

### *Awards and distinctions in the area of CSR received in 2017*

- **BGŻ BNP Paribas as most responsible bank in Poland** - the Bank was one of the finalists of the 9th Responsible Companies Ranking published by Dziennik Gazeta Prawna. The Bank took first place in the "crystal" category, the prize is awarded to companies which focus on improving their relationships with stakeholders.
- **„Srebrny listek CSR” award** - for the third time, the Bank received “Srebrny Listek CRS Polityki”, awarded by the editors of the weekly magazine POLITYKA and Deloitte, a consulting company, to the most responsible and socially involved companies.
- **Responsible Business Awards** – the Bank received a distinction in the "Responsible Company of the Year" category.
- **Leader of responsible and sustainable development** - the Bank received the main prize for the “Leader” Social Package, in the first edition of the competition organized by Dziennik Rzeczpospolita.
- **Top Employer** – The Bank received (again) the title of Top Employer Polska 2017 for HR policy being in line with best market practices.

### *CSR promotion and development initiatives*

- Signatory to the Declaration of Sustainable Development Vision 2050 for Polish Business;
- Signatory of the Partnership for the implementation of the Sustainable Development Goals (SDGs) in Poland;
- Partner of “Nienieodpowiedzialni” conference, raising the issue of ethics within the finance industry;
- Partner of „Etyka w finansach” contest organized by ZBP - the aim of the contest is to encourage thought about ethics in the professional finance and academic environments. The contest gives young employees, students and scientists a chance to share their passion for work as well as to share ideas on how to improve the system. The basic requirement for the competition essay is to present an innovative proposal for changes aimed to protect or use ethical values within the world of finance.

### *Non-financial reporting*

Since 2010, the Bank has been collecting non-financial data and since 2011, the financial information contained in the Bank’s CSR reports has been presented in accordance with the GRI methodology.

## 15.1. Report on the non-financial information

Detailed data on Corporate Social Responsibility and key non-financial information which described the Bank’s activity are presented in the separate document: **Report on the non-financial information of Bank BGŻ BNP Paribas S.A. and the Bank BGŻ BNP Paribas S.A. Group.**

This Report has been prepared in keeping with guidelines of the amended Accounting Act.



## 16. SPONSORSHIP AND CHARITY

### Sponsorship policy

The primary and direct objective of the sponsorship policy adopted by Bank BGŻ BNP Paribas S.A. is to build and foster brand awareness and enhance a positive image of the Bank. Indirectly, sponsorship initiatives are aimed to strengthen the Bank's relationships with its customers. Due to its profile and growth strategy, the Bank is primarily searching for initiatives that enable it to communicate directly with customers representing its target groups. Thus, the Bank finds solutions which naturally link its products and services with potential customers.

Bank BGŻ BNP Paribas S.A. is part of the BNP Paribas Group, the number one tennis sponsor worldwide. Therefore, the sponsorship of tennis events in Poland is treated by the Bank as a priority.

In 2017 the Bank organised the second edition of the "Dzieciaki Do Rakiet" Project (the first edition was organised in 2016). The second edition of the project was based on two components: 1) a series of events in city centres, with approx. 3,000 child participants, and 2) "Program Tenis" in Physical Education (PE) classes, participated in by 50 primary schools (grades 1-4).

The project was aimed at developing and popularizing tennis among children aged 5-12. It was equally important for us to change the perception of tennis as an elite discipline, only available to a selected few. We promoted tennis as a great alternative to the virtual reality of tablets and computers. We also showed the values that tennis instils: perseverance, independence, consistency, fair-play. Through a series of unique events, we managed to establish relationships with local authorities and communities.

As part of the project, we conducted events in the 10 largest Polish cities: Warsaw, Toruń, Poznań, Kraków, Katowice, Rzeszów, Olsztyn, Sopot, Wrocław and Lublin. In addition, 50 Polish schools received equipment which enabled them to introduce elements of tennis to PE classes, PE teachers were able to attend specialist courses.

In addition, in 2017 the Bank was a sponsor of local tournaments such as:

- Silesian Cup Junior International Tennis Tournament, 5-11 June;
- BGŻ BNP PARIBAS AMATEUR CUP - Giżycko 2017, 8-9 July;
- Solecki Tennis Day in Solec Kujawski, 25 August;
- Warsaw National Sports Day (mini tennis courts for children), 7 September;
- 14th Tennis Tournament ZRE OPEN in Katowice , 8-9 September;
- Poznań Tennis Festival, 17 September;
- BGŻ BNP Paribas Cup Tennis Tournament in Wągrowiec, 12 October;
- Santa's Tennis Tournament in Wołomin, 3 December.

The Bank is also involved in local events, organized by various associations, Cultural Centres, local organizations, including:

- 2nd Castellan Festival of Flavours in Sierpc, 11-13 August;
- 8th Summer International Music Festival in Kutno, 29 July - 27 August;
- 43 Feast of the Rose in Kutno, 8-9 September;
- Świdnica Women Forum, 24 November;
- city/town festivals.

### Charity policy

The Bank undertakes philanthropic activities and socially responsible initiatives, mainly through the BGŻ BNP Paribas Foundation. The Foundation's priorities include educational initiatives, e.g. supporting equal educational opportunities for young people running the risk of exclusion, as well as and social solidarity - support for disadvantaged and vulnerable groups, building social capital in local communities, promoting volunteer work ("You can rely on me" employee volunteer program) as well as developing the NGO sector (a grant program addressed to local and expert organizations). Philanthropic and social activity is a social investment, carried out in the form of long-term projects, which are subject to analyses regarding the social needs and periodic effectiveness assessments.

## 17. GROWTH PERSPECTIVES OF BANK BGŻ BNP PARIBAS S.A.

In accordance with the growth strategy of the BNP Paribas Group and with ensuring the integration of the services provided on the Polish market in mind, during the past three years a bank merger was conducted, which included: BGŻ S.A. — a leader in the agro-food sector, with an 100-year tradition on the Polish market, BNP Paribas Bank Polska S.A. — with extensive experience in serving large enterprises and multinational corporations, and Sygma Bank Polska S.A. — one of the leading institutions on the consumer credit market, specializing in supporting retail stores through the provision of financial services, credit cards, instalment loans and cash loans.

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 4.8% and 4.5% in the deposit market. As at the end of September 2017, the BGZ BNP Paribas S.A. Group was the sixth largest banking group in Poland in terms of asset value and Bank BGŻ BNP Paribas S.A. was the seventh bank in Poland.

The concentration on the Polish banking market has been growing for the last few years, as a result of acquisitions and mergers. The banking and financial groups involved in this process increase their scale of operations, trying to use the quantity effect to improve profitability and results. This entails an increase of technology expenditures, further organic growth and an increased competitive advantage over competitors. The ability to provide comprehensive financial services that meet all the client's needs is a necessary condition.

According to the actual strategy the Bank intends to base its development on 4 pillars:

- **focus on client** – being close to clients thanks to the branch network, particularly in small and medium cities. Focus on specified client groups from retail banking and selected sectors and industries of corporate and SME clients. Maintaining the leading position in the agro-food sector;
- **support for corporate customers** in their foreign expansion with the use of the BNP Paribas Group potential, resulting from its presence in 74 countries all over the world;
- transformation of a universal bank into an **integrated bank**, increasing cross-selling, improving the ability to service each aspect of the customers' activities, both with respect to particular clients and selected industries;
- **development of electronic and mobile banking** allowing the Bank to bridge the existing technological gap and enabling competition with the best banks on the market.

Completion of the operational integration of the merged institutions is a precondition for the effective implementation of the Strategy. In the fourth quarter of 2017, the data of former Sygma Bank Polska SA customers were migrated to a common IT system. This was the last step of the three-year operational merger process.

The successful customer data migration and closure of the operational merger allows the Bank to move to the next phase of its development on the Polish market. The ability to work using the same systems, with a standardised offer, allows the Bank to optimize expenditures and focus resources on business development and banking operations. In 2017 the Bank launched a transformation program aimed at changing the IT organization, both in relation to the client as well as to the sphere of internal processes. One of the most important tasks of the program is to close the existing technological gap in relation to the main competitors.

For 2018, in the area of business support, the Bank will focus particularly on the modernization of internet and mobile banking solutions as well as on the automation and simplification of processes, which will allow for an increase of operational speed and reliability. In the area of the organizational infrastructure, the objective is to verify and modernize existing solutions, this will include an overview of management structures at the Bank's headquarters.

In accordance with the adopted Strategy, the Bank intends to further strengthen its presence in all major areas of operation. Reinforcing the current leading position in the agro-food sector, using the leader's position in consumer loans 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 still the key areas for business expansion of the Bank BGŻ BNP Paribas S.A. in 2018. Additionally, while taking care of existing customers, the Bank intends to increase the focus on acquiring younger customers, from larger urban centres, who expect a higher technological level and are considering entering into a new banking relationship.



Based on the completed operational merger of BGŻ S.A. and BNP Paribas Bank Polska S.A. and the closing of the operational merger with Sygma Bank Polska S.A., in 2018 the Bank intends to focus on cross-sales in addition to offering new products to existing customers and acquiring new customers. This approach will be adopted for both retail customers (consumer finance, current accounts, and investment funds) and SMEs (increase in the number of customer transactions). In the case of corporate customers, a better use of opportunities related to cross-border transactions, factoring facilities and leases is a chance for the Bank to grow.

As a result of the expected synergies resulting from complementarity, increased scale of operations and process improvement, the Bank expects that its income, key operating ratios and financial efficiency will improve. On the one hand, the 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 hand, on external conditions, mainly the economic situation and the regulatory environment. The scale of efficiency improvements and their pace depend largely on cost base management. 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 offered products.

When it comes to growth prospects and opportunities, the importance of multi-channel access to the customer is key from a strategic point of view. It allows the Bank to extend its activity to new areas and to obtain new customers. A great example is the incorporation of Sygma Bank Polska into the structure of Bank BGŻ BNP Paribas S.A., which was effected in May 2016. The merger has contributed to the extension of the range of products offered by the Bank on the consumer finance market on the one hand, and on the other hand it extended the Bank's customer base while creating opportunities for its further extension. The integrated consumer finance products (instalment loans, cash loans, 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 over 100 Customer Service Points of the former Sygma Bank Polska (which could not have otherwise been obtained by the Bank) into its sales network.

The Bank's objective in 2018 is to take advantage of opportunities offered by electronic access, both when it comes to increasing sales among existing customers as well as extending opportunities for acquiring new customers.

Positive expectations regarding the development of the economic situation present an opportunity for the market. Rapid economic growth in the second half of 2017 (an increase of 5% y/y and 1-1.5% q/q) and stabilization of the leading indicators at high levels may suggest that the GDP growth rate will remain fast in the first months of 2018. A possible faster increase in core inflation, resulting from the growing pay and demand pressure, may cause expectations regarding interest rate increases in Poland, but this does not need to pose a threat to banks' interest results.

The situation on the labour market may be a negative factor. Lowering the pension age at the end of 2017 and the Ukraine visa waiver within the European Union may (given a lack of increase in economic activity) reduce the labour supply in the upcoming quarters. In the short term, a limited labour supply may intensify wage pressure. In the medium and long term, it may slow down the potential and real GDP growth rate.

Despite the challenges facing the financial sector, stemming from external conditions and new regulatory requirements, the Bank positively assesses its development prospects for 2018, hoping for an increased scale of operations, improved income, and profitability and efficiency relations.

## 18. SUBSEQUENT EVENTS

### 23.01.2018 Extraordinary General Shareholders' Meeting of Bank BGŻ BNP Paribas S.A.:

- appointment of Mr. Francois Benaroy as a Member of the Supervisory Board of the Bank until the end of the current five-year office term of Supervisory Board members;
- approving the Policy on remuneration for members of the Supervisory Board of Bank BGŻ BNP Paribas S.A.;
- approval of amendments to the Bank's Statute and adoption of a uniform text.

### 6.02.2018 Capital adequacy ratios as at 1 January 2018

The Management Board of the Bank informed that on 6 February 2018, after preparing the opening balance as at 1 January 2018, including the impact of IFRS 9 implementation, it obtained information on the capital adequacy ratios levels as at 1 January 2018. The opening balance will be subject to verification by the auditor.

The level of Common Equity Tier 1 (CET 1) ratios, both in separate and consolidated terms, and the total capital ratio (TCR) in separate terms were above the regulatory levels resulting from the "PFSA position on minimum levels of capital ratios" for banks in 2018, published on 24 November 2017.

The level of Tier 1 capital ratios (Tier 1), both in separate and consolidated terms, and the total capital ratio (TCR) in consolidated terms, were below the new requirements.

Considering the existing situation, the Management Board of the Bank will immediately take additional measures to meet the new regulatory requirements. Among various other activities, the Bank is planning to increase the share capital by issuing new shares. The BNP Paribas Group provided the support to the Bank's Management Board in the implementation of the planned activities aimed at achieving the required capital ratios. The capital increase should be realized within the next 6 months, provided that the consents required by law are obtained.

At the same time, the Bank will fulfil the legal requirements under the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial sector.

### 19.02.2018 Changes in the composition of the Management Board

Mr Bartosz Urbaniak submitted his resignation from the position of Member of the Management Board, with effect from 31 March 2018. Since 1 April 2018, Mr. Bartosz Urbaniak will be the Managing Director of the Bank responsible for managing the Agro business line and will manage the new unit: Agro Hub - the Agro Competence Centre in Warsaw within the structures of the BNP Paribas Group.

## 19. STATEMENTS 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 declares that to the best of its knowledge:

- the Separate Financial Statements of Bank BGŻ BNP Paribas S.A. for the year ended 31 December 2017 and the comparative data have been prepared in accordance with the applicable accounting principles and they reflect, true, fair and clear view on the economic and financial position of the Bank as well as its financial performance in all material respects.
- the Management Board's Report on the Activities of Bank BGŻ BNP Paribas S.A. for 2017 gives a true view of the development and achievements as well as the capital position of the Bank, including a description of the key risks and threats.

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

The Management Board of Bank BGŻ BNP Paribas S.A. hereby declares that Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Warsaw ("Deloitte"), an entity authorized to audit financial statements, was appointed under Paragraph 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 authorised to audit the separate financial statements of Bank BGŻ BNP Paribas S.A. for 2017. Deloitte and the certified auditors conducting the audit satisfy the conditions to issue an unbiased and independent report on the audit, in accordance with the applicable regulations and professional standards.

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

On 21 September 2017, the Supervisory Board of the Bank prolonged, for the duration of two years, the existing agreement concluded on 12 June 2015 with Deloitte as the entity authorized to audit the separate financial statements of Bank BGŻ BNP Paribas S.A. and the consolidated financial statements of the Capital Group of Bank BGŻ BNP Paribas S.A. (information on the new contract is included in Chapter 14 *Information on certified auditor*).

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

12.03.2018	<b>Przemysław Gdański</b> <i>Vice-President of the Management Board in-charge of Management Board</i>	signature
12.03.2018	<b>Jean-Charles Aranda</b> <i>Management Board Member</i>	signature
12.03.2018	<b>Daniel Astraud</b> <i>Vice-President of the Management Board</i>	signature
12.03.2018	<b>Philippe Paul Bézieau</b> <i>Vice-President of the Management Board</i>	signature
12.03.2018	<b>Blagoy Bochev</b> <i>Vice-President of the Management Board</i>	signature
12.03.2018	<b>Przemysław Furlepa</b> <i>Vice-President of the Management Board</i>	signature
12.03.2018	<b>Wojciech Kemblowski</b> <i>Vice-President of the Management Board</i>	signature
12.03.2018	<b>Jaromir Pelczarski</b> <i>Vice-President of the Management Board</i>	signature
12.03.2018	<b>Jerzy Śledziewski</b> <i>Vice-President of the Management Board</i>	signature
12.03.2018	<b>Bartosz Urbaniak</b> <i>Management Board Member</i>	signature