



BANK BGŻ BNP PARIBAS S.A. GROUP

MANAGEMENT BOARD REPORT ON THE ACTIVITIES IN THE FIRST HALF OF 2018

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

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

The Bank BGŻ BNP Paribas S.A. Capital Group (referred to as the “Group”) operates within BNP Paribas, a leading international financial group, operating in 73 countries, with over 196,000 employees, of which nearly 149,000 in Europe. The BNP Paribas Group operates in the following key areas:

- Domestic Markets and International Financial Services, which are serviced by Retail Banking and 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 S.A. 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 main assumption of the new Fast Forward strategy for 2018-2021, adopted by the Bank's Management Board and Supervisory Board in May 2018, is focus on the customer and digital transformation of products, services and processes aimed at accelerating development and increasing profitability. At the same time, the new strategy assumes the implementation of growth by acquiring an organized part of Raiffeisen Bank Polska's operations, provided that the Bank obtains the required consents.

The Bank's strategic goals are to achieve:

- the growth rate of the result on banking operations higher than the market average growth,
- ROE above 10%,
- C/I ratio at around 50%.

The Bank intends to base its business development on the following five key pillars:

- **simplicity** (simpler product offer - especially in the area of Retail Banking, as well as simplified and interactive communication with customers, simplified processes and focus on customer service, optimization of traditional distribution channels and migration of clients to digital channels, simplification of the organization to increase its effectiveness),
- **digitalization** (building a competitive advantage based on technologies: digitization for cost optimization through automation of operations, digitalization enabling growth using a comprehensive, multi-channel sales and service model, and digitalization supporting identification of customer needs through the use of CRM and data analytics to improve the offer matching and personalization of communication with the client via coherent online and mobile platforms),
- **quality** (significant improvement in the quality of customer service and its satisfaction by changing the organization and streamlining service processes and focusing on the relationship with the client, recognition and appreciation of the loyalty of current customers and change of meaning and approach to measure of customer satisfaction),

- **growth** (concentration of resources: people, IT and capital on the most profitable products and segments in order to increase acquisition, sales and, as a result, increase of financial results), and
- **enthusiasm** (increased employee involvement through participation in projects and increased cooperation, revitalization of organizational culture through rewarding for results, focus on talents, attracting the best on the market and care for the best employees).

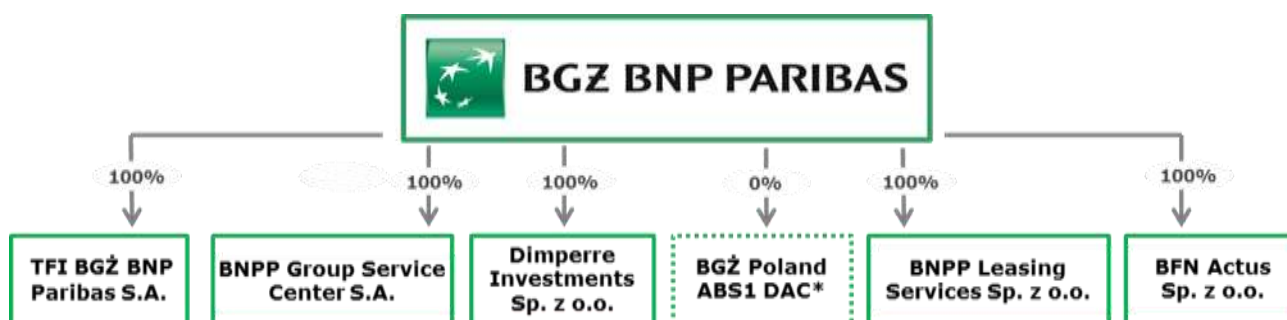
1.1. Structure of the Capital Group and consolidated entities:

Composition of the Group as of 30 June 2018:

- Bank BGŻ BNP Paribas S.A. („Bank”, „Bank BGŻ BNP Paribas”) – as the parent company; 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
Dimperre Investments Sp. z o.o. („Campus Leszno”)	trainings	100.0%	full method
BGZ Poland ABS1 DAC („SPV”)	SPV created for the purpose of securitisation transaction	0.0%	full method

Structure of the Bank's Capital Group shareholders composition is as follows:



* BGŻ 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. only within the meaning of IFRS 10

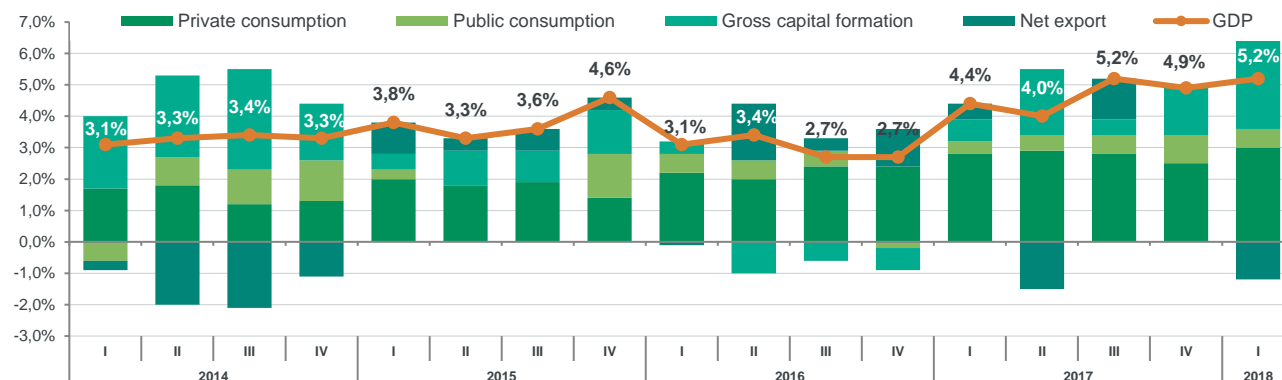
2. EXTERNAL FACTORS INFLUENCING THE GROUP'S ACTIVITY IN THE FIRST HALF OF 2018

2.1. Macroeconomic conditions

GDP

Since mid-2017, GDP growth in Poland has remained at around 5% y/y. In the first quarter of 2018 it amounted to 5.2% y/y, and data on production, retail sales and survey indicators for the second quarter are consistent with GDP growth by slightly less than 5% y/y. According to the Polish Central Statistical Office (GUS) data, private consumption has been the main driver of economic growth in the recent quarter, which in the first quarter of this year increased by 4.8% y/y, adding 3 p.p. to the GDP growth. The rapid growth in consumption was the result of a very good situation on the labour market, including high wage growth, and higher social benefits as part of the government program Rodzina 500+. The effects of the latter seemed to be spread over time and also work by improving the mood of consumers. The rate of investment growth accelerated to 8.1% y/y in the first quarter of this year, which was due to a significant improvement in the absorption of EU funds. Investments increased more in the government and local government sector than in the corporate sector (almost 35% against approximately 3% y/y). In the first quarter, the contribution of changes in inventories was exceptionally large and positive (1.9 p.p.), and net exports subtracted 1.2 p.p. from GDP growth.

Graph 1. GDP growth (y/y)

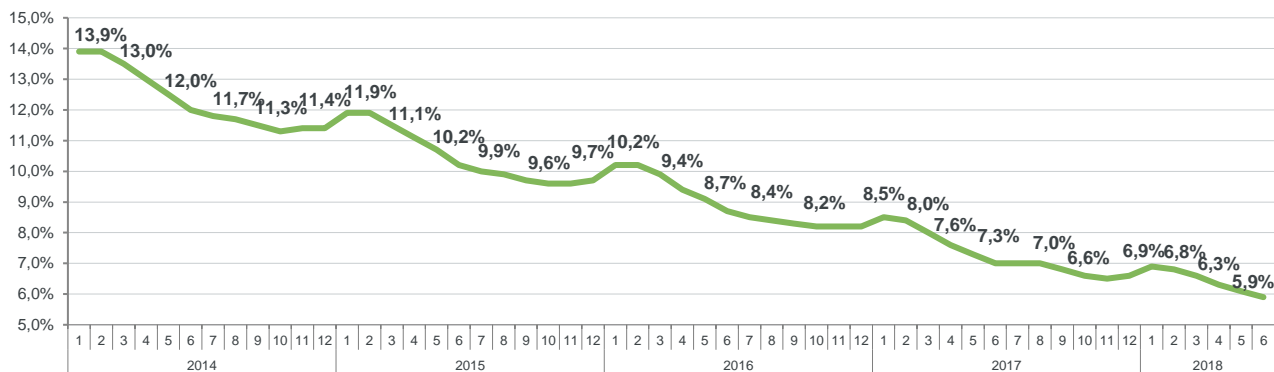


Source: Polish Central Statistical Office (GUS)

Business activity

In the first half of 2018, the growth rate of industrial production remained at a high level, on average 6.5% y/y, compared to an average of 7.2% y/y over the previous 6 months. The contributing factors were solid, though probably slightly weaker, foreign demand as well as good economic situation in the domestic economy. At the same time, the growth rate of construction and assembly production accelerated from 18.6% to 24.5% y/y. The better situation in the construction sector was supported by the reflection in investments (mainly infrastructure) of the public sector co-financed from EU funds. The reflection of strong consumer demand was the maintained growth rate of real retail sales at around 7% y/y. The registered unemployment rate has fallen to the lowest level since 1990.

Graph 2. Registered unemployment rate



Source: Polish Central Statistical Office (GUS)

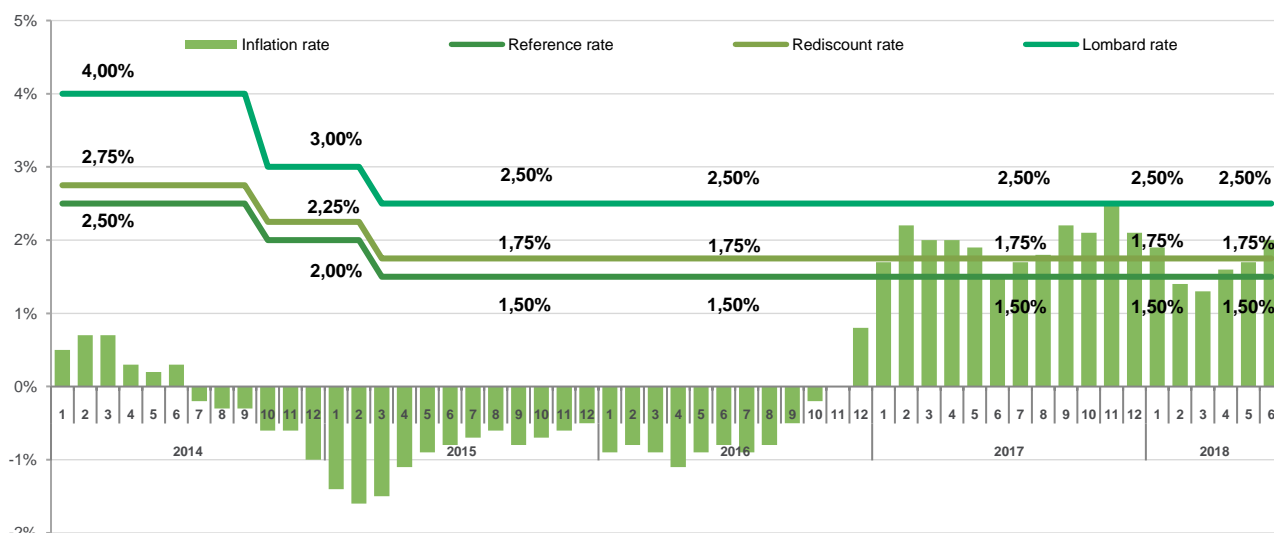
Inflation

In the first quarter of 2018, CPI inflation was on average at the lower limit of deviations from the NBP's (the National Bank of Poland) inflation target of 1.5% y/y, as compared to 2.2% inflation in the previous quarter. The decline in inflation was mainly driven by the decline in core inflation and the dynamics of food prices. In the second quarter of this year inflation accelerated, reaching 2% y/y in June. This was mainly due to the increase in fuel prices, reflecting higher global oil prices and some weakening of the Polish zloty (PLN) value. Inflation should reach the local peak in the third quarter, and then decrease due to the effects of the high base. However, demand pressure and high wage growth indicate acceleration of inflation in 2019.

Monetary policy

In the first half of 2018, the Monetary Policy Council (RPP) maintained interest rates unchanged. The stabilization of interest rates in Poland was mainly due to the inflation level remaining below the target, but also because of the smooth monetary policy of the ECB. After the RPP meetings in recent months, NBP President Adam Glapiński pointed out that, in his opinion, interest rates may remain unchanged even until the end of 2020. The probable gradual tightening of the monetary policy in the Eurozone and the forecasted rise in inflation above the target in 2019 suggest, however, the possibility of interest rate hikes by the Monetary Policy Council in the second half of 2019.

Graph 3. Inflation and interest rates



Source: Polish Central Statistical Office (GUS), National Bank of Poland (NBP)

Bonds market

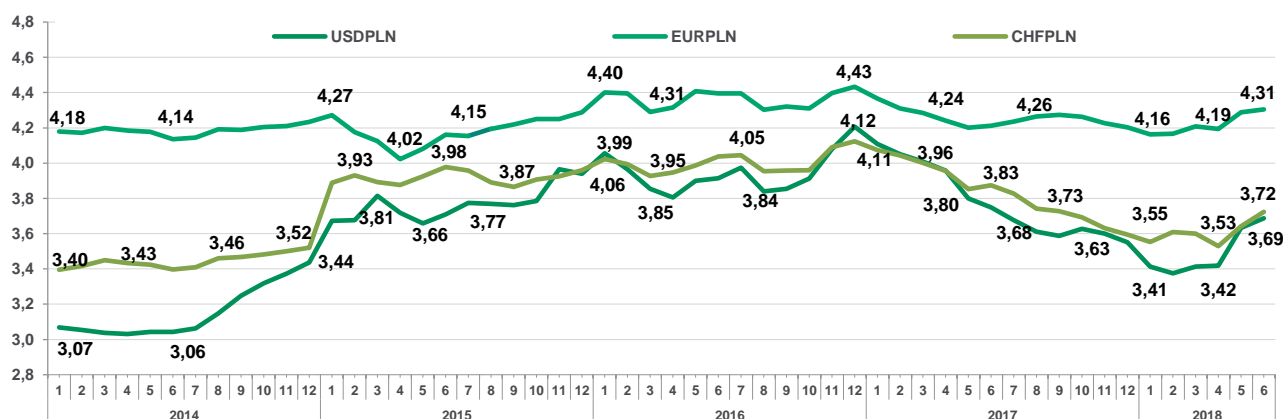
Yields of government bonds in Poland in the first half of the current year remained under the influence of the situation on the core markets (the USA and Eurozone) and domestic data on inflation, public debt as well as investors' expectations regarding the future monetary policy of the Monetary Policy Council. After a drop in profitability in the first quarter (to 1.5% for 2-year bonds, 2.35% for 5-year bonds and 3.19% for 10-year bonds), which was caused, among other things, by a decline in profitability in the Eurozone and lowering inflation in Poland. At the beginning of the second quarter bond yields increased slightly, and then remained relatively stable. In the middle of the year, the yield on 2-year government bonds was 1.63%, 5-year bonds - 2.56%, and 10-year bonds - 3.23%.

The risk premium for long-term Polish bonds (measured by the *spread* against 10-year German bonds) remained in the range of 250-300 bps in the first half of 2018, compared to around 350 bps at the end of 2017. This was favoured by a good budget situation, reflected, among others, in the decline in the public debt-to-GDP ratio to 51% in 2017 from 54% in 2016.

Currency market

After significant strengthening in 2017, in the first half of 2018 the Polish zloty depreciated against the major currencies. The EUR/PLN exchange rate rose from 4.17 at the beginning of January to 4.36 at the end of June. At the same time, the USD/PLN exchange rate increased from 3.48 to 3.74, and the CHF/PLN exchange rate from 3.57 to 3.77. The zloty depreciation was caused by both global factors, such as tightening of the monetary policy in the US and an increase in global risk aversion, connected with, amongst others, a trade dispute, mainly between the United States and China, as well as domestic factors including a certain slowdown in the productivity growth in the industrial processing sector.

Graph 4. PLN exchange rate (monthly average)



Source: Macrobond

2.2. Performance of the banking sector

According to preliminary data of the Polish Financial Supervision Authority (PFSA), the net financial result of the banking sector in Poland in the first 5 months of 2018 increased by 24.5% y/y and reached PLN 6.4 billion (as compared to nearly PLN 5.2 billion in the same period of 2017). However, the result on the operating activity of the sector, better reflecting the effect of its core operations, increased only by 12.9% y/y.

The improvement in the operating result on an annual basis was determined by a strong increase in the total net operating income of the sector (by 6.2% y/y, i.e. approx. by PLN 1.6 billion). The increase in net interest income (by 9.1% y/y, i.e. over PLN 1.5 billion), related to, among others, high sales of high-margin PLN cash loans, accompanied by a dynamic but less significant increase in other items of operating revenues (by 12.4% y/y, i.e. approx. PLN 0.3 billion). The rate of increase in the operating result of the sector would have been higher if the following events had not occurred: a clear decline in dividend income from banks and a slight decrease in their fee and commission result (related, among others, to the downturn in the capital market in the first half of 2018).

Table 1. Selected income statement items of the banking sector

in PLN million	6 months ended 30.06.2018	6 months ended 30.06.2017	change y/y	
			in PLN million	share %
Net interest income	18,591	17,046	1,544	9.1%
Net fee and commission income	5,547	5,644	(96)	(1.7%)
Dividend income	620	755	(135)	(17.9%)
Other items	2,525	2,247	278	12.4%
Total operating income net	27,283	25,692	1,591	6.2%
Operating expenses, personnel expenses	(7,210)	(6,808)	(401)	5.9%
General administrative expenses	(7,539)	(7,227)	(312)	4.3%
Depreciation and amortization	(1,216)	(1,209)	(7)	0.6%
Total expenses	(15,964)	(15,244)	(721)	4.7%
Modification	(18)	n/a	n/a	n/a
Provisions	(154)	(260)	107	(41.0%)
Impairment or reversals	(3,121)	(3,079)	(42)	1.4%
Profit before income tax	8,025	7,109	916	12.9%
Share in profit / loss from investments in subsidiaries, in joint enterprises and in associates	506	(43)	549	x
Gross profit on continued operations	8,532	7,050	1,481	21.0%
Net profit	6,436	5,170	1,265	24.5%

Source: PFSA; As the figures have been rounded up, the totals in the table may not add up. Note: results from 2018 are presented including changes in accounting principles (IFRS 9 implementation) and the changes which occurred in the obligatory regulatory reporting of banks (FINREP).

An important negative contribution to the y/y change in the operating result of the sector had the following events: a significant increase in personnel expenses (by 5.9% y/y, i.e. PLN 0.4 billion) and slightly slower increase of general administrative expenses (by 4.3 % y/y, i.e. by PLN 0.3 billion). However, it failed to even partially offset the increase in the volume of total net operating income of the sector. The increase in the sector's expenses base was accompanied only by a slight deterioration of net impairment (down by 1.4% y/y) and a clear improvement in the result on other provisions (down by 41.0% y/y, i.e. by PLN 0.1 billion).

The result was a 12.9% increase in the operating result of the banking sector. This, supported by a surge (over PLN 0.5 billion) increase in the sector's profit from investments in subsidiaries, in joint enterprises and in associates, translated into a 21.0% y/y increase in gross profit from the continued operations of the sector and the aforementioned 24.5% y/y increase in of the net financial result.

According to NBP data, the first half of 2018 brought a noticeable increase in the nominal growth rate of bank loans due to non-bank customers. At the end of June 2018, it amounted to 5.7% y/y, while at the end of December 2017 it was 3.7% y/y. The decisive influence on this acceleration, however, was marked by the weakening of the Polish zloty against the main currencies of the core markets in the first half of 2018. At the same time, the deposit activity of non-banking customers increased noticeably. The annual rate of their deposits reached 6.5% at the end of June 2018, while at the end of December 2017 it was 4.2%.

Retail loans increased at the end of June 2018 by 4.8% y/y, while at the end of December 2017 its increase amounted to only 1.1% y/y. This was caused by the slowdown of the declining trend of private debt due to foreign currency housing loans in the first half of 2018 (increase in dynamics to minus 9.7% y/y, from minus 18.9% at the end of 2017). It was connected with a significant weakening of the zloty, especially against CHF (the franc against PLN exchange rate reached PLN 3.77 at the end of June 2018, while it was PLN 3.57 at the end of December 2017), which was accompanied by a trace of new sales of foreign currency housing loans and gradual repayment of instalments of loans previously contracted.

Table 2. Banking sector loans by value

in PLN billion	30.06.2018	31.12.2017	30.06.2017	change	
				1H/2018 vs 1H/2017	2017 vs 2016
Loans to private customers	585.9	562.1	559.0	4.8%	1.1%
- mortgage loans	407.2	391.5	394.9	3.1%	(1.5%)
- in PLN	274.4	260.0	247.9	10.7%	10.4%
- in foreign currencies	132.8	131.5	147.0	(9.7%)	(18.9%)
- consumer loans	176.1	167.7	160.9	9.5%	6.9%
- other loans	2.6	2.9	3.2	(17.9%)	73.7%
Loans to institutional customers	622.9	597.3	584.2	6.6%	6.3%
- non-bank financial institutions	66.5	63.9	62.6	6.2%	13.3%
- business entities	469.2	447.7	440.0	6.6%	6.0%
corporate	350.3	333.3	327.5	7.0%	6.0%
individual entrepreneurs	77.4	73.6	72.2	7.2%	7.3%
farmers	34.5	33.8	33.7	2.3%	3.6%
non-commercial institutions	6.9	6.9	6.6	4.8%	7.1%
- public sector	87.3	85.7	81.6	7.0%	2.8%
Total loans to non-bank customers	1,208.8	1,159.4	1,143.2	5.7%	3.7%

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.

In the first half of 2018, the dynamics of lending growth in the segment of PLN mortgage loans remained moderately high. This, due to the growing base, translated into an increase of PLN 14.5 billion in the total debt of the population in the first 6 months of 2018, significantly (by PLN 2 billion) higher than in the corresponding period of 2017. A good situation on the mortgage loan market is confirmed by the data of the Credit Information Bureau (BIK). According to it, in the first half of 2018, banks granted 117 thousand of mortgage loans in the total amount of PLN 27.9 billion, which means an increase of 16.7% y/y in terms of value. The demand for mortgage loans continued to be favoured by: further gradual improvement in the labour market and the lowest in history, and stable, NBP interest rates. The accelerator for the value of sold loans was, inter alia, gradual increase in housing prices. On the other hand, further acceleration in the mortgage loan market could be hampered in particular by financing or co-financing the purchase of flats for cash by a large number of investors (due to the not very attractive interest rates on savings products resulting from the lowest in history interest rates mentioned above).

A growing contribution to the increase in lending in the private sector in the first half of 2018 was also due to consumer loans. This was determined by the continued pressure of banks to sell PLN-denominated cash loans as high margin, short- and medium-term products. It was accompanied by sustained demand, stimulated by good consumer moods. According to BIK, in the first half of 2018, banks and Credit Unions granted ca. 3.6 million consumer loans for a total amount of PLN 41.8 billion, which means an increase by 7.8% y/y in terms of value.

In the first half of 2018, the pace of lending development in the enterprise segment was stabilized. The nominal dynamics of corporate debt in banks increased from 6.0% y/y at the end of December 2017, to 7.0% y/y at the end of June 2018. However, this was determined by the exchange rate effect. The adjusted estimated dynamics of the nominal debt of companies in banks - after elimination of this effect - would reach 6.2% y/y. A significantly stronger contribution to the increase in the volume of this category in general was due to current loans, smaller, slowing down investment loans in the first half of 2018. Changes of the latter can be related to a slower than expected revival of investment in the private sector. It could be inhibited by the continuing uncertainty about the developments in the domestic economic environment, which was associated by the analysts, among others, with the increasing restrictiveness of tax law. The high popularity of leasing, reflected by the high dynamics of financing granted on this market, could also be of importance for the limited growth rate of investment loans of companies. According to the Polish Leasing Association in the first half of 2018, the leasing industry financed company investments in Poland worth PLN 38.9 billion, i.e. by 19.7% higher than in the corresponding period of the previous year.

Table 3. Banking sector deposits by value

In PLN billion	30.06.2018	31.12.2017	30.06.2017	change	
				1H/2018 vs 1H/2017	2017 vs 2016
Private deposits	712.2	684.2	671.2	6.1%	3.7%
- current	426.0	395.2	377.6	12.8%	12.8%
- term	286.2	289.0	293.7	(2.5%)	(6.7%)
Institutional deposits	520.6	486.4	486.3	7.0%	4.9%
- non-bank financial institutions	60.1	57.2	53.6	12.2%	(6.9%)
- business entities	346.6	360.1	321.8	7.7%	4.1%
corporate	263.1	276.2	247.1	6.5%	2.4%
individual, entrepreneurs	43.5	44.5	38.7	12.5%	11.1%
farmers	14.0	15.2	12.7	10.3%	10.5%
non-commercial, institutions	26.0	24.1	23.4	11.2%	8.1%
- public sector	113.9	69.1	111.0	2.6%	7.8%
Total non-bank deposits	1,232.8	486.4	1,157.6	6.5%	4.2%

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.

The primary source of growth in deposits of the banking sector is the savings of private individuals. What is more, the annual growth rate of deposits of this group of customers increased noticeably, from 3.7% y/y at the end of December 2017, to 6.1% at the end of June 2018. The growth of this category was determined by the still dynamic growth of the volume of current deposits (by 12.8% y/y). It was accompanied by a drop in the volume of term deposits (by 2.5% y/y), clearly decelerating in 2018. The improvement in general deposit activity of the population in the first half of 2018 was in particular influenced by the marked deterioration of the situation on the Warsaw Stock Exchange in the first half of 2018 and further, gradual improvement of the situation on the labour market, which was accompanied by a slight improvement in the attractiveness of savings products.

The improvement of deposit activity was also recorded in the enterprise segment. The dynamics of their deposits increased from 2.4% y/y at the end of December 2017 to 6.5% y/y at the end of June 2018. The increase recorded in the first half of 2018 was due to the strong increase in the volume of PLN deposits of enterprises recorded in the last twelve months. On the one hand, it could be supported by an increase in sales revenues achieved by enterprises on the domestic market, reflected in at least moderate, annual dynamics of real retail sales in the entire analysed period. On the other hand, the impact on accelerating the growth of corporate deposits could also have mentioned the slower than expected revival of investment in the private sector.

2.3. Stock market and investment situation

The first half of 2018 brought a negative change in the WIG stock index, representing all listed companies on the Warsaw Stock Exchange (WSE), down 8.3% in relation to the corresponding period of 2017. Despite the downward trend of all listed indices, the scale of declines differed for shares of large, medium and small companies. The sWIG80 index representing the smallest companies turned out to be the leader in declines, losing 21.0%, the Warsaw mWIG40 average company index lost 14.0%, and the WIG20 index grouping the largest entities ended the first half of this year with a drop of 7.2%. The weakness of the sWIG80 index was influenced by the outflows of capital from funds investing on the Polish stock market. In addition, in the period under discussion, the investors' perception of developing markets, including Poland, as a result of the dollar strengthening and interest rates in the United States, deteriorated.

Table 4. Key WSE indices

Index	30.06.2018	31.12.2017	30.06.2017	change y/y
WIG	55,954	63,746	61,018	(8.3%)
WIG20	2,135	2,461	2,300	(7.2%)
mWIG40	4,220	4,847	4,907	(14.0%)
sWIG80	12,689	14,596	16,069	(21.0%)

Source: Bloomberg

The image of the first half of 2018 on the Warsaw Stock Exchange was, among others, influenced by the following factors: (i) restrictive monetary policy in the United States, (ii) strengthening of the US dollar, (iii) expectations of the European Central Bank's policy, (iv) negative perception of the developing markets, which was influenced by the strengthening dollar and the deterioration of the political and macroeconomic situation in Turkey, (v) increased risk aversion due to fears in the context of the global trade war, (vi) political uncertainty and (vii) weaker macroeconomic data published in the monthly cycle for the most important economies of the Eurozone.

On the Polish Treasury bonds market, the first half of 2018 was characterized by considerable volatility. After the increase in yields on domestic bonds in January and February of 2018, in the following months yields were in a downward trend. This was influenced by, among others, global trends related to the flow of capital to safer assets, as well as a mild approach in the context of monetary policy, the Monetary Policy Council. In the last two months of the first half of 2018, the yields on 10-year Treasury bonds oscillated around 3.15% -3.40%.

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

	30.06.2018	31.12.2017	30.06.2017	change y/y
Number of companies	473	482	483	(2.1%)
Cap of domestic companies (PLN million)	569,332	710,336	645,030	(11.7%)
Share trading volume (PLN million)	104,927	260,979	140,853	(25.5%)
Futures trading volume ('000)	4,036	7,319	4,048	(0.3%)

Source: WSE

In the first half of 2018, 5 new companies appeared on the main market of the WSE (including: 1 due to the transfer of quotations from the New Connect market), and 14 entities have left the trading floor. The number of companies listed on the WSE decreased from 482 at the end of 2017 to 473 at the end of the first half of 2018. On the New Connect organized market, in the first half of 2018, 8 issuers debuted, with the simultaneous withdrawal of 13 entities from the listing. On the Catalyst bond market, a total of 588 series of bonds were listed, and the value of the issue exceeded PLN 774 billion.

3. MAJOR EVENTS IN CAPITAL GROUP OF BANK BGŻ BNP PARIBAS S.A. IN THE FIRST HALF OF 2018

23.01.2018 Extraordinary General Meeting of the Bank

- appointment of Mr Francois Benaroya as a Member of the Supervisory Board of the Bank until the end of the current five-year joint term of office of the members of the Supervisory Board;
- adoption of the Remuneration policy for the Members of the Supervisory Board of Bank BGŻ BNP Paribas S.A.;
- approval of the changes in the Bank's Statute and adoption of the uniform text of the Statute.

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 learned about the level of solvency ratios as at 1 January 2018. The opening balance will be subject to verification by the auditor.

The level of Common Equity Tier 1 (CET I) 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 I capital ratios (Tier I), both in separate and consolidated terms, and the total capital ratio (TCR) in consolidated terms, were below the new requirements.

In view of the existing situation, the Management Board of the Bank informed that it immediately took additional measures (including: share capital increase via issuance of new shares) to meet the new regulatory requirements. 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.

At the same time, the Bank fulfilled 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.

16.03.2018 PFSA recommendation to increase capital

On 16 March 2018, the Bank received a letter from the Polish Financial Supervision Authority regarding a recommendation to increase own funds by retaining the entire profit generated in the period from 1 January to 31 December 2017.

In the current report No. 25/2017, the bank informed that on 23 November 2017 it received a decision of the Polish Financial Supervision Authority of 23 November 2017 approving the inclusion of net profit generated by the Bank in the period from 1 January 2017 to 30 June 2017, in the amount of PLN 130,029,336.35, to the Tier 1 capital of the Bank.

20.03.2018 Entering into the National Court Register information on changes made to the Bank's Statute

On 19 March 2018, the Bank was notified that the District Court for Warsaw, 12th Commercial Division of the National Court Register, amended the Bank's Statute, adopted by the Extraordinary General Meeting of the Bank on 23 January 2018.

10.04.2018 Disclosure of delayed confidential information about joining negotiations to acquire the core business of Raiffeisen Bank Polska S.A.

On 10 April 2018, the Bank's Management Board announced that on 26 March 2018 the Management Board of the Bank decided to join the negotiations conducted by BNP Paribas S.A., a majority shareholder of the Bank, with Raiffeisen Bank International AG ("RBI") regarding the acquisition of core business of Raiffeisen Bank Polska S.A. ("RBPL"), excluding RBPL's foreign currency mortgage loans, by demerger of RBPL ("Negotiations").

At the same time, the Management Board of the Bank announced that joining the Negotiations does not mean that the acquisition of the core business of RBPL will be realized. In addition, the Bank's authorities have not yet made binding decisions regarding the execution of the transaction. In addition, the Bank's authorities have not yet made binding decisions regarding the execution of the transaction.

10.04.2018 Conclusion of the Transaction Agreement regarding the purchase of the core business of Raiffeisen Bank Polska S.A.

Transaction

The Transaction anticipated in the Transaction Agreement includes:

- i) acquisition of shares representing less than 50% of the share capital of RBPL by BNPP from RBI; and
- ii) the demerger of RBPL performed in accordance with article 124c of the Banking Law and article 529 § 1 point 4 of the Commercial Companies Code by transferring (separating) the RBPL's Core Business to the Bank and issuing new issue shares by the Bank to RBI and BNPP (the "**Demerger**"); RBPL will be a demerged company and the Bank will be the acquiring company (collectively "**Transaction**").

Description of the Transaction

The Transaction will be performed as follows:

- (i) after all conditions precedent specified in the Transaction Agreement have been met or terminated, in order to facilitate the Demerger, BNPP will acquire a minority stake in the RBPL from the RBI, representing less than 50% of the share capital of RBPL, the value of which is estimated at approximately 45% of the share capital of RBPL,
- (ii) on the Demerger Date (as defined below), the Core Business of RBPL will be taken over by the Bank, and in exchange for the Core Business of RBPL, the Bank will issue ordinary new issue common shares ("**Demerger Shares**") for BNPP and RBI as shareholders of RBPL. RBPL shares that will be in possession of BNPP will cease to exist,
- (iii) the Demerger Shares allotted to RBI will represent 9.8% of the Bank's share capital as at the Demerger Date. Immediately after the Demerger Date, the Demerger Shares will be purchased from the RBI by the BNPP or by a third party or third parties designated by the BNPP.

As a result of the Transaction, on the day of registering the increase of the Bank's share capital in connection with the Demerger by the appropriate registry court ("**Demerger Date**"), the Bank will acquire the core business of RBPL ("**Core Business of RBPL**"), in the form of an organized part of the enterprise, including all assets and RBPL's liabilities connected with this activity, and excluding assets and liabilities that will remain in RBPL after Demerger ("**RBPL Mortgage Activity**"). RBPL's Mortgage Activity, which is to remain in RBPL after Demerger, will include foreign currency mortgage and non-mortgage loans granted by RBPL, other credit exposures as well as all legal relations between RBPL and six investment funds in liquidation, managed by November 2017 by FinCrea TFI S.A.

Price

The Transaction Agreement stipulates that the Bank will acquire the Core Business of RBPL with guaranteed Tier 1 capital amounting to PLN 3,400 million ("**Target Capital**") for an agreed price of PLN 3,250 million ("**Purchase Price**") including a prepaid allowance of PLN 50 million for digitalization investment projects to be implemented in the period from the date of signing of the Transaction Agreement to the Demerger Date. The above implies a P/TBV multiplier (price to the book value of tangible assets) in the amount of 0.95x based on the pro-forma basic RBPL financial data as at the end of 2017 and a P/BV multiplier (price to book value) of 0.87x based on the estimated pro-forma book value of the Core Business of RBPL as at the Demerger Date, taking into account the adopted value of intangible assets of the Core Business of RBPL.

In the event that the Tier 1 capital of the Core Business of RBPL transferred to the Bank was lower or higher than the Target Capital, the resulting difference will be settled between the Bank and RBPL after closing the books of the Core Business of RBPL after the Demerger Date so that the Tier 1 capital of the Core Business of RBPL is equal to the Target Capital.

The Purchase Price assumes the creation of certain intangible IT assets (in the amount of PLN 50 million) related to digitization of investment projects. If the value of intangible assets of the RBPL Core Business as at the Demerger Date differs from the assumed value of these assets, the difference will be settled between RBPL and the Bank in cash together with the settlement relating to the Target Capital referred to above.

The obligation to pay the Purchase Price to RBI will be met by payment of the Purchase Price by BNPP or by ordering BNPP to pay the Purchase Price for (i) RBPL shares that will be purchased by BNPP from RBI and (ii) the Demerger Shares to be issued by the Bank for RBI.

Execution of the Transaction

The Transaction is subject to the fulfilment of the conditions specified in the Transaction Agreement, which include:

- (i) conclusion of the cooperation agreement with RBL, RBI and BNPP before Demerger. The agreement shall specify the terms of cooperation between RBPL and the Bank in relation to the Demerger;
- (ii) performing an audit review of the pro-forma financial information of RBPL and considering this information and the results of the audit as satisfactory by the Bank;
- (iii) signing the Demerger Plan (as defined below) by RBPL and the Bank;

- (iv) obtaining the consent of the competent authority of competition and consumer protection;
- (v) obtaining consent and approval from the PFSA in relation to the Demerger;
- (vi) obtaining consent and approval from the PFSA and the European Central Bank in relation to the cross-border merger of RBPL and RBI; and
- (vii) obtaining consents from the Bank's and RBPL's general meetings for the Demerger.

Conducting the Transaction depends also on the fulfilment of other conditions, such as signing specific agreements regarding the Transaction by the Bank, RBPL, and, if applicable, RBI, as well as obtaining specific tax interpretations regarding the Demerger.

It is expected that the Demerger Date will take place in the fourth quarter of 2018.

The share exchange parity established for the purpose of Demerger

The Transaction Agreement stipulates that in the RBPL demerger plan to be agreed between the Bank and RBPL ("**Demerger Plan**"), the number of the Demerger Shares allocated to RBI and BNPP in return for each RBPL share held by these entities, will be 0.3595197657 ("**Share Exchange Parity**"). The Share Exchange Parity was calculated as the Purchase Price divided by PLN 65.56, constituting the arithmetic average of the average daily prices weighted by the trading volume of the Bank's shares listed on the Warsaw Stock Exchange S.A. from the period of 30 days beginning on 8 March 2018 and ending on 6 April 2018¹, divided by 137.886.467 representing the number of reference shares of RBPL. The resulting number of the Demerger Shares that will be issued by the Bank is 49,592,910, which accounts for 37.05% of the Bank's share capital after the shares have been issued (without taking into account the share capital increase referred to below).

The Share Exchange Parity and the number of the Demerger Shares to be issued by the Bank will be subject to a dilution adjustment, if applicable, in connection with the Bank's share capital increase to be performed prior to the Demerger, which the Bank reported in the Current Report No. 9/2018 of 6 February 2018. The Bank plans to increase the Bank's own funds (share capital and supplementary capital) by approximately PLN 800 million.

The number of RBPL reference shares attributable to BNPP (in the number equal to the number of RBPL shares that BNPP will acquire from RBI prior to the Demerger) and RBI will be determined in such a way that the RBI will be entitled to the Demerger Shares constituting 9.8% of the Bank's share capital on the Demerger Date.

The intention is that the Demerger Plan should be agreed by the Bank and RBPL until 27 April 2018, with the possibility of a possible extension of this period.

Other documents of the Transaction

In the course of the Transaction, RBI, BNPP, RBPL and the Bank will conclude certain accompanying agreements regarding the Transaction and services that will be provided in connection with the Transaction.

Strategic justification for the Transaction

Conclusion of the Transaction Agreement is consistent with the development strategy implemented by the Bank's Management Board, which assumes dynamic growth ensuring the highest return on capital.

Because of the complementary scope of operations of both banks, the Transaction will allow the Bank to become one of the leading market participants with total assets of over PLN 100 billion, it will strengthen the Bank's position of the sixth bank on the market in Poland and allow to enter the top five.

Many years of experience of the employees of the RBPL's Core Business, in particular in the SME, corporate banking and factoring segments, private banking, as well as the retail banking network, will strengthen the Bank's role as one of the main participants in the Polish banking sector and the BNP Paribas Group's ability to contribute to the development of the Polish economy.

10.04.2018 PFSA's consent to appoint Mr Przemysław Gdański as the President of the Management Board

On 10 April 2018, the Polish Financial Supervision Authority, pursuant to article 22b of the Banking Law Act of 29 August 1997, unanimously agreed to appoint Mr. Przemysław Gdański as the President of the Management Board of Bank BGŻ BNP Paribas S.A.

In connection with the above, on 10 April 2018, the resolution of the Bank's Supervisory Board of 26 October 2017 on the appointment of Mr. Przemysław Gdański as the President of the Bank's Management Board came into force.

¹ Slightly higher than the average of the last three months of daily volume-weighted average prices (PLN 65.40) as at 6 April 2018 and daily volume-weighted average price as of 6 April 2018 (PLN 65.02) and higher than the spot closing price from 6 April 2018 (PLN 62.80).

25.04.2018 Decision of the PFSA of 23 April 2018 on granting permission to classify net profit of the Bank for the period from 01.07.2017 to 31.12.2017, in the amount of PLN 168,360,062.58, as Tier 1 capital.

27.04.2018 Information on the amount determined by BFG for Bank BGŻ BNP Paribas S.A. regarding annual contribution to the bank's forced restructuring fund for 2018 in the amount of PLN 52,777,541.35 (considering the amount of the premium adjustment for 2017).

28.04.2018 Reconciliation of the demerger plan of Raiffeisen Bank Polska S.A. (RBPL). The first notification of the planned demerger. Fulfilment of the condition of a significant contract.

On 28 April 2018, the Bank's Management Board and the Management Board of RBPL agreed and signed a plan for the demerger of RBPL prepared in accordance with article 534 § 1 and § 2 of the Act of 15 September 2000 - Code of Commercial Companies (Journal of Laws of 2017, item 1577, as amended) ("KSH") ("Demerger Plan").

The reconciliation and signing of the Demerger Plan is the fulfilment of one of the conditions of the Transaction Agreement (i.e. the acquisition of the core business of RBPL excluding RBPL currency mortgage loans by the Bank, by the demerger of RBPL) necessary for the purchase of a separate part of the RBPL by the Bank.

The Demerger Plan contains a description of assets and liabilities that will be transferred to the Bank after the demerger ("Core Business of RBPL"). It also contains information on assets and liabilities that will not be transferred to the Bank, including:

- the portfolio of foreign currency mortgage loans, as defined in Appendix 1 to the Demerger Plan;
- the portfolio of selected exposures, specified in Table 1A-a in Appendix 1 to the Demerger Plan;
- legal relations between RBPL and specific investment funds in liquidation, listed in Appendix 1 to the Demerger Plan.

Moreover, the Demerger Plan:

- determines the share exchange parity, according to which RBPL shareholders will receive shares issued by the Bank for holding certain RBPL reference shares; and
- contains a fairness opinion issued by mCorporate Finance S.A. confirming that the adopted share exchange parity is fair and reliable from the financial point of view of the Bank's shareholders.

The selected financial data regarding the Core Business of RBPL is presented below, based on the unaudited pro forma financial statements of RBPL for the year 2017 ("Financial Information on the Core Business of RBPL") provided by the Management Board of RBPL.

Financial Information of the Core Business of RBPL

The Financial Information of the Core Business of RBPL was prepared on the basis of the demerger of RBPL assets and liabilities defined in the Demerger Plan solely for illustrative purposes, and, by their nature, they show indicatively the results of operations and financial situation of the Core Business of RBPL as at 31 December 2017.

At the end of 2017, the intangible assets of RBPL amounted to PLN 268 million, while property, plant and equipment amounted to PLN 88 million.

All RBPL deposits will be assigned to the Core Business of RBPL and transferred to the Bank, which will cause a significant excess of liquidity. In order to balance assets and liabilities, as well as to meet the requirements of the guaranteed Tier 1 capital, as explained below, the "theoretical" supplementary asset portfolio in the amount of PLN 5.4 billion, composed of Polish government bonds with an average interest rate of 1.71% was adopted. The bonds are exempt from the tax from financial institutions, which contributes PLN 93 million to "theoretical" interest income in pro forma profits and loss account for the financial year 2017.

The Transaction Agreement stipulates that on the Demerger Date (i.e. the date of the registration of the Bank's share capital increase due to the demerger by the competent registry court), the Bank will acquire the Core Business of RBPL with guaranteed Tier 1 basic capital amounting to PLN 3,400 million. Tier 1 core capital will take into account relevant adjustments and deductions from own funds in accordance with the EU Regulation on prudential requirements for credit institutions and investment firms (CRRs), but will not take into account any transitional provisions resulting from the application of IFRS 9 to the RBPL Core Business, even if these provisions are currently applied in RBPL.

The amount of the adjustment for the adoption of IFRS 9 in the Core Business of RBPL (profit or loss account, result from previous years and provisions) was estimated at PLN 311 million before tax (deferred tax assets) as at 1 January 2018.

Statement of the financial position of Core Business of (in PLN million)

Balance sheet	Core Business of RBPL for the year 2017
Assets	39.847
Cash in hand and balances in Central Bank	1.316
Amounts due from banks	103
Loans and advances to customers	18.001
Derivative financial instruments	443
Financial assets held for trading	6.675
Investments in securities	12.648
Investments in subsidiaries	31
Tangible and intangible fixed assets	356
Other assets	230
Deferred tax assets	44
Liabilities	36.070
Amounts due to banks and other monetary financial institutions	635
Amounts due to customers	34.392
Provisions for liabilities and charges	142
Derivative financial instruments	406
Other liabilities	495
TOTAL equity	3.777

Statement of profit or loss pro forma (in PLN million)

Statement of profit or loss	Core Business of RBPL for the year 2017
Net interest income	883
Interest income	1.257
Interest expenses	-374
Non-interest income	596
Net fee and commission income	574
Result on financial instruments measured at fair value and from the exchange position	17
Dividend income	5
Operating result	1.479
Impairment allowances on financial assets	-116
Profit on operating activity	1.363
General administrative costs	-1.011
Result on other operating income and other operating expenses	-108
Other operating income	44
Other operating expenses	-152
Tax on financial institutions	-80
Gross profit/loss	164
Income tax	-81
Net profit/loss	83

The pro forma profit and loss account of the Core Business of RBPL includes the following one-off items:

- an allowance in the amount of PLN 114.0 million due to the Polbank brand (included in „Other operating expenses”);
- PLN 7.2 million of costs related to the initial public offer (included in „Other operating expenses”);
- restructuring costs in the amount of PLN 32.1 million and restructuring provisions in the amount of PLN 13.4 million (included in "General administrative expenses" and "Other operating expenses”);
- one-off costs in the amount of PLN 10.9 million due to retention bonuses (included in „Other operating expenses”).

The presented profit and loss pro forma account of the Core Business of RBPL is based on the assumption

of using free funds in the amount of PLN 4.0 billion to calculate the costs of tax on financial institutions.

The presented profit and loss pro forma form of the Core Business of RBPL includes:

- PLN 6 million of revenue related to the service provision agreement, which will be concluded by the Bank and RBPL in order to service RBPL after the transaction;
- PLN 2 million of costs related to IT services that will be provided by RBPL to the Core Business of RBPL.

These amounts are estimates and relate to future services that were not provided in 2017.

- PLN 93 million of "theoretical" interest income on the supplementary assets portfolio (PLN 5.4 billion), assuming an average interest rate on such portfolio on the level of 1.71% and no costs due to tax on financial institutions.

In total, risk-weighted assets assigned to the RBPL Core Business as at 31 December 2017 are estimated at PLN 20.9 billion.

The document of the *Demerger Plan* with appendices is placed on the Bank's website: www.bgzbnpparibas.pl in the "Investor Relations" tab.

17.05.2018 **Announcement of the new Fast Forward strategy of Bank BGŻ BNP Paribas S.A. for 2018-2021**, based on 5 key pillars: simplicity, digitalization, quality, growth and enthusiasm.

The Bank's strategic goals are to achieve:

- the growth rate on the result on banking operations faster than the market average growth,
- ROE above 10%,
- C/I ratio at around 50%.

18.05.2018 **Ordinary General Meeting of Bank BGŻ BNP Paribas S.A.**

- Review and approval of:
 - *Financial statements for 2017 and Management Report on activities in 2017,*
 - *Report on the non-financial information of Bank BGŻ BNP Paribas S.A. and Bank BGŻ BNP Paribas S.A. Capital Group in 2017*
 - *Supervisory Board Report on activities of Bank BGŻ BNP Paribas S.A. and its committees in 2017.*
- Resolution on the distribution of retained earnings in Bank BGŻ BNP Paribas S.A. for 2017.
- Resolutions on granting members of the Bank's Management Board and Supervisory Board of Bank BGŻ BNP Paribas S.A. discharge for their duties in 2017.
- Resolution on the increase of share capital by issuance of ordinary bearer series J shares and ordinary registered series K shares in the private subscription mode, depriving existing shareholders of the entire pre-emptive rights to all series J shares and all series K shares, dematerialization and applying for admission and introduction of series J shares and rights to series J shares to trading on the regulated market operated by the Warsaw Stock Exchange S.A. and changes to the Bank's Statute.

Decision of the Polish Financial Supervision Authority concerning the acquisition of Spółdzielcza Kasa Oszczędnościowo-Kredytowa Rafineria by Bank BGŻ BNP Paribas S.A.

Pursuant to the above mentioned decision, as of 19 May 2018, the Bank acquired the assets of SKOK Rafineria. On 30 May 2018, the Bank acquired SKOK Rafineria and took control over it in the meaning of IFRS 3 "Business combinations".

29.05.2018 **The auditor's opinion on the Demerger Plan of Raiffeisen Bank Polska S.A. Supplementing the first notification of the planned demerger of Raiffeisen Bank Polska S.A.**

11.06.2018 **Subscription and offer of ordinary bearer shares of series J and ordinary registered shares of series K and conclusion of agreements on the placement of J series shares by Bank BGŻ BNP Paribas S.A.**

14.06.2018 **Determination of the issue price, number of series J ordinary bearer shares and ordinary registered series K shares by the Management Board; conclusion of the price amendment to the placement agreement.**

18.06.2018 **Adjustment of the share exchange parity and determination of the number of sub-shares issued by Bank BGŻ BNP Paribas S.A. for the needs of demerger of Raiffeisen Bank Polska S.A.**

19.06.2018 **Conclusion of contracts for the acquisition of ordinary bearer series J shares and ordinary registered series K shares.**

25.06.2018 **Termination of private subscription of ordinary series J bearer shares and ordinary registered series K shares.**

Any changes made in regard to the composition of the Management Board or the Supervisory Board of the Bank in the first half of 2018 are presented in detail in chapter 4.4. *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 30 June 2018 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
Francois Benaroya	Member of the Supervisory Board
Stefaan Decraene	Member of the Supervisory Board
Jacques d'Estais	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 Bank's Supervisory Board in the period from 1 January to 30 June 2018:

- On 23 January 2018, Extraordinary General Meeting appointed Mr Francois Benaroya as a member of the Bank's Supervisory Board until the end of the current 5-year term.
- On 25 May 2018, Mr Alain Van Groenendael, a member of the Supervisory Board, resigned from the position of Member of the Supervisory Board of Bank BGŻ BNP Paribas S.A. with the effect from 25 May 2018.
- On 13 June 2018, Mr Yvan De Cock, a member of the Supervisory Board, resigned from the position of Member of the Supervisory Board of Bank BGŻ BNP Paribas S.A. with the effect from 13 June 2018.

4.2. Composition of the Management Board

The composition of the Management Board as of 30 June 2017 was the following:

Full name	Office held in the Management Board of the Bank
Przemysław Gdański	President of the Management Board
Jean-Charles Aranda	Vice-President 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
Jaromir Pelczarski	Vice-President of the Management Board
Jerzy Śledziewski	Vice-President of the Management Board

Changes in the composition of the Bank's Management Board in the period from 1 January to 30 June 2018:

- On 19 February 2018, Mr. Bartosz Urbaniak resigned from the position of a Member of the Management Board of the Bank with effect from 31 March 2018.

- On 10 April 2018 The Polish Financial Supervision Authority, pursuant to art. 22b of the Act of 29 August 1997 Banking Law, unanimously agreed to the appointment of Mr. Przemysław Gdański as the President of the Management Board of Bank BGŻ BNP Paribas S.A. In connection with the above, with effect from 10 April 2018, the resolution of the Bank's Supervisory Board of 26 October 2017 on the appointment of Mr. Przemysław Gdański as the President of the Bank's Management Board came into force.
- On 16 May 2018, the Supervisory Board appointed the Management Board of the Bank in its unchanged composition for a new three-year term. The function of Mr. Jean-Charles Aranda, who until then served as a Member of the Bank's Management Board, changed. The resolution of the Supervisory Board came into force on the date of the General Meeting of Bank BGŻ BNP Paribas S.A. approving the financial report for 2017, i.e. on 18 May 2018.

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 the first half of 2018, the Bank received the following awards and distinctions:

February	name of Top Employer Polska for its HR policy developed in line with best market practices
March	name of „ Gwiazda Jakości Obsługi 2018 ” in the 11th edition of Polski Program Jakości Obsługi [<i>the Polish Service Quality Programme</i>]
May	award in the „ Diamenty Inwestycji ” contest in „Bank finansujący roku” [<i>financing bank of the year</i>] category
May	the Srebrny Listek CSR POLITYKI – as one of the organizations characterized by consistent activities in the field of sustainable development
May	1st place in Power of Content Marketing Awards competition. Jury awarded the Bank's project „AgroKurier – magazyn nowoczesnego rolnika” in the content marketing category

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

As of 30 June 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 6. Shareholder structure as at 30.06.2018

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%
Total	84,238,318	100.00%	84,238,318	100.00%

As at 30 June 2018, 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 30 June 2018, there were 13,024,915 registered shares, including four B series shares).

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

Four B series registered shares in the Bank are preference shares with respect to payment of the full 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.

In 2018, the share capital was increased by issuing series J and K shares.

The share capital was increased on the basis of Resolution No. 37 of the Ordinary General Meeting of Bank BGŻ BNP Paribas S.A. of 18 May 2018 regarding the share capital increase from the amount of PLN 84,238,318 to the amount of PLN 97,538,318, that is by PLN 13,300,000 by issuance of:

- 2,500,000 series J ordinary bearer shares acquired at an issue price of PLN 60.15 (PLN sixty and 15/100) per share, and
- 10,800,000 series K ordinary registered shares acquired at an issue price of PLN 60.15 (PLN sixty and 15/100) per share.

After registration of the share capital increase on 3 July 2018 by the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, the capital currently divides into 97,538,318 registered shares and bearer shares with the nominal value of PLN 1 each, including: 15,088,100 series A shares, 7,807,300 series B shares, 247,329 series C shares, 3,220,932 series D shares, 10,640,643 series E shares, 6,132,460 series F shares, 8,000,000 shares G series, 5,002,000 series H shares, 28,099,554 series I shares, 2,500,000 series J shares and 10,800,000 series K shares.

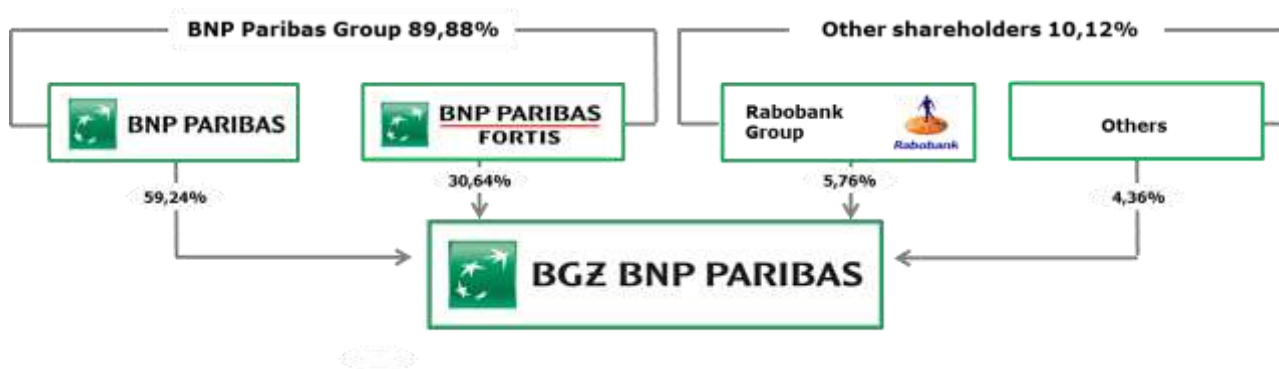
After the registration of the change in the share capital of the Bank, the total number of votes from all issued shares is 97,538,318, including 23,824,915 registered shares.

On 3 July 2018, and as at the date of approval of the report for the first half of 2018, i.e. 29 August 2018, the shareholder structure of Bank BGŻ BNP Paribas S.A., specifying shareholders holding at least 5% of the total number of votes at the General Meeting, was as follows:

Table 6a. Shareholder structure since 3.07.2018

Shareholders	Number of shares	Percentage interest in share capital	Number of votes at the General Shareholder's Meeting	Percentage share in the total number of votes at the General Shareholders' meeting
BNP Paribas, total:	87,669,864	89.88%	87,669,864	89.88%
<i>BNP Paribas (directly)</i>	57,784,889	59.24%	57,784,889	59.24%
<i>BNP Paribas Fortis SA/NV (directly)</i>	29,884,975	30.64%	29,884,975	30.64%
Rabobank International Holding B.V.	5,613,875	5.76%	5,613,875	5.76%
Others	4,254,579	4.36%	4,254,579	4.36%
Total	97,538,318	100.00%	97,538,318	100.00%

Shareholder structure since 3 July 2018:



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 30 June 2018, 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 first quarter of 2018, i.e. 17 May 2018.

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 marked with the ISIN code: PLBGZ0000010 are listed on the Main Market of the Warsaw Stock Exchange (WSE).

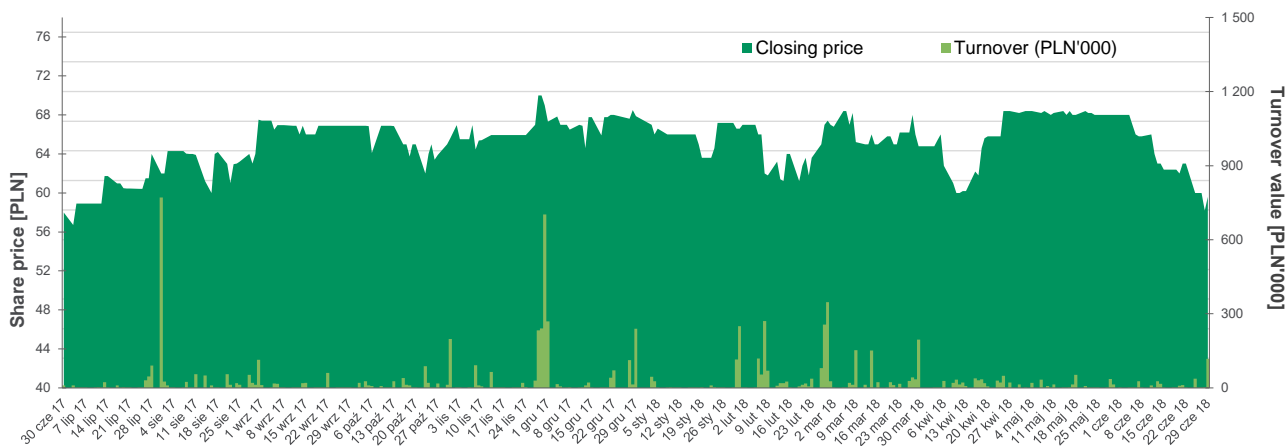
The Bank's shares are listed under the abbreviated name BGZBNPP, marked "BGZ" and classified in the 250 PLUS segment. They are not a component of stock market indices.

At the session held on 29 June 2018, the share price amounted to PLN 59.60 and increased by 2.76% y/y. In the same period, the WIG Banks index fell by 0.58%. The exchange rate reached its maximum on 28 and 29 November 2017 (PLN 70.00).

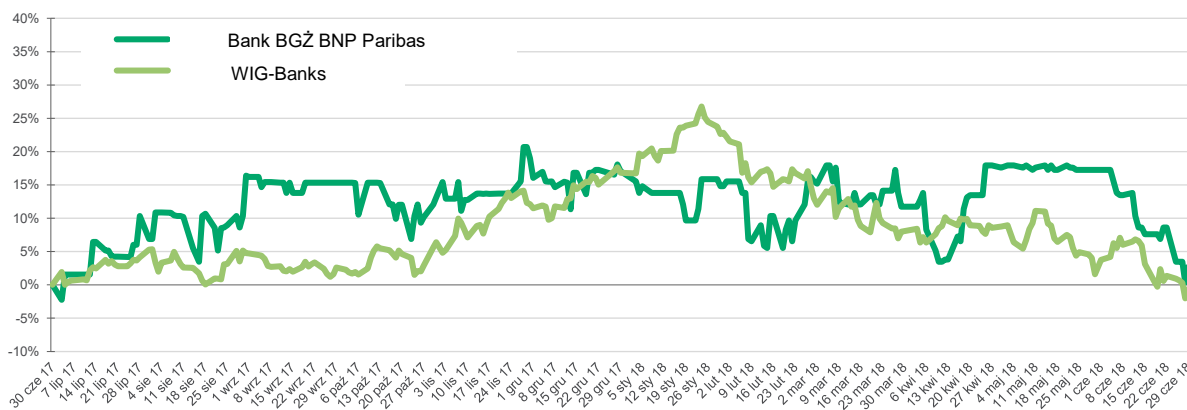
The average price of the Bank's shares during the 12 months (ended on 29 June 2018) amounted to 65.09 (64.05 PLN in 2017). The average trading volume of the Bank's shares was 475.25 shares per session, and the average value of trading in Bank shares per session was PLN 31.03 and was lower than in the whole 2017.

For a significant part of the third quarter of 2017, the share price grew, stabilizing in the fourth quarter of 2017, which was reflected in the quarterly increase in the average price from 63.43 PLN to 66.34 PLN. The fourth quarter of 2017 and the first quarter of 2018 are the periods of the highest turnover. The average daily trading volume in the fourth quarter of 2017 amounted to 641.52 shares, and in the first quarter of 2018 amounted to 677.19 shares (396.95 units in the third quarter), while the average trading value per session was PLN 43.08 thousand and PLN 44.50 thousand, respectively (PLN 24.95 thousand in the third quarter of 2017). The average share price in the first and second quarter of 2018 was at PLN 65.51 and PLN 65.21, respectively. In the second quarter of 2018, a decrease in the average daily trading volume (265.53 shares) and the average trading value per session (PLN 16.98 thousand) was visible, which may be caused by the deterioration of sentiment towards bank shares on the WSE.

Graph 5. The Bank's share price from 30 June 2017 to 29 June 2018



Graph 6. Change in Bank's share price vs. WIG-Banks from 30 June 2017 to 29 June 2018 (30 June 2017 = 100%)



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

9.1. Consolidated statement of profit or loss

In the first half of 2018, the Bank BGŻ BNP Paribas S.A. Capital Group generated a net profit of PLN 188,601 thousand, i.e. PLN 67,822 thousand (56.2%) higher than in the corresponding period of the previous year.

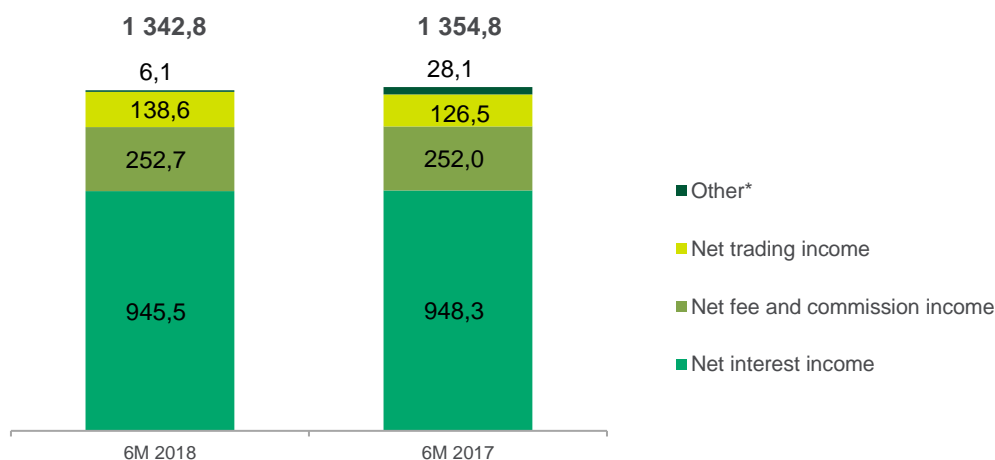
The most important factor influencing the increase in net profit as compared to the first half of 2017 was the value of balance of impairment allowances on financial assets and provisions for contingent liabilities lower by PLN 60,680 thousand (i.e. 34.1%), amounting to PLN -117,343 thousand. In addition, the Group's operating expenses (including depreciation) amounted to PLN 855,959 thousand, and were reduced by PLN 9,177 thousand, i.e. 1.1%.

The result on banking operations in the analysed period amounted to PLN 1,342,843 thousand and was by 11,995 thousand, i.e. 0.9%, lower than the one obtained in the first half of 2017.

The factor affecting the drop in the result on banking activities is the sale of a subsidiary BGŻ BNP Paribas Faktoring Sp. z o.o. The sale and the resulting deconsolidation (i.e., the fact that the company's data are not included in the consolidated financial statements, income statement and balance sheet for the first half of 2018) affect the comparability of results from the first half of 2017.

In 2017, the Group continued to bear 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 incurred in the first half of 2018 were lower by 83.6% (i.e. by PLN 17,901 thousand) as compared to the first half of 2017 and amounted to PLN 3,511 thousand. Eliminating the impact of integration costs in the analysed periods, the Group's net profit in the first half of 2018 would amount to PLN 191,445 thousand and would have been 38.6% (i.e. PLN 53,322 thousand) higher than the profit for the first half of the previous year.

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

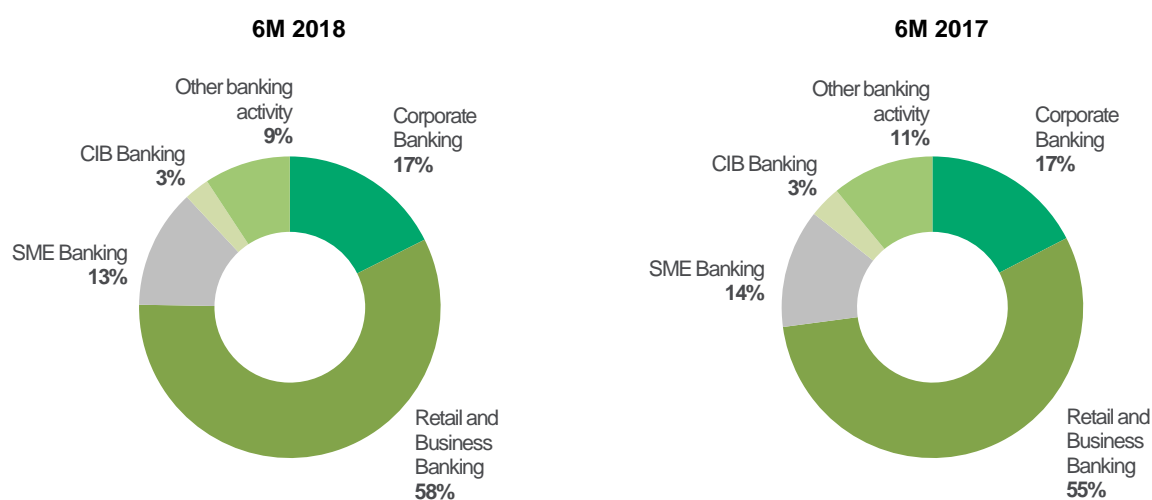


* "Other" category comprises net investment income, result on hedge accounting, dividend income as well as other operating income and expenses.

Table 7. Statement of profit or loss

in PLN '000	6 months ended 30.06.2018	6 months ended 30.06.2017	change y/y	
			in PLN '000	Share %
Net interest income	945,490	948,290	(2,800)	(0.3%)
Net fee and commission income	252,657	252,039	618	0.2%
Dividend income	809	4,693	(3,884)	(82.8%)
Net trading income	138,590	126,458	12,132	9.6%
Net investment income	6,726	21,095	(14,369)	(68.1%)
Result on hedge accounting	2,823	1,643	1,180	71.8%
Other operating income and expenses	(4,252)	620	(4,872)	(785.8%)
Net income on banking activity	1,342,843	1,354,838	(11,995)	(0.9%)
Net impairment losses on financial assets and provisions for contingent liabilities	(117,343)	(178,023)	60,680	(34.1%)
General administrative expenses	(773,297)	(773,152)	(145)	0.0%
Depreciation and amortization	(82,662)	(91,984)	9,322	(10.1%)
Operating result	369,541	311,679	57,862	18.6%
Tax on financial institutions	(99,871)	(103,555)	3,684	(3.6%)
Profit (loss) before income tax	269,670	208,124	61,546	29.6%
Income tax expense	(81,069)	(87,345)	6,276	(7.2%)
Net profit (loss) for the period	188,601	120,779	67,822	56.2%
<i>Integration costs</i>	<i>(3,511)</i>	<i>(21,413)</i>	<i>17,901</i>	<i>(83.6%)</i>
Net profit (loss) for the period excluding integration costs	191,445	138,123	53,322	38.6%

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 segments


Net interest income

In the first half of 2018, net interest income, constituting the main source of the Group's revenues, slightly decreased by PLN 2,800 thousand, i.e. by 0.3%. In the first half of 2018, as compared to the first half of 2017, interest income increased by PLN 30,782 thousand, i.e. by 2.3% y/y with a simultaneous increase in interest expenses by PLN 33,582 thousand, i.e. by 9.1% y/y.

The comparison of interest results is negatively affected by derecognition of interest income of BGŻ BNP Paribas Faktoring Sp. z o. o. in the first half of 2018. z o.o., consolidated in the first half of 2017.

Net interest income in the first half of 2017 was higher due to the above, by PLN 6,861 thousand (interest income was higher by PLN 15,974 thousand and interest expenses by PLN 9,113 thousand). By eliminating the interest result generated by the derecognized in the first half of 2017, the Group would increase its position by 0.4%.

Table 8. Net interest income

in PLN '000	6 months ended 30.06.2018	6 months ended 30.06.2017	change y/y	
			in PLN '000	share %
Amounts due from banks	11,384	14,452	(3,068)	(21.2%)
Overdrafts to customers	185,675	180,267	5,408	3.0%
Loans and advances to customers measured at amortized cost	864,140	945,171	(81,031)	(8.6%)
Loans and advances to customers measured at fair value through profit and loss	40,607	0	40,607	x
Debt instruments measured by amortized cost	121,450	0	121,450	x
Derivative instruments under fair value hedge accounting	54,251	27,542	26,709	97.0%
Debt securities - available for sale	-	150,128	(150,128)	(100.0%)
Debt instruments measured at fair value through profit and loss	243	0	243	x
Debt instruments measured at fair value through other comprehensive income	70,592	0	70,592	x
Interest income	1,348,342	1,317,560	30,782	2.3%
Amounts due to banks	(43,003)	(44,407)	1,404	(3.2%)
Debt securities issued	(35,536)	(5,919)	(29,617)	500.4%
Amounts due to customers	(275,510)	(292,222)	16,712	(5.7%)
Result on fair value hedge accounting	(45,534)	(26,722)	(18,812)	70.4%
Repo transactions	(3,269)	-	(3,269)	-
Interest expense	(402,852)	(369,270)	(33,582)	9.1%
Net interest income	945,490	948,290	(2,800)	(0.3%)

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.

The factor having a negative impact on the net interest income was the fact that interest rates on funds held as a mandatory reserve at the NBP were reduced. It is estimated that due to this reason the net interest income in the first half of 2018 was lower than the result of the first half of 2017 by approx. PLN 7,930 thousand.

The internal factors include the increase of interest expenses on debt securities issued by PLN 29,617 thousand, in connection with securitization of the portfolio of cash and car loans performed in December 2017. The transaction is a traditional securitization involving the transfer of ownership of the securitized receivables to SPV (BGŻ Poland ABS1 DAC based in Ireland), which issued bonds with a total value of PLN 2,180,850 thousand on the basis of securitized assets. The costs did not burden the results of the first half of 2017.

The improvement in margins on customer deposits (cost reduction) had a positive impact on the interest income, both in respect of liabilities to enterprises and in the case of liabilities to households, which remain the group with the largest share in total liabilities to customers. Interest expenses related to amounts due to customers in the first half of 2018 amounted to PLN 275,510 thousand and were by PLN 16,712 thousand, i.e. 5.7%, lower compared to the first half of 2017.

At the end of June 2018, the Group 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.

The net interest income on hedging relationships (the sum of interest income and interest expense from derivatives under fair value hedge accounting) for the first half of 2018 was positive and amounted to PLN 8,717 thousand as compared to PLN 820 thousand in the first half of 2017.

Net fee and commission income

The net fee and commission income in the first half of 2018 amounted to PLN 252,657 thousand and was higher by PLN 618 thousand, i.e. by 0.2% y/y, despite the negative impact mentioned above and the lack of commission income of BGŻ BNP Paribas Faktoring Sp. z o. o. in the first half of 2018, consolidated in the first half of 2017. As a result, net fee and commission income in the first half of 2017 was higher by PLN 6,764 thousand (fee and commission income was higher by PLN 9,554 thousand and fee and commission costs by PLN 2,790 thousand).

Fee and commission income increased in the first half of 2018 as compared to the first half of 2017 by PLN 13,659 thousand, i.e. by 4.4% y/y while fee and commission expenses increased by PLN 13,041 thousand, i.e. by 23.3%.

Eliminating the result generated by the derecognized factoring company in the first half of 2017, the Group would increase its position by 3.0%.

The increase in fee and commission income was recorded primarily in terms of revenues from:

- asset management and brokerage operations by PLN 22,761 thousand, i.e. by 104.1%,
- handling payment and credit cards by PLN 5,488 thousand, i.e. by 12.3%,
- guarantee obligations and documentary operations by PLN 2,651 thousand, i.e. by 19.5%.

The increase in fee and commission expenses was mainly caused by higher:

- costs of fees and commissions for servicing payment and credit cards, increased by PLN 6,328 thousand, i.e. by 17.9%,
- commission costs due to intermediation in the sale of the Bank's products and acquisition of clients, increased by PLN 5,460 thousand, i.e. by 181.7%
- costs of fees and commissions for asset management and brokerage operations, increased by PLN 5,150 thousand, i.e. by 198.8%.

Table 9. Net fee and commission income

in PLN '000	6 months ended 30.06.2018	6 months ended 30.06.2018	change y/y	
			in PLN '000	share %
Fee and commission income				
lending activities and leasing	99,167	110,726	(11,559)	(10.4%)
account maintenance	49,201	50,314	(1,113)	(2.2%)
cash transactions	8,833	8,974	(141)	(1.6%)
cash transfers and e-banking	24,097	25,016	(919)	(3.7%)
guarantees and documentary operations	16,251	13,600	2,651	19.5%
asset management and brokerage operations	44,635	21,874	22,761	104.1%
payment cards and credit cards	50,143	44,655	5,488	12.3%
insurance mediation activity	19,172	21,794	(2,622)	(12.0%)
mediation in the sale of the Bank's products and customer acquisition	4,315	1,542	2,773	179.8%
other commissions	5,836	9,496	(3,660)	(38.5%)
Fee and commission income	321,650	307,991	13,659,	4.4%
Fee and commission expenses				
lending activities and leasing	(1,581)	(5,310)	3,729,	(70.2%)
account maintenance	(1,722)	(1,109)	(613)	55.3%
cash transactions	(1,727)	(1,752)	25	(1.4%)
cash transfers and e-banking	(617)	(988)	371	(37.6%)
asset management and brokerage operations	(7,740)	(2,590)	(5,150)	198.8%
payment cards and credit cards	(41,725)	(35,397)	(6,328)	17.9%
insurance mediation activity	(3,672)	(4,723)	1,051	(22.3%)
mediation in the sale of the Bank's products and customer acquisition	(8,465)	(3,005)	(5,460)	181.7%
other commissions	(1,744)	(1,078)	(666)	61.8%
Fee and commission expenses	(68,993)	(55,952)	(13,041)	23.3%
Net fee and commission income	252,657	252,039	618	0.2%

Dividend income

Dividend income in the first half of 2018 came from the profits of companies for 2017, in which the Bank had minority interests, i.e.: Krajowa Izba Rozliczeniowa S.A. (KIR, PLN 783.7 thousand) and VISA (PLN 25.2 thousand).

Dividend income in the first half of 2017 came from the profits of companies for 2016, in which the Bank had 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 44.8 thousand).

Net trading income and net investment income

Net trading income in the first half of 2018 amounted to PLN 138,590 thousand and was higher by PLN 12,132 thousand, i.e. 9.6% y/y. The level and volatility of this result are mainly determined by the valuation of derivative instruments and the result from exchange positions.

The result on investment activity for the first half of 2018 amounted to PLN 6,726 thousand and was lower by PLN 14,369 thousand, i.e. by 68.1% as compared to the result achieved in the first half of 2017.

In the first half of 2018, gains on the sale of debt instruments were compensated by a negative change in the valuation of the portfolio of loans and advances to customers measured at fair value through profit or loss, resulting from the adjustment to IFRS 9, in the amount of PLN -4,243 thousand.

The income for the first half of 2017 (PLN 21,095 thousand) consisted mainly of profits from the sale of the portfolio of securities available for sale, realized mainly in the second quarter of 2017 (the second quarter alone amounted to PLN 20,111 thousand).

Other operating income

Other operating income in the first half of 2018 amounted to PLN 52,673 thousand and was lower by PLN 13,043 thousand, i.e. by 19.8% as compared to the previous year.

Table 10. Other operating income

in PLN '000	6 months ended 30.06.2018	6 months ended 30.06.2017	change y/y	
			in PLN '000	share %
Sale or liquidation of property, plant and equipment and intangible assets	3,135	9,404	(6,269)	(66.7%)
Sale of goods and services	7,110	6,962	148	2.1%
Release of provisions for litigation and claims and other liabilities	350	1,179	(829)	(70.3%)
Recovery of debt collection costs	8,971	5,890	3,081	52.3%
Recovered damages	12,578	2,026	10,552	520.8%
Income on leasing operations	14,973	13,887	1,086	7.8%
Other operating income	5,556	26,368	(20,812)	(78.9%)
Total other operating income	52,673	65,716	(13,043)	(19.8%)

The decrease was mainly due to:

- decrease in the category of *other operating income* by PLN 20,812 thousand, i.e. by 78.9% (this item in the first half of 2018 includes, among others, annual adjustment of VAT charged in 2017 in the amount of PLN 2.9 million (as compared to PLN 7.9 million in the corresponding period of the previous year),
- a decrease in profits from the sale or liquidation of fixed assets, intangible assets by PLN 6,269 thousand, i.e. by 66.7%,
- lower release of provisions for litigations and claims and other liabilities by PLN 829 thousand, i.e. by 70.3%.

At the same time, revenues from recoveries (higher by PLN 10,552 thousand) and recovery of damage costs (PLN 3,081 thousand) were higher than in the first half of 2017.

Other operating expenses

Other operating expenses in the first half of 2018 amounted to PLN 56,925 thousand and were lower by PLN 8,171 thousand (i.e. by 12.6%) as compared to the first half of 2017, which was mainly related to:

- reduction of losses on the sale or liquidation of property, plant and equipment and intangible assets by PLN 9,266 thousand, i.e. by 73.9%,
- lack of costs due to created impairment allowances on other receivables, which in the first half of 2017 amounted to PLN 10,071 thousand (the largest impact on this item was the creation in the I quarter of 2017 of provisions for unsettled balances of card transactions resulting from the migration of IT systems after the end of the operational merger).

In the first half of 2018, as compared to the first half of 2017, costs related to the creation of provisions for litigations and other liabilities (by PLN 11,737 thousand) and costs due to debt collection (by PLN 2,662 thousand, i.e. 16.3%) were higher.

Table 11. Other operating expenses

in PLN '000	6 months ended 30.06.2018	6 months ended 30.06.2017	change y/y	
			in PLN '000	share %
Loss on sale or liquidation of property, plant and equipment and intangible assets	(3,280)	(12,546)	9,266	(73.9%)
Impairment charges on other receivables	0	(10,071)	10,071	(100.0%)
Provisions for restructuring of assets, litigation and claim and other liabilities	(13,771)	(2,034)	(11,737)	577.0%
Debt collection	(18,973)	(16,311)	(2,662)	16.3%
Donations made	(1,454)	(1,280)	(174)	13.6%
Costs of leasing operations	(12,364)	(12,475)	111	(0.9%)
Costs of compensations, penalties and fines	(1,050)	0	(1,050)	x
Other operating expenses	(6,033)	(10,379)	4,346	(41.9%)
Total other operating expenses	(56,925)	(65,096)	8,171	(12.6%)

Net impairment allowances on financial assets and provisions for contingent liabilities

The result of impairment allowances on financial assets and provisions for contingent liabilities in the first half of 2018 amounted to PLN -117,343 thousand and its negative impact on the Group's results was lower by PLN 60,680 thousand, i.e. by 34.1% as compared to the first half of 2017. The balance of allowances in the first half of 2018 was lower, although the positive impact of the sale of receivables in the corresponding period of the previous year was higher by PLN 10,110 thousand.

In the first half of 2018, the Bank concluded agreements regarding the sale of exposures from the retail portfolio and SMEs portfolio. The amount of receivables sold under contracts covered by a significant part or in full by impairment allowances, totalled PLN 756,370 thousand (principal, interest and other side receivables). The contractual price for the sale of these portfolios has been set at PLN 86,268 thousand. The net impact on the Bank's income from the sale of portfolios amounted to PLN 7,683 thousand and is presented in the line 'creation and release of impairment allowances on loans and advances'.

In the first half of 2017, the Bank concluded 5 agreements regarding the sale of the loan portfolio. The amount of receivables sold under contracts covered by a significant part or in full by impairment allowances, amounted to PLN 505,048 thousand (principal, interest and other side receivables). The contractual price for the sale of these portfolios has been set at PLN 70,146 thousand. The net effect on the Bank's result from the sale of portfolios amounted to PLN 17,793 thousand, and is presented in the line 'the creation and release of impairment allowances on loans and advances'.

The cost of credit risk expressed as the ratio of net impairment allowances to the average balance of net loans and advances to customers (calculated on the basis of balances at the end of the quarters) amounted to 0.44% in the first half of 2018 and improved by 20 basis points as compared to the first half of 2017 (0.64%).

Considering the main operating segments²:

- the Retail and Business Banking segment recorded an improvement in the balance of impairment allowances by PLN 47,676 thousand y/y,
- SME Banking segment - improvement by PLN 35,127 thousand y/y,
- Corporate Banking segment (including CIB) - deterioration by PLN 9,677 thousand y/y.

General administrative expenses, depreciation and amortization

The Group's general administrative expenses incurred from 1 January to 30 June 2018 amounted to PLN 773,297 thousand and were at the same level as in the corresponding period of the previous year. However, changes in the structure of expenditures occurred.

The largest increase concerned marketing costs, which increased by PLN 14,071 thousand y/y due to the greater number of marketing campaigns run by the Bank in the media (cash loan campaign, two personal account campaigns, two campaigns for small businesses).

In the first half of the current year there was also an increase in the fee for Bank Guarantee Fund (BFG). Total contributions booked to the cost of 6 months of the current year amount to PLN 82,159 thousand and are by PLN 8,766 thousand higher than in the previous year, including:

- annual premium for the fund for the forced restructuring of banks for 2018 (settled in the first half of this year) was PLN 52.78 million and PLN 2.16 million higher than in the corresponding period of the previous year,
- the premium for the bank guarantee fund due for the first half of 2018 was higher by PLN 6.61 million and amounted to PLN 29.38 million (PLN 22.78 million in the corresponding period of the previous year).

Table 12. General administrative expenses, depreciation and amortization

in PLN '000	6 months ended 30.06.2018	6 months ended 30.06.2017	change y/y	
			in PLN '000	share %
Personnel expenses	(414,348)	(422,211)	7,863	(1.9%)
Marketing	(50,635)	(36,564)	(14,071)	38.5%
IT and telecom costs	(52,044)	(54,743)	2,699	(4.9%)
Rental costs	(71,786)	(80,775)	8,989	(11.1%)
Other non-personnel expenses	(89,364)	(85,885)	(3,479)	4.1%
Business travels	(5,913)	(5,722)	(191)	3.3%
ATM and cash handling costs	(1,556)	(1,512)	(44)	2.9%
Costs of outsourcing in leasing operations	(3,018)	(9,974)	6,956	(69.7%)
Bank Guarantee Fund fee	(82,159)	(73,393)	(8,766)	11.9%
Polish Financial Supervision Authority fee	(2,474)	(2,373)	(101)	4.3%
Total general administrative expenses	(773,297)	(773,152)	(145)	0.0%
depreciation and amortization	(82,662)	(91,984)	9,322	(10.1%)
Total expenses	(855,959)	(865,136)	9,177	(1.1%)

² Information based on the note regarding segments, included in the Interim consolidated report of Bank BGŻ BNP Paribas S.A. Capital Group for the period of 6 months ended 30 June 2018.

The decrease in administrative expenses y/y was related to:

- rent costs, which were lower by PLN 8,989 thousand as compared to the same period of the previous year; which results from the optimization of the office space (headquarters of the Bank's Head Office at Suwak Street in Warsaw), and the restructuring of the Bank's distribution network (y/y decrease in the number of branches by 10, customer service points by 15);
- employee costs, which were lower by PLN 7,863 thousand; the reduction of costs was influenced, among others, by the reduction of employment by 212 posts (at 30 June 2018 - 7,596 FTEs, at 30.06.2017 – 7,808 FTEs) and lower by PLN 3.05 million retention costs;
- outsourcing costs in leasing activities by PLN 6,956 thousand; mainly due to the transfer of a part of the Bank's leasing operations to BNP Paribas Leasing Services Spółka z o.o. and inclusion of these costs from 2018 in the item other material costs;
- IT and telecommunications costs by PLN 2,699 thousand.

In the analysed periods, costs related to the merger processes of banks were incurred. The amounts of costs incurred included in administrative costs amounted to:

- in the first half of 2018 - PLN 3.5 million (i.e. lower by 84.0% y/y) and were related mainly to the acquisition of Spółdzielcza Kasa Oszczędnościowo-Kredytowa Rafineria by Bank BGŻ BNP Paribas S.A.
- in the first half of 2017 - PLN 20.0 million and were related to the merger processes of banks BGŻ S.A., BNP Paribas Bank Polska S.A. and Sygma Bank Polska S.A. The total amount of integration costs in this period amounted to PLN 21.4 million (including: PLN 0.6 million recognized as a decrease in other operating expenses).

The comparability of the results, similarly to the income side, was affected by the above mentioned deconsolidation of a factoring company in the fourth quarter of the previous year. By eliminating the costs incurred by BGŻ BNP Paribas Faktoring Sp. z o.o. in the first half of 2017 and additionally, the integration costs incurred by the Bank in both periods, the Group would have recorded a cost increase of less than 2% y/y.

Depreciation and amortization costs in the analysed period, as compared to the first half of 2017, decreased by PLN 9,177 thousand, which resulted mainly from the liquidation of assets after the merger of Bank BGŻ with BNP Paribas Bank Polska S.A. and Sygma Bank Polska S.A.

9.2. Statement of comprehensive income

The total income of the Bank in the first half of 2018 was by PLN 65,327 thousand lower than in the corresponding period of the previous year. The immediate reason for the observed decline was a significant change in the valuation of financial assets available for sale (a negative effect of PLN 163,358 thousand), which was partially levelled by the increase in net profit generated in the periods compared.

Table 13. Statement of comprehensive income

in PLN '000	6 months	6 months	change y/y	
	ended 30.06.2018	ended 30.06.2017	in PLN '000	share %
Net profit for the period	188,601	120,779	67,822	56.2%
Other comprehensive income				
Items that will be reclassified subsequently to profit or loss upon fulfilment of certain conditions	(19,322)	113,586	(132,908)	(117.0%)
Valuation of financial assets measured by other comprehensive income	(23,128)	140,230	(163,358)	(116.5%)
Deferred tax	3,806	(26,644)	30,450	(114.3%)
Items that will not be reclassified subsequently to profit or loss	(409)	(168)	(241)	143.5%
Actuarial valuation of employee benefits	(521)	436	(957)	(219.5%)
Deferred tax	112	(604)	716	(118.5%)
Other comprehensive income (net of tax)	(19,731)	113,418	(133,149)	(117.4%)
Total comprehensive income for the period	168,870	234,197	(65,327)	(27.9%)

9.3. Statement of financial position

Assets

At the end of June 2018, the Group's balance sheet total amounted to PLN 71,355,941 thousand and was lower by PLN 1,393,318 thousand (1.9%) than at the end of December 2017.

The key changes in the structure of the Group's assets in the first half of 2018 included: a growth in the share of loans and advances to customers (both measured at amortised cost and at fair value), and in the share securities and financial instruments accompanied with a decrease in the share of amounts due from banks.

The structure of assets is dominated by loans and advances to customers, whose share accounted for 74.6% of total assets at the end of June 2018, compared to 72.8% at end of December 2017. In terms of value, the volume of net loans and advances increased by PLN 289,856 thousand, i.e. by 0.5%, despite the sale of the retail and SME loan portfolio in the first half of 2018.

The second largest asset item were totalled securities (measured at amortised cost and at fair value) and financial instruments measured at fair value which accounted for 20.1% of total assets at the end of June 2018 (19.1% at the end of 2017). In the first half of 2018, the value of the categories indicated above increased by PLN 394,853 thousand or 2.8%, primarily as a result of the increase in the value of the portfolio of bonds issued by governmental institutions at the central level.

Simultaneously with the above changes a decline from 3.6% to 0.5% occurred in the share of the net value of amounts due from banks. These decreased by PLN 2,217,108 thousand, i.e. by 85.2%, mainly in the areas of current accounts and interbank deposits.

Table 14. Assets

in PLN '000	30.06.2018	31.12.2017	change	
			in PLN '000	%
Cash and balances at Central Bank	914,056	998,035	(83,979)	(8.4%)
Loans and advances to banks	386,581	2,603,689	(2,217,108)	(85.2%)
Derivative financial instruments	455,563	474,421	(18,858)	(4.0%)
Differences from hedge accounting regarding the fair value of hedged items	42,401	32,730	9,671	29.5%
Loans and advances to customers measured at amortised cost	50,620,652	52,967,568	(2,346,916)	(4.4%)
Loans and advances to customers measured at fair value through profit or loss	2,636,772	0	2,636,772	x
Financial assets available for sale	0	13,922,540	(13,922,540)	(100.0%)
Securities measured at amortised cost	9,413,855	0	9,413,855	x
Financial instruments measured at fair value through profit or loss	134,997	0	134,997	x
Securities measured at fair value through other comprehensive income	4,768,541	0	4,768,541	x
Investment properties	54,435	54,435	0	0.0%
Intangible assets	306,452	288,340	18,112	6.3%
Property, plant and equipment	479,903	500,647	(20,744)	(4.1%)
Deferred tax assets	612,039	512,045	99,994	19.5%
Current tax assets	15,400	0	15,400	x
Other assets	514,294	394,809	119,485	30.3%
Total assets	71,355,941	72,749,259	(1,393,318)	(1.9%)

Loan portfolio

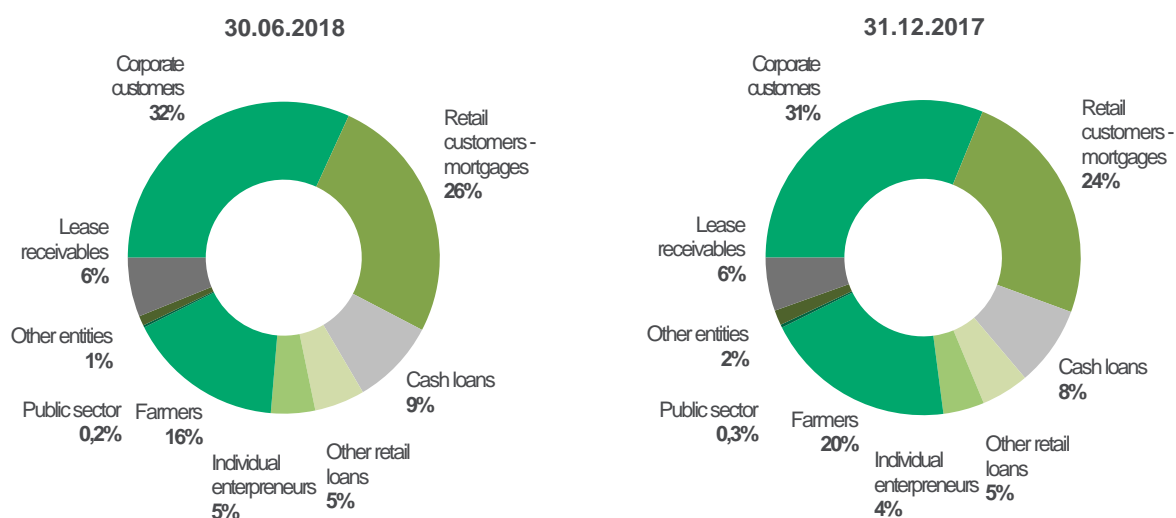
Structure and quality of the loan portfolio

At the end of June 2018, gross loans and advances to customers (measured at amortised cost and at fair value) amounted to PLN 56,205,063 thousand and increased by PLN 452,715 thousand (0.8%) as compared to the end of 2017. The increase occurred despite the sale of the retail and SME loan portfolio in the first half of 2018.

Table 15. Loan portfolio structure (measured at amortised cost)

in PLN '000	30.06.2018		31.12.2017	
	in PLN '000	share %	in PLN '000	share %
Gross loans and advances	53,444,089	100.0%	55,752,348	100.0%
Corporate customers	17,015,138	31.8%	17,373,879	31.2%
Retail customers – mortgage loans	13,807,851	25.8%	13,628,114	24.4%
– in PLN	8,376,180	15.7%	8,209,418	14.7%
– in foreign currencies	5,431,671	10.2%	5,418,696	9.7%
Cash loans	4,742,795	8.9%	4,575,410	8.2%
Other retail loans	2,781,013	5.2%	2,735,532	4.9%
Individual entrepreneurs	2,446,989	4.6%	2,354,470	4.2%
Farmers	8,707,426	16.3%	11,004,011	19.7%
Public sector	123,831	0.2%	172,173	0.3%
Other entities	543,646	1.0%	861,240	1.5%
Lease receivables	3,275,400	6.1%	3,047,519	5.5%

Graph 9. Structure of gross loans and advances (measured at amortised cost)



Within the portfolio measured at amortised cost, the share of loans and advances granted to enterprises (PLN 17,015,138 thousand at the end of June 2018) increased by 0.6 p.p. and amounts to 31.8% of the gross loan portfolio. Mortgage loans (PLN 13,807,851 thousand) amount to 25.8% of the loan portfolio volume (increase by 1,4 p.p. in comparison to the end of 2017). The third largest group are loans granted to farmers (PLN 8,707,426 thousand) despite the decrease of their share in the entire portfolio by 3.4 p.p., resulting in 16.3% at the end of June 2018.

Table 16. Quality of the loan portfolio (measured at amortised cost)

in PLN '000	30.06.2018			31.12.2017		
	Gross total	including: impaired	share %	Gross total	including: impaired	share %
Gross loans and advances	53,444,089	3,469,223	6.5%	55,752,348	4,122,924	7.4%
Retail customers – mortgage loans	13,807,851	547,801	4.0%	13,628,114	612,001	4.5%
– in PLN	8,376,180	192,410	2.3%	8,209,418	201,433	2.5%
– in foreign currencies	5,431,671	355,391	6.5%	5,418,696	410,568	7.6%
Cash loans	4,742,795	457,858	9.7%	4,575,410	524,805	11.5%
Other retail loans	2,781,013	163,255	5.9%	2,735,532	173,606	6.3%
Farmers	8,707,426	531,496	6.1%	11,004,011	616,591	5.6%
Institutional entrepreneurs, excluding farmers	20,129,604	1,659,041	8.2%	20,761,762	2,086,456	10.0%
Lease receivables	3,275,400	109,772	3.4%	3,047,519	109,465	3.6%

The share of impaired exposures in gross loans and advances to customers (measured at amortised cost) improved to 6.5% at the end of June 2018 vs. 7.4% at the end of 2017.

Table 17. Loan portfolio quality ratios (measured at amortised cost)

in PLN '000	30.06.2018	31.12.2017	change	
			in PLN '000	share %
Total gross loans and advances to customers	53,444,089	55,752,348	(2,308,259)	(4.1%)
Impairment allowances	(2,823,437)	(2,784,780)	(38,657)	1.4%
Total net loans and advances to customers	50,620,652,	52,967,568,	(2,346,916)	(4.4%)
Exposures without impairment triggers				
Gross balance sheet exposure	49,974,866	51,629,424	(1,654,558)	(3.2%)
IBNR provision	(712,856)	(290,118)	(422,738)	145.7%
Net balance sheet exposure	49,262,010,	51,339,306,	(2,077,296)	(4.0%)
Impaired exposures				
Gross balance sheet exposure	3,469,223	4,122,924,	(653,701)	(15.9%)
Impairment allowance	(2,110,581)	(2,494,662)	384,081	(15.4%)
Net balance sheet exposure	1,358,642	1,628,262	(269,620)	(16.6%)
Ratios				
Share of impaired exposures in gross portfolio	6.5%	7.4%		(0.9 p.p.)
Coverage with impairment allowances	(60.8%)	(60.5%)		(0.3 p.p.)

In December 2017, the Bank performed a securitisation transaction on the portfolio of cash and car loans. The transaction is a traditional securitisation involving the transfer of ownership of the securitised receivables to SPV (BGŻ 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 securitised assets and received a loan of PLN 119,621 thousand, which was secured by a registered pledge on the rights to cash flows from securitised assets.

As a result of the securitisation, the Bank obtained financing in return for the transfer of rights to future cash flows resulting from the securitised 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 primary benefit of the performed transaction is a positive impact on capital adequacy ratios, improvement of liquidity and diversification of financing sources.

In the light of the provisions of IAS 39 and IFRS 9, the contractual terms of the securitisation do not fulfil the conditions for derecognition of securitised assets. In connection with the above, the Bank recognises securitised assets in "Loans and advances to customers" as at 30 June 2018 at net value of PLN 2,137,558 thousand. At the same time, the Bank recognises a liability due to cash flows from securitisations in "Liabilities due to customers" in the amount equal to PLN 2,300,471 thousand as at 30 June 2018. As at 30 June 2018, the Bank held receivables due to settlements with a securitisation company in the amount of PLN 111,207 thousand. These receivables are included in "Other assets".

Liabilities and equity

As at the end of June 2018, the Group's total liabilities amounted to PLN 64,945,636 thousand and were lower by PLN 1,244,160 thousand (1.9%) as compared to the end of 2017.

Table 18. Liabilities and equity

in PLN '000	30.06.2018	31.12.2017	change	
			in PLN '000	share %
Amounts due to banks	4,550,137	3,891,235	658,902	16.9%
Differences from hedge accounting regarding the fair value of hedged items	7,948	(2,992)	10,940	(365.6%)
Derivative financial instruments	432,470	427,710	4,760	1.1%
Amounts due to customers	54,012,858	56,328,897	(2,316,039)	(4.1%)
Securities issued	2,181,744	2,471,966	(290,222)	(11.7%)
Subordinated liabilities	1,706,237	1,645,102	61,135	3.7%
Other liabilities	1,908,356	1,225,323	683,033	55.7%
Current income tax liabilities	18,018	117,699	(99,681)	(84.7%)
Deferred tax liability	8,026	8,003	23	0.3%
Provisions	119,842	76,853	42,989	55.9%
Liabilities, total	64,945,636	66,189,796	(1,244,160)	(1.9%)
Share capital	84,238	84,238	0	0.0%
Supplementary capital	5,127,086	5,127,086	0	0.0%
Other reserve capital	1,208,018	909,629	298,389	32.8%
Revaluation reserve	122,257	141,988	(19,731)	(13.9%)
Retained earnings	(131,294)	296,522	(427,816)	(144.3%)
retained profit	(319,895)	16,815	(336,710)	(2 002.4%)
net profit for the period	188,601	279,707	(91,106)	(32.6%)
Total equity	6,410,305	6,559,463	(149,158)	(2.3%)
Total liabilities and equity	71,355,941	72,749,259	(1,393,318)	(1.9%)

Within the analysed period, the share of liabilities in the total of liabilities and equity remained unchanged as compared to the end of December 2017 and amounted to 91.0%. The main change in the structure of liabilities at the end of the first half of 2018 was the decrease in the share of amounts due to customers and due to the issue of securities, accompanied by an increase in amounts due to banks and other liabilities. The item "Other liabilities" amounts to PLN 799,929 thousand as at 30 June 2018, due to the issue of shares.

At the end of June 2018, amounts due to customers decreased by PLN 2,316,039 thousand, i.e. by 4.1%, as compared to the end of December 2017 and amounted to PLN 54,012,858 thousand. Their share in total liabilities decreased to 83.2% as compared to 85.1% at the end of 2017.

The decrease of liabilities from the issue of debt securities is related to the redemption of certificates of deposits issued on the basis of contracts from March 2008, with a total nominal value of PLN 285,000 thousand in the first quarter of 2018. This item also includes bonds, amounting to PLN 2,180,850 thousand (with an initial maturity date of 27 April 2032), issued in December 2017 by SPV, as a result of the securitisation transaction on the consumer loan portfolio, performed by the Bank. The repayment of bonds is secured by receivables from loans and advances subject to securitisation.

In the first half of 2018, there was, however, an increase in amounts due to banks, which resulted in an increase in their share in total liabilities. At the end of June 2018 it amounted to 7.0%, compared to 5.9% at the end of 2017. The value of amounts due to banks as at the end of June 2018 amounted to PLN 4,550,137 thousand and was higher by PLN 658,902 thousand (i.e. by 16.9%) than at the end of 2017.

Amounts due to customers

At the end of June 2018 amounts due to customers reached PLN 54,012,858 thousand and fell by 4.1% as compared to the end of 2017. This change concerned primarily corporate clients, whose volume decreased by PLN 2,030,076 thousand, i.e. by 8.2% (PLN 1,225,710 thousand of the amount concerned term deposits). Simultaneously their share in the total amount due to clients decreased to 41.9% vs. 43.8% at the end of December 2017.

Customer deposits decreased by PLN 176,996 thousand, i.e. 0.6% and amount to 50.9% of the total amount due to customers as at the end of June 2018 (increase by 1.8 p.p. as compared to the end of 2017).

The increase in deposits from the public sector by PLN 159,333 thousand (mainly for term deposits) exerted a positive effect on liabilities to customers. The total value of deposits from the public sector thus increased to PLN 1,066,035 thousand, changing their share in total amounts due to customers from 1.6% at the end of December 2017 to 2.0% at the end of June 2018.

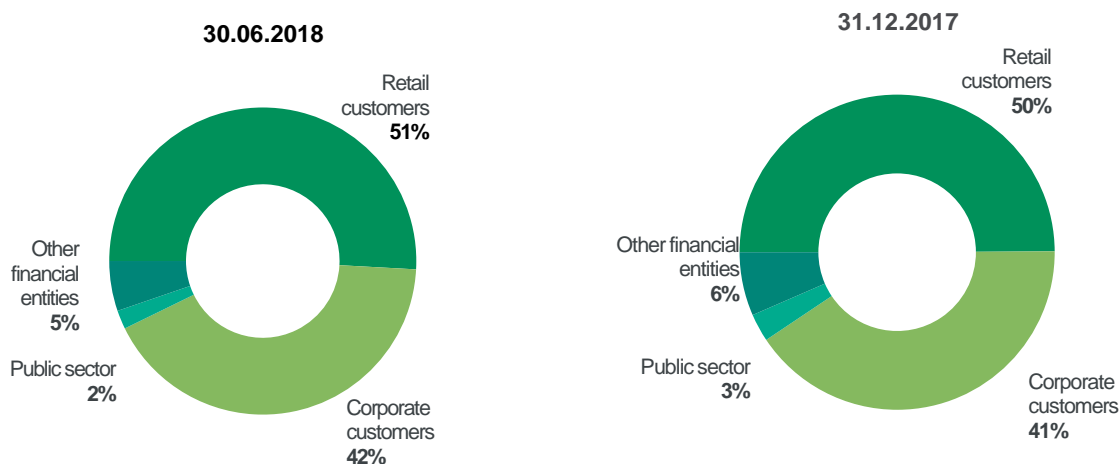
Table 19. Amounts due to customers by products

in PLN '000	30.06.2018		31.12.2017	
	in PLN '000	share %	in PLN '000	share %
Amounts due to customers	54,012,858	100.0%	56,328,897	100.0%
Current accounts	30,535,410	56.6%	30,334,883	53.8%
Term deposits	21,553,003	39.9%	24,033,484	42.7%
Loans and advances received	1,414,542	2.6%	1,475,684	2.6%
Other liabilities	509,903	0.9%	484,846	0.9%

The share of current accounts in the structure of amounts due to customers increased by 2.8 p.p. and amounted to 56.6%. As regards the value of funds deposited on current accounts, they increased by PLN 200,527 thousand, i.e. by 0.7%. This was a result of an increase in the individual clients segment (+7.9%) combined with a simultaneous decrease in current funds of corporate clients (-5.5%).

The share of term deposits in the structure of amounts due to customers decreased by 2.8 p.p. as compared to the end of 2017 and amounted to 39.9%. As regards the value, term deposits decreased by PLN 2,480,481 thousand, i.e. by 10.3%, as compared to the end of December 2017. The decreases concerned the segment of individual clients (shifting funds to current accounts) and the corporate clients segment. These declines were partially compensated by the increase in term deposit balances in the public sector clients segment.

Loans and advances received from other financial entities dropped by PLN 268,900 thousand, i.e. by 8.6% compared to December 2017.

Graph 10. Structure of amounts due to customers

Equity

As at the end of June 2018, the Group's equity amounted to PLN 6,410,305 thousand and was lower by PLN 149,158 thousand, i.e. by 2.3%, than at the end of 2017.

The change resulted mostly from the inclusion of the negative effect of IFRS 9 on previous years' results. It resulted in changed measurements of impairment losses on loans and advances by PLN 318,029 thousand and in an increase of other reserves. In accordance with the Resolution of the Ordinary General Meeting of Bank BGŻ BNP Paribas S.A. (18 May 2018), the Bank's net profit for 2017 in the amount of PLN 298,389 thousand was allocated to reserve capital.

9.4. Equity and capital ratios

As at 30 June 2018, the total capital ratio of the Group amounted to 13.79% and was by 0.04 p.p. higher than at the end of December 2017.

The consolidated Common Equity Tier 1 capital ratio (CET I) and the consolidated Tier 1 ratio of the Group were identical and amounted to 10.81% at the end of 2017.

As at 30 June 2018, total own funds increased by PLN 170,231 thousand as compared to 31 December 2017, primarily due to the inclusion of the Bank's net profit for the second half of 2017, in the amount of PLN 168,360 thousand, in accordance with the PFSA decision issued on 25 April 2018 (the Bank's net profit for the first half of 2017, in the amount of PLN 130,029 thousand, was included in the Bank's equity for the previous year, in accordance with the PFSA decision issued on 23 November 2017).

In accordance with the resolution of the Ordinary General Shareholder's Meeting of Bank BGŻ BNP Paribas of 18 May 2018, the Bank's entire profit for 2017, in the amount of PLN 298,389 thousand, was allocated to the reserve capital.

The total risk exposure as at 30 June 2018 amounted to PLN 57,028,035 thousand and increased by PLN 1,039,905 thousand as compared to 31 December 2017.

On 15 December 2017, the Bank received a recommendation from the Polish Financial Supervision Authority concerning the Group's maintenance of own funds necessary to cover an additional capital requirement at the level of 0.60 p.p. 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 0.45 p.p.) and at least in 56% of Common Equity Tier 1 capital (corresponding to 0.34 p.p.).

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 accordance with the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial sector as well as the Ordinance of the Ministry of Finance of 1 January 2018, the capital requirements pertaining to banks have been 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 minimal levels of capital ratios" obligatory for banks in 2018, published on 24 November 2017, the minimum capital ratios of Bank BGŻ BNP Paribas S.A. Capital Group (on a consolidated basis) from 1 January 2018 should be:

- 9.97% for the Common Equity Tier 1 ratio (CET I);
- 11.58% for Tier 1 capital ratio;
- 13.73% for the total capital ratio TCR.

Table 20. Equity and capital ratios of the Group

in PLN '000	30.06.2018	31.12.2017	change	
			in PLN '000	share %
Tier I capital				
– share capital	84,238	84,238	0	0.0%
– supplementary capital	3,272,501	3,272,501	0	0.0%
– reserve capital	2,435,450	2,137,873	297,577	13.9%
– general banking risk fund	627,154	627,154	0	0.0%
– intangible assets	(306,215)	(288,040)	(18,175)	6.3%
– other items of equity included in Tier I capital	50,041	220,174	(170,133)	(77.3%)
Total Tier I capital	6,163,169	6,053,900	109,269	1.8%
Tier II capital				
– subordinated liabilities classified as own funds	1,703,386	1,642,424	60,962	3.7%
Total own funds	7,866,555	7,696,324	170,231	2.2%
Risk exposure due to:				
– credit risk	51,741,359	50,910,787	830,572	1.6%
– market risk	384,156	207,215	113,941	42.2%
– operational risk	4,703,428	4,594,169	109,259	2.4%
– credit valuation adjustment	199,092	212,959	(13,867)	(6.5%)
Total risk exposure	57,028,035	55,988,130	1,039,905	1.9%
Capital ratios of the Group				
	30.06.2018	31.12.2017	change p.p.	
Total capital requirement (TCR)	13.79%	13.75%	0.04 p.p.	
Tier I ratio	10.81%	10.81%	0.00 p.p.	

In order to improve solvency ratios, the Management Board of the Bank decided to increase the share capital by issuing ordinary shares. The share issue, which followed PFSA consent (10 July 2018) to classify BGN BNP Paribas S.A. shares as Common Equity Tier 1 instruments, caused the share capital of the Bank to increase by PLN 13,300 thousand, while the Bank's supplementary capital increased by PLN 786,695 thousand.

Taking into account the higher level of Common Equity Tier 1 capital in the calculation of ratios as at 30 June 2018 would allow for levels of capital adequacy ratios above regulatory requirements:

On a consolidated basis:

- Common Equity Tier I ratio (CET I) = 12.21%;
- Tier I capital ratio = 12.21%;
- Total capital ratio = 15.20%.

On a separated basis:

- Common Equity Tier I ratio (CET I) = 12.54%;
- Tier I capital ratio = 12.54%;
- Total capital ratio = 15.59%.

On 12 December 2017, the European Parliament and the EU Council adopted Regulation No. 2017/2395 amending 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 EU Council believed 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 Group, after having analysed 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 would decrease the total capital ratio of the Group by 52 basis points.

9.5. Financial ratios

The return on equity (ROE) of the Group, calculated after excluding the impact of integration costs, was 5.9% in the first half of 2018. The increase in comparison to the first half of 2017 is caused primarily by a decrease in risk costs. The return rate on assets (ROA), calculated after excluding the impact of integration costs, was 0.5% and increased by 0.1 p.p. as compared to the first half of 2017.

The change in the cost to income ratio (excluding integration costs) is at the level of 63.5%, which is 1.2 p.p. higher compared to 62.3% at the end of the first half of 2017. The cause of the slight increase of the ratio was the decrease of investment and dividend income as compared to the first half of 2017.

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 S.A., BNP Paribas Polska SA and Sygma Bank Polska S.A., as well as the core activities of Raiffeisen Bank Polska S.A.), aims to provide additional information to assess the current potential of the merged banks.

Net interest margin, calculated in relation to the average value of assets was at the level of 2.6% and did not change in comparison to the level calculated at the end of the first half of 2017.

The risk-cost ratio decreased compared to the level recorded in the first half of 2017 by 0.2 p.p. and amounted to 0.4%.

The value of the ratio constituting the relation of net loans and advances to deposits improved compared to the end of the first half of 2017 due to the decrease in the value of net loans connected with the sale and deconsolidation of BGŻ BNP Paribas Faktoring Sp. z o.o., as well as a decrease in the value of the foreign currency mortgage loan portfolio resulting from the portfolio amortization and strengthening of the Polish zloty against the Swiss franc.

Table 21. Financial ratios

	30.06.2018	31.12.2017	30.06.2017	change y/y in p.p.
Return on equity ⁽¹⁾	5.9%*	4.8%*	4.4%*	1.5
Return on assets ⁽²⁾	0.5%*	0.4%*	0.4%*	0.1
Net interest margin ⁽³⁾	2.6%*	2.7%	2.6%	0.0
Cost/Income ⁽⁴⁾	63.5%*	61.0%*	62.3%*	1.2
Cost of credit risk ⁽⁵⁾	(0.4%)	(0.6%)	(0.6%)	(0.2)
Net loans and advances/Deposits ⁽⁶⁾	101.3%	96.6%	105.1%	(3.8)
Gross loans and advances/Total source of funding ⁽⁷⁾	90.5%	87.2%	94.1%	(3.6)

* 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 (annualized ratio).

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

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

(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 (annualized ratio).

(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.

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

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

- **The economic situation in Poland.** The published data on economic activity for the period between April-June indicate that in the second quarter of 2018 GDP growth was maintained at around 5% y/y, a level similar to the previous quarter (5.2% y/y). In the first quarter of 2018, the growth was based on domestic demand, maintained solid consumption growth and a higher increase in investment than in the previous quarter. However, deteriorating OECD leading indicators, weaker Eurozone data and growing supply constraints suggest that GDP growth has peaked and may slow down in the coming quarters.
- **The situation on the domestic labour market.** The unemployment rate reaches another historical minimum. At the end of the first half of 2018 it was 6.1%, after eliminating the impact of seasonal factors. The impact of unfavourable demographic trends and lowering the retirement age on the number of economically active people was limited in the previous quarters by a significant influx of workers from the Ukraine. However, already in the first half of 2018, the annual change in the number of economically active people was close to 0%. In the short-term, a reduction in labour supply may increase wage pressure, while in the medium and long term, reduce the potential and real GDP growth.
- **Changes in inflation.** In the second quarter of 2018 inflation accelerated, reaching 2% y/y in June. This was mainly due to the increase in fuel prices, reflecting higher global oil prices and weakening of the Polish zloty. This caused the Monetary Policy Council to keep interest rates unchanged. After MPC meetings in recent months, NBP President Adam Glapiński commented that interest rates may remain unchanged until the end of 2020. Milder rhetoric was aimed at lowering market expectations regarding the NBP interest rates. The opposite direction may only be the effect of a significant increase in wage pressure and its greater reflection in inflation, in the conditions of monetary policy tightening in the US and announcements of the ECB's asset purchase program expiring.
- **Increased imbalance in public finances.** Despite high economic activity and improvement of tax collection, which both favoured the reduction of the general government deficit from 2.3% of GDP in 2016 to 1.7% of GDP in 2017, according to the European Commission in 2017, the structural deficit was around 2% of GDP, and in subsequent years, its deepening is forecasted. Prime Minister Mateusz Morawiecki announced the introduction of new activities in the fiscal policy, but their effect should be insignificant (increase in the deficit by approx. 0.25% of GDP in 2018 and 0.4% of GDP in 2019). The growing forecasted structural deficit and increasing expenditures / decreasing the public finance sector revenues make them susceptible to a possible stronger slowdown in economic activity.
- **Potential weakening of Polish zloty exchange rate against key currencies,** in response to a possible increase in volatility and risk aversion on financial markets. Another risk would be a potential significant strengthening of the Polish zloty exchange rate against key currencies. In the light of increasing domestic labour costs, it could reduce the competitiveness of Polish exports and, consequently, deteriorate the balance of trade and current account, as well as weaken the rate of economic growth. BNP Paribas estimates that at the end of 2018 the EUR/PLN exchange rate will be similar to the current one, i.e. it will be c. 4.27.
- **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).
- **The global trade war seems to be a major external risk factor.** Currently, its major front is the China-USA dispute. Its escalation might slow down economic growth in Poland.
- **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 2.8 billion in the first year.
- **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 accounts. 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 the Bank's current customers, provided they close their previous bank accounts.

11. OPERATIONS OF BANK BGŻ BNP PARIBAS S.A. CAPITAL GROUP IN THE FIRST HALF OF 2018

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

- **Retail and Business Banking** providing comprehensive services to
 - retail customers and
 - business customers (microenterprises), including:
 - ✓ entrepreneurs without full financial reporting (in accordance with regulations in the Accounting Act) and whose annual net income for the preceding financial year is below EUR 2 million;
 - ✓ flat owners associations;
 - ✓ non-profit organisations;
 - ✓ individual farmers.
- The Bank contains a separate **Personal Finance Banking** branch, which is responsible, in particular, for the development of the product offering and for the 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:
 - (non-agro) institutional customers with a net annual income for the preceding financial year not exceeding PLN 60 million and the Bank's credit exposure not exceeding PLN 25 million;
 - farmers without full financial reporting and for whom the Bank's credit exposure is PLN 3-25 million;
 - Agro entrepreneurs with full financial reporting and sales income for the preceding financial year below PLN 60 million and the Bank's credit exposure lower than PLN 25 million, as well as agricultural producer groups regardless of the sales income and the Bank's credit exposure level.
- **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** performed mainly through the ALM Treasury.

11.1. Branches and ATM network

Branches

As at 30 June 2018, the Bank had 472 retail and business banking branches. The branch network is supported by one external cash desk handling both cash and cashless transactions and seven Private Banking Centres. The retail network is further supported by 101 Customer Service Points.

In the first half of 2018, 4 branches and 1 external cash desk were liquidated, 1 branch was relocated.

Banking products and services dedicated to corporate customers were sold by 44 SME Business Centres, operating within 6 SME Banking Regional Branches and by 8 Corporate Business Centres.

ATM and Cash Deposit Machine (CDM) Network

As at the end of June 2018, the Bank operated 154 cash deposit machines (CDMs) and 368 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.

11.2. Alternative distribution channels

Online and mobile banking

In the first half of 2018 the Bank recorded an increase in the number of customers with access to online and mobile banking services, as well as an increase in the number of customers who actively use such services. There has also been an increase in the number of operations performed through the BiznesPI@net system.

Table 22. Information on the PI@net/BiznesPI@net system

Specification	Name of the system	30.06.2018	31.12.2017
Number of customers with access	PI@net	1,251,373	1,131,751
	BiznesPI@net	183,063	154,134
Number of active users	PI@net	514,659	503,364
	BiznesPI@net	112,149	107,323
Average monthly number of transactions	PI@net	1,984,001	2,011,233
	BiznesPI@net	2,950,662	2,890,928
Number of customers with Mobile access	Mobile PI@net/GOmobile	116,023	82,000
	Mobile BiznesPI@net	4,807	3,325

Changes in the online banking offer introduced in the first half of 2018:

PI@net:

- launch of a PI@net version dedicated to Carrefour customers;
- changes in the functioning of the Card module, related to the migration of cards to the Visiona system;
- adaptation of the PI@net system to GDP regulations;
- improvement of security procedures regarding telephone number changes involving the use of SMS authorisation codes.

GOmobile:

- launch of the Carrefour Mobile app;
- new features: Social Insurance Institution (ZUS) Transfer, card provisioning, QR Code Transfer, sharing the account number;
- the possibility of using the history of operations for current transfers - Repeat and Reply;
- extension of the application for customers.

BiznesPI@net:

- implementation of the User Management feature which allows an authorised user ("User Administrator") to manage users and accounts. To this end, the system introduced a number of new permissions for options in the "Management of user permissions" panel and a new approval scheme for "Company management" was added;
- functional changes in the Card module related to the migration of cards to the Visiona system;
- introduction of VAT account preview and the addition of a new type of transfer as part of the Split Payment Mechanism - Split Payment;
- balance display feature for Multi-purpose Premium Credit Line (MOL) accounts;
- addition of a new feature for bank statement export in the Export-XML Bank Statement module, in accordance with ISO 20022;
- introduction of a new type of notification about mass payment reports, available in the Shared Files module.
- extension of the correspondence module to include the possibility of sending notifications/alerts with attachments for selected users / companies, based on the file with EQ customer numbers.

Changes in the Bank's offer were accompanied by ongoing updates to the online banking system.

Bank cards

As regards the issuing and servicing of payment cards, Bank BGŻ BNP Paribas S.A. cooperates with organisations such as MasterCard and Visa. The card portfolio includes debit, credit and deferred payment cards. As at 30 June 2018, the number of cards issued amounted to 1,338.3 thousand, which was 68.1 thousand less than the year before. The reported decrease relates primarily to credit card retail customers.

Table 23. Number of bank cards issued by Bank BGŻ BNP Paribas S.A.

thousand	30.06.2018	30.06.2017	change y/y	
			thousand	share %
Debit cards – retail customers	758.1	704.2	53.9	7.7%
Credit cards – retail customers	479.4	606.9	(127.5)	(21.0%)
Debit cards – business	87.6	78.9	8.7	11.0%
Deferred payments cards – business	6.1	6.1	0.0	0.0%
Credit cards – business	1.2	1.0	0.2	20.0%
Prepaid cards	5.9	9.2	(3.3)	(35.9%)
Total number of cards issued	1,338.3	1,406.4	(68.1)	(4.8%)

Cooperation with intermediaries

At the end of the first half of 2018, the Bank actively cooperated with 12 network intermediaries, such as: Open Finance, Notus, Expander, and two 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 — customers investing in the Bank, or through its services, assets of at least PLN 100 thousand or those whose monthly account receipts are at least PLN 7,500;
 - Private Banking — customers investing assets of at least PLN 1 million through the Bank;
- Business Customers (micro-enterprises):
 - Entrepreneurs:
 - with limited financial reporting, in accordance with the principles specified in the Accounting Act and an annual net income for the previous financial year below EUR 2 million;
 - Agro entrepreneurs with limited financial reporting conducting activities classified according to selected Polish Classification of Activities (PKD 2007) codes;
 - Professionals: entrepreneurs with limited financial reporting, in conformity with the principles specified in the Accounting Act, and following occupations defined in a separate document;
 - Farmers, in case of whom the Bank's credit exposure is between PLN 3 million and PLN 4 million and whose collateral in arable lands covers at least 50% of credit exposure.
 - 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:
 - PLN 0 for the account;
 - PLN 0 for management of debit cards;
 - PLN 0 for using the Bank's ATMs as well as Planet Cash ATMs (over 3700 ATMs in Poland);
 - PLN 0 for using ATMs belonging to the BNP Paribas Group and Global Alliance abroad (52 thousand ATMs in more than 50 countries).
- „Konto Maksymalne” (Maximum Account), offering:
 - PLN 0 for the account;
 - 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);
 - 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.:
 - PLN 0 for the account
 - PLN 0 for a two-currency card,
 - PLN 0 for cash deposits and withdrawals as well as for domestic transfers, ordered at branches
 - PLN 0 for cash withdrawals from all ATMs in Poland and abroad
 - access to a dedicated offer of other products.

„Konto Optymalne” and „Konto Maksymalne” are offered both at branches and online.

As concerns the management of the retail and business banking product offer for the first half of 2018, the Bank focused on improving the efficiency of operations and the profitability of products. All business processes were fully standardised, as were regulations and price lists. In April personal account customers were informed about price changes, effective from 22 June 2018.

In the first quarter of 2018, the Bank promoted a personal account for new customers by emphasising the functionality of GOMobile payments and promoting a debit card registered in Google Pay. As part of the "Mobile Premium 2" promotion, customers are rewarded for 12 months with a bonus of PLN 1 for each GOMobile and Google Pay transaction (maximum PLN 25 per month).

From 11 May to 30 June, the sale of personal accounts was supported by the advertising campaign "Shopping with an account" conducted on television, in cinemas and on online. As part of this campaign, while opening "Konto Optymalne" for new customers, they were granted free of charge account maintenance, card servicing and use of ATMs of the Bank and Planet Cash ATMs. As part of the "Zakupy z kontem" offer, newly-acquired account holders were granted with shopping vouchers at Decathlon, H&M and Biedronka stores.

In June 2018 an offer for underage customers was launched to promote debit card payments. Each underage customer who, together with a legal guardian (usually a parent), opens an account at the Bank and makes 5 non-cash transactions with a debit card will receive a bonus of 25 PLN for a period of 6 consecutive months.

On 19 June 2018, the Bank provided the Apple Pay service for users with payment cards. The bank was among the first eight banks which introduced Apple Pay in Poland. The service includes all MasterCard debit, credit and charge cards for both retail and business customers. Thanks to the Apple Pay service, it is possible to pay by phone wherever contactless payments are accepted.

Simultaneously with the introduction of **Apple Pay** service, a promotion encouraging customers to use the new service was launched. The promotion lasted from 19 June to 31 July 2018. After registering the card with Apple Pay and three transactions within 14 days of adding the card, customers could receive a PLN 50 voucher for Allegro. If they made another 5 transactions within the next month, they gained another voucher worth PLN 50.

In the first half of 2018, the Bank continued to sell personal accounts on preferential terms as part of the „*Program Partnerski*” offer addressed to employees of the Bank's customers from the Corporate and SME segments. The Program also includes an overdraft loan with ROR, credit cards, cash loans and mortgages.

Additionally, the Bank continued to introduce cash deposit machines (CDMs) at its branches. These enable customers to make fast cash deposits, and the service is free of charge. In addition to cash deposits, the devices handle cash withdrawals, including contactless ones. 154 CDMs were installed by the end of the first half of 2018.

The **offer for Ukrainian customers**, launched in the first half of the previous year, was one of the most important goals as regards the Bank's sales activity in the first half of 2018. The offer is supported by a series of tools which help Ukrainians set up an account and easily gain access to the Polish mobile network (cooperation with a telecommunications company). The Bank's website, advertising materials and manuals 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 offer addressed to Business Customers is concerned, the Bank provides products which satisfy various customer needs relating to the funding of their operations, transactional banking and depositing funds.

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 with full financial reporting: the Biznes Lider Premium package;
- for farmers: the Agro Lider package;
- for non profit organisations: the Społeczny 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 the usage of their current accounts and taking care of settlements related to their business operations. The specified range of products and services is covered by a single fee.

In February 2018, as part of the partnership with Evalon, the Bank joined the pilot program of Support for Non-Cash Transactions "Polska Bezgotówkowa" implemented by the Polska Bezgotówkowa Foundation. The initiative was addressed to micro- and small entrepreneurs who intend to start accepting card payments for their products and services.

Enterprises which qualified for the "Polska Bezgotówkowa" program were exempted from all fees related to using the terminal for the first 12 months. If they applied for a terminal through, i.a., Bank BGŻ BNP Paribas, they were also subject to preferential rates in the second year of the contract. Additionally, by the end of March 2018, every entrepreneur who opened an account at Bank BGŻ BNP Paribas, activated a debit card and signed a contract for a terminal, received a Sodexo voucher for PLN 300.

In the first half of 2018, amendments were introduced to the Act of 15 December 2017 pertaining to tax on goods and services and certain other acts. In connection with the changes, the Bank worked related to the implementation of the Split Payment Mechanism, which was to occur on 1 July 2018..

The split payment mechanism is aimed at increasing the transparency of transactions related to payments for goods and services subject to VAT. In Split Payment, a VAT invoice payment is delivered to two separate bank accounts of the recipient: the net amount to the settlement account (current account), and the VAT amount to a special VAT account opened by the Bank for the holder.

Bank BGŻ BNP Paribas S.A. will open one VAT account for each of an entrepreneur's PLN settlement accounts (at the customer's request, the Bank may open more VAT accounts and combine them with the entrepreneur's settlement accounts). The VAT account is a special bank account offered by the Bank free of charge. Funds accumulated on this account may be used exclusively for the purposes related to VAT settlements. Using the split payment mechanism is voluntary - the payer (the buyer of the goods or services) decides about the payment method for the VAT invoice. Split Payments can only be carried out in PLN.

With a view to strengthen its relationships with customers, in 2018 the Bank actively advertised its leading products, i.e. the overdraft loan 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.

Between January and mid-May 2018, a promotional campaign was launched for products dedicated to the Agro segment, such as working capital loans, preferential/EU/investment loans. The aim was to strengthen the Bank's position within the segment. The Bank's Agro sector products were advertised in industry magazines, online, on posters and in brochures.

With new companies in mind, the Bank prepared a product offer tailored to the needs of running a company. On 12 March 2018 **an ecosystem of services** addressed to new companies was launched. Customers receive the Bank's support already at the stage of starting a new company. The support continues in day-to-day issues related to the running of a business. Beginner entrepreneurs can benefit from tailor-made products which allow for the ongoing financing of investments from the very first day, keeping an account and online accounting, financing invoices and renting innovative office space. The offer includes:

- **Good Start Loan**

The Good Start Loan offers the Bank's financing for a new company from the first day of operation. Beginner entrepreneurs can get a loan of PLN 30 thousand without collateral. The loan can be used by persons running a business, who were employed in the same economic sector in the period preceding the start of their activity and signed a contract of employment or order contracts. The offer is also granted to professionals from the medical industry.

- **Good Start Leader Package**

The account is addressed to businesses created within the past 6 months, with limited financial reporting. The customers receive a current account, the possibility of making deposits in a selected branch of the Bank and internet transfers - all free of charge. The entrepreneur can also make savings when it comes to costs associated with making internet transfers to the Social Insurance Institution (ZUS) and the Tax Office (US). Customers also have access to the mobile payment terminal (mPOS) integrated with the bank account. A company which decides to introduce the device is not obliged to pay a subscription fee or sign a long-term contract, but gains a sales opportunity. The customer only need for cover the cost of purchasing the terminal.

- **Ecosystem for new businesses in cooperation with fintechs**

With the aim of creating a comprehensive offer for newly established companies, the Bank commenced cooperation with additional two start-ups.

Due to cooperation with the Polish cyberProductivity company, the Bank provided its clients with a free platform for independent accounting and issuing invoices - eMikroksięgowość. The entrepreneur has constant access to accounting data. In addition, the tool reminds the customer of transfers and payments and is helpful in preparing declarations for government offices.

Another service for entrepreneurs, introduced by the Bank in cooperation with the Finiata fintech, is the possibility of invoice financing - eMikro faktoring, owing to which the Bank's customer can change invoices into cash without waiting for the contractor's payment. This improves the financial liquidity of the company.

Additionally, in cooperation with BNP Paribas Real Estate, the Bank offers beginner entrepreneurs advice related to renting coworking space, instant office, as well as providing a virtual address as well as support in negotiations of prices on behalf of the company. The solution is tailored to the client's capabilities and needs. The Bank's customers can take advantage of rental opportunities in several Polish cities (Warsaw, Cracow, Katowice, Trójmiasto, Łódź, Wrocław, Poznań).

Alongside the extensive product offer, the Bank also offers assistance in starting a company. Beginner entrepreneurs can call a hotline which offers help when it comes to completing forms (including the Central Registration and Information on Business - CEIDG, and the Social Insurance Institution - ZUS) as well consultations as to the choice of a company's scope of operations.

The offer for new companies was accompanied by an advertising campaign, which included radio, Internet, social media, VOD and BTL materials.

In April and May 2018, the third 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 of emphasising the importance of "neighbourhood" businesses in local communities.

A special product offer was also prepared for small businesses this year: the Bank offered, i.a., an overdraft loan “Ekspres Linia” with a 0% commitment fee and a business account for new clients. The monthly fee for running a current account as part of the Biznes Lider Ekstra Package was PLN 0 for 12 months.

Additional support for the campaign partners and their offer from Bank BGŻ BNP Paribas was provided through:

- marketing materials that entrepreneurs could mark their stores or service points with and
- promoting the event “Let’s Support Neighbourhood Business” in the media.

This year, nearly 4,625 local businesses in more than 900 locations across Poland participated in the initiative. The “Neighbourhood Business Week” was the main point of the event and lasted from 28 May to 3 June. Once more, Robert Makłowicz was the ambassador of the campaign.

The “Let’s Support Neighbourhood Business” initiatives are an element of the Bank’s long-term strategy in the small enterprise segment, whereby the Bank partners with local enterprises and supports their business growth.

Deposits

- 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 the automatic saving of financial surpluses, with periodic interest rate promotions.

The Bank also introduces retention offers for PLN savings accounts.

- 4 types of deposits:
 - a. *PI@net Deposit* – available only through the PI@net online banking as well as Phone Centre 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.

The first half of 2018, much like the years 2015-2017, saw the NBP interest rates at a very low level. 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 and 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 for its Premium and Private Banking customers for selected maturities of the *Premium Deposit* and a promotional interest rate for the *Autooszczędzanie* account.

Customers’ interested in saving money for their retirement can take advantage of products offering tax benefits, such as the *Individual Retirement Account* (“*Indywidualne Konto Emerytalne*”, IKE), offered as a savings account or a retirement fund. Also available to them is the *Retirement Security Account* in the form of an investment fund.

Customers who expected profits higher than the interest on term deposits were offered a wide range of investment products in the first half of 2018, including:

- over 300 investment funds managed by 17 investment fund management companies, available through PI@net;
- 5 Portfolios - strategies based on BGŻ BNP Paribas FIO subfunds;
- Profit Plus term deposits linked to investment funds;
- *Indywidualne Konto Emerytalne* and *Indywidualne Konto Zabezpieczenia Emerytalnego* in the form of an investment fund.

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 seven years it has been at the top of ranking in terms of the interest rate on savings accounts and term deposits. BGŻOptima offers the "Lokata Bezkarne" and "Lokata Bezkompromisowa" term deposits to new customers. All existing customers can benefit from periodic promotions for new funds on Smart savings accounts, as well as from standard and flexible term deposits for all funds accumulated on BGŻOptima accounts.

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 as to methods 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 finance and savings.

The volume of BGŻOptima deposits at the end of June 2018 totalled PLN 7.7 billion. The average balance of assets accumulated in BGŻOptima clients' funds at the same time amounted to PLN 266 million.

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).

To address the needs of its customers, in 2018 the Bank continued to offer 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.

As part of support for clients in financial difficulties and those with mortgage loans, the Bank continues the program of governmental support financed from the Borrowers Support Fund.

For customers who expect comprehensive solutions, the Bank continues the special offer for a mortgage loan combined with a personal account, which also includes 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 customer's income.

With the aim of ensuring top quality service for 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 two editions of a widely available pricing offer which enabled customers to obtain revolving loans with a commitment fee of PLN 0. The offer lasted from 2 January till 30 March 2018 and from 24 April until 31 August 2018.

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 customers.

In the first half of 2018, the Bank added a consolidation loan to its offer for the selected customers of the segment.

Another initiative, implemented to make the loan offering dedicated to micro-enterprises more attractive, was the extension of the Bank's offer with regard to financing for beginner businesses "Good Start Loan". The solution was implemented in the Rat@tu system which is used for handling loan products offered to this segment.

Additionally, micro-enterprises may use EU loans, subsidised loans, guarantees and currency risk management products.

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

Cooperation was commenced with the Finiata company with regard to microfactoring services which supplement the Bank's offer in terms of business financing.

In the first half of 2018, work also continued to increase the automation of the credit processes for companies and farmers.

Bank guarantees and letters of credit

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

In the first half of 2018, the Bank issued 22 bank guarantees at the request of business customers with a total value of PLN 3.99 million.

Commercial volumes

As at 30 June 2018, Retail and Business Banking deposits on a consolidated level amounted to PLN 31,764 million and were lower by PLN 126 million, i.e. 0.4% than at the end of 2017. The decrease concerned funds on term deposits with simultaneous increases in other categories.

Table 24. Retail and Business Banking deposits and loans ³

in PLN '000	30.06.2018	31.12.2017	change y/y	
			PLN '000	share %
Current accounts	9,037,922	8,574,492	463,430	5%
Savings accounts	10,507,654	9,722,356	785,299	8%
Term deposits	11,777,443	13,161,069	(1,383,627)	(11%)
Overnight deposits	441,221	431,939	9,281	2%
Deposits	31,764,240	31,889,857	(125,617)	(0,4%)
Consumer loans	6,169,572	6,057,854	111,718	2%
Investment loans	5,076,043	5,323,214	(247,171)	(5%)
Overdrafts	3,218,638	3,172,353	46,284	1%
Mortgage loans	13,534,196	13,426,488	107,708	1%
Lease receivables	1,566,743	1,077,758	488,985	45%
Credit cards	581,813	658,410	(76,597)	(12%)
Short-term loans	439,407	331,562	107,845	33%
Other loans	37,418	41,455	(4,037)	(10%)
Net loans and advances	30,623,830	30,089,095	534,735	2%

³ 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. For the sake of comparability, the data as at 31 December 2017 were presented in accordance with the segmentation for 2018.

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 recognised as customer deposits. In addition, the balances exclude accrued interest before maturity.

As at 30 June 2018 the value of the loan portfolio in the Retail and Business Banking segment on a consolidated level amounted to PLN 30,624 million, i.e. 2% (+PLN 535 million) more than at the end of 2017. The increase concerned lease receivables (+PLN 489 million), consumer loans (+PLN 112 million) and short-term advances (+PLN 108 million).

In the analysed period, the volume of FX mortgage loans (withdrawn from the offer in 2008-2009) amounted to PLN 5,428 million, including loans granted in CHF which constituted 98.8% of this portfolio.

Gross income on banking activity – Retail and Business Banking

The gross profit in the Retail and Business Banking segment for the first half of 2018 amounted to PLN 39.8 million (compared to a PLN 1.1 million loss in the same period of 2017). The improved result was primarily due to the increase in revenues and a better net impairment result.

The income on banking activity of Retail and Business Banking in the first half of 2018 amounted to PLN 773.8 million and was by 3% higher compared to the first half of 2017. This result accounts for 57.6% of the total income on banking activity of the Group in the first half of 2018. Personal Finance generated 32.0% of the income on banking activity in this segment.

Table 25. Gross income on banking activity – Retail and Business Banking⁴

in PLN '000	6 months ended 30.06.2018	6 months ended 30.06.2017	change y/y	
			in PLN '000	share %
Interest income	598,605	587,268	11,337	2%
Fee and commission income	157,411	144,037	13,374	9%
Trading and other income	17,762	20,275	(2,513)	(12%)
Income on banking activity	773,777	751,580	22,197	3%
Net impairment losses	(62,738)	(110,414)	47,676	(43%)
Operating expenses and amortisation and depreciation	(459,629)	(423,521)	(36,108)	9%
Expense allocation	(158,529)	(163,730)	5,201	(3%)
Operating result	92,881	53,709	39,172	73%
Tax on financial institutions	(53,054)	(54,839)	1,785	(3%)
Gross profit of the segment	39,827	(1,131)	40,958	x

11.4. Personal Finance

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

- **cash loans** – distributed mainly through the branch network, the Contact Centre; Bank BGŻ BNP Paribas service points, service points operated by Carrefour and via the internet, including the Internet Banking System;
- **instalment purchase loans** – offered to retail customers in stores (including online stores) belonging to the Bank's commercial partners with whom the Bank has cooperation agreements in place;
- **car loans** – for new and used vehicles, initiated primarily by second-hand car dealerships and authorised car dealerships;
- **operating and finance leases** – also in cooperation with BNP Paribas Leasing Services Sp. z o.o., sold mainly by second-hand car dealerships and authorised car dealerships;

⁴ Information based on the segmentation note included in the Consolidated interim report of Bank BGŻ BNP Paribas S.A. Capital Group for the period of 6 months ended 30.06.2018

- **lease advance** – offered in cooperation with BNP Paribas Leasing Services Sp. z o.o., mainly by second-hand car dealerships and authorised car dealerships;
- **long-term vehicle rental** in cooperation with Arval Service Lease Polska Sp. z o.o. offered by selected authorised car dealers;
- **credit cards** – offered to customers by the Bank's branch network as well as the Bank's credit card desks located in shopping centres and by 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 with the option of receiving credit cards as part of the cross-selling process.

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

It also assumes responsibility for the following key processes:

- authorisation 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 the first half of 2018, the Bank launched the following products related to cash loans:

- new special offers, such as: an attractive interest rate of 4.40% offered in connection with a tv advertising campaign and the "Final Year without Interest" promotion, concerning loans for a term of over 24 months, in each sales channel;
- the possibility to apply for loans in Carrefour Finance Service Points;
- the possibility of completing a loan application process, started through the Contact Centre, online: via TeleOnline;
- the possibility of applying for a cash loan on a tablet, in the case of loans at Carrefour Finance Service Points;
- a change in terms of collateral for Cardif cash loan insurance;
- changes in the Contact Centre's loan documentation and sales scripts related to the GDPR;
- IT system updates to speed up the issuing of decisions concerning loans.

In the first half of 2018 the Bank also strove to make cash loans more accessible, i.a. through Mobile Online Banking.

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 thousand 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 provided by the Bank's commercial partners at a given time.

In the first half of 2018, the Bank successfully expanded the circle of its business partners (outsourcers) to companies selling photovoltaic systems and other renewable energy sources to individual customers.

A dedicated offer for Agro clients (individuals who finance purchases for the needs of their agricultural operations) was also introduced.

The bank offered new special offers to its individual clients in selected retail chains:

- interest-free loan with first instalment postponed by up to 6 months;
- first two instalments free for the customer.

Since October 2017, all commercial partners intermediating in the sale of instalment loans migrated to the Bank's front-end platform, Rat@tu.

Car loans

In the first half of 2018, the Bank introduced the following:

- a new special offer was implemented for car loans with obligatory life insurance;
- changes were made in the interest rate on loans for the purchase of used, 1-5 year Hyundai, Kia and Mitsubishi vehicles and at other dealerships;
- a new special offer was introduced for Mitsubishi, Kia, Hyundai, for the 2nd and 3rd quarter of 2018;
- a low rate-loan with repurchase guarantee for Mitsubishi was introduced;
- the Easy Move On loan was introduced for Hyundai Kona;
- the Total 0% loan was introduced for Hyundai Kona and i30;
- the availability of the Ratable app was extended to Hyundai and Kia dealerships.

Lease advance

In the first half of 2018, the Bank introduced the following into the leasing offer:

- changes to the special offer for Mitsubishi, Kia and Hyundai for the 2nd quarter of 2018;
- the availability of the Ratable app was extended to Hyundai and Kia dealerships.

Leasing

In addition to car loans, the Bank offers operational and financial leasing (including financial VAT Margin) in the amount of PLN 15 thousand (from PLN 5 thousand for new motorcycle dealerships) to PLN 500 thousand for new and used vehicles. Leasing is offered through a leasing company - BNP Paribas Leasing Services - for passenger cars, lorries up to 8 tons, buses, agricultural tractors, scooters, motorcycles and quads.

In the first half of 2018, the following were introduced into the car leasing offer:

- a new loan policy for leasing operations, for authorised dealerships;
- simplified procedures for companies with full financial reporting;
- financing for start-ups;
- spouse consent rendered unnecessary under certain conditions;
- the possibility of financing customers with a loss under certain conditions;
- a new price offer for selected authorised and used-car dealerships, with a variable margin depending on the customer's own resources;
- special offer for KIA Sportage, Sorento and Optima leasing;
- special offer for Mitsubishi ASX leasing;
- special offer with GAP (Guaranteed Asset Protection) insurance for selected authorised and used-car dealerships as well as brokers.

Long term vehicle rental

The product, offered in cooperation with Arval Service Lease Polska Sp. z o.o. is available to business customers through selected car dealerships (including Mitsubishi and KIA). The product is available for a term of 24 to 60 months, in the amount of PLN 20 thousand to PLN 500 thousand, for new passenger cars only.

In the first half of 2018, the Bank's sales of the long-term vehicle rental product in partnership with Arval totalled several million PLN.

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.

The Bank offers payment cards in all of its branches and 101 Customer Service Points located in shopping centres and retail chains cooperating with the Bank with respect to purchase financing. Another important element of the acquisition process is the 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 the option of receiving a credit card. The available limits range from PLN 2 thousand to PLN 6 thousand.

In the first half of 2018, 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 leading retail shops and leading industry brands.

The conducted credit card promotional campaigns in cooperation with the Empik retail chain and Carrefour.

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

The operations of the Brokerage Office of Bank BGŻ BNP Paribas focus on the provision of services to retail customers thus filling an important gap in the area of 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 include 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 recognised Polish and foreign investment fund management companies. As at the end of the first half of 2018, the Brokerage Office sold units in more than 300 funds managed by 17 investment fund management companies. As at the end of June 2018, the value of investment fund management company assets sold through Bank BGŻ BNP Paribas was PLN 2.82 billion.

Fee and commission income on sales of units in investment fund management companies (through the Bank's branches) amounted to PLN 17.71 million in the first half of 2018, compared to PLN 12.25 million in the first half of 2017. Brokerage fee and commission income in the first half of 2018 totalled PLN 14.00 million, compared to PLN 4.74 million in the first half of 2017. An important part of the income generated by the Brokerage Office were primary market sales of investment certificates, based on the valuation of stock market indices or specific listed companies. Revenues from this source in the first half of 2017 amounted to only PLN 1.27 million, revenues in the same period of 2018 amounted to PLN 11.85 million.

In the analysed period, the total fee and commission income of the Brokerage Office increased by PLN 14.72 million compared to the same period of 2017.

Table 26. Fee and commission income of the Bank's Brokerage Office

in PLN '000	6 months ended 30.06.2018	6 months ended 30.06.2017	change y/y	
			in PLN '000	Share %
Brokerage fees and commissions	14,006	4,740	9,266	195%
Fees on sales of units in investment funds	17,705	12,253	5,452	44%
Fee and commission income	31,711	16,993	14,718	87%

Table 27. Share of the Bank's Brokerage Office in WSE trading volume

		30.06.2018		30.06.2017	
		volume	share	volume	share
Shares	PLN million	689.50	0.34%	896.55	0.36%
Bonds	PLN million	28.57	2.02%	15.97	1.10%
Contracts	number	24,672	0.33%	38,732	0.50%
Investment certificates	PLN million	0.61	0.76%	0.77	1.99%
Options	number	5,318	1.99%	2,574	0.94%

11.6. SME Banking

The **SME Banking Segment** comprises customers with full financial reporting, prior year's net income under PLN 60 million and the Bank's credit exposure under PLN 25 million. Additionally, the SME segment includes individual farmers (with limited financial reporting), in the case of whom the Bank's exposure is between PLN 3 million and PLN 25 million.

The following subsegments constitute the SME segment:

- Individual farmers in the case of whom the Bank's exposure is between PLN 3 million and PLN 4 million and in whose case collateral in arable land covers less than 50% of credit exposure.
- The Agro SME sub-segment consists of customers with full financial reporting, prior year's net income not exceeding PLN 60 million and the Bank's credit exposure under PLN 25 million, including agricultural producer groups.
- The non-Agro SME subsegment comprises: (i) customers with full financial reporting, prior year's net income not exceeding PLN 60 million and the Bank's credit exposure below PLN 25 million; (ii) public finance institutions with a budget of up to PLN 60 million, subject to tender procedures or tender requests are also included.

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 the SME Farmer and SME Agro sub-segments. Additionally, customers may benefit from operation services provided by the retail branch network, as well as phone support offered by the Business Centre with regard to operations and information.

Product offer

The Bank offers a broad product range addressed to SME segment customers. The offer 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 for the 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 the 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, numerous parameters may be matched to individual customer needs.

Product offer for Agro sub-segment

The Bank has a comprehensive offer 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 collateralised 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.

Preferential loans are mostly utilised for the purchase of agricultural land, for the construction and modernisation of buildings, as well as the purchase of machinery and equipment and the establishment of perennial crops. This offer is dedicated not only to farmers, but also to companies from the agro-food processing sector.

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

Preferential loans

In February 2018 regulations were introduced pertaining to the extension of preferential loans for the recommencement of production in agricultural holdings and special departments of agricultural production which suffered losses caused by adverse weather phenomena (investment line K01, turnover line K02), namely:

„The loan may be extended within 12 months from the date on the assessment report issued by a committee appointed by the voivode ”- before the change it was 12 months from the date of loss estimation.

Special loan offer

The Bank's goal is to constantly strengthen its position within the segment of Agro farmers and companies. That is why, from the fourth quarter of 2017 until mid-May 2018, the Bank conducted a promotional campaign for products dedicated to this segment (including revolving, preferential, EU and investment loans). The Bank promoted products dedicated to the Agro sector in trade press, online, on posters and in brochures.

Process optimisation

One of the bank's important goals is to increase the automation of the loan process for companies and farmers. Throughout the first half of the year, the number of automatically generated contracts for various products increased and it became possible for them to be launched automatically.

Agro Hub

In April 2018, a new entity was created within the structure of the BNP Paribas group in Poland: the Agro Hub. It is an agro competence centre for banks and companies from the BNP Paribas group in Central and Eastern Europe as well as in Africa.

The primary objective of the Agro Hub is to support the BNPP group in terms of its cooperation with agro clients, with the use of well-tested, good practices. The selection of our Bank was motivated by the Bank's years of tradition and experience in servicing the agro-food sector in Poland.

The Agro Hub's tasks encompass:

- strengthening/building the position of an Agro-business leader in accordance with the CSR policy;
- providing cross-segment support for all group members;
- providing an all-finance model for all business lines within the group;
- Agro promotion.

The Agro Hub's tasks supporting Bank BGŻ BNP Paribas in Poland include:

- providing analyses of the agro-food industry: regular analyses, internal and external publications available to all members of the BGŻ BNP Paribas Group and/or to external customers;
- sales support and Agro consulting: specialist support, improving the Bank's image, building a networking platform, crisis management, etc.;
- cooperation with the Risk Department in the area of Risk and Collateral Policies as well assistance in the loan process;
- supporting and promoting Agro Innovations: cooperation with start-ups contributing to agricultural innovations;
- development of a product offer tailored to industry needs.

Business line development in the first half of 2018

In the first half of 2018 the SME segment saw a growth in new customer activity and in the number of cross-sell transactions. Moreover the volume of FX SPOT transactions also increased which reduced the effects of a decrease in the volume of transactions based on table rates.

The re-segmentation of customers with full financial reporting from the Micro-business line to SMEs and of individual farmers from SMEs to Micro, carried out in January 2018 allowed for:

- better customer service for clients with full financial reporting involving SME Advisors;
- better tailoring of the product offer to the specific needs of SME and Micro customers;
- easier access to the bank for the individual farmers segment thanks to a larger number of retail branches.

Since the beginning of the year, changes have been implemented which are aimed at increasing operational efficiency and the quality of customer service, including the following:

- a Business Service Center was launched - a modern service channel for the SME segment (dedicated remote consultants, a wide range of support);
- new features of the BiznesPI@anet platform have been introduced (e.g. user and authorisation management made available to the customer);
- further improvements were introduced in the front-end application (OKL) in order to optimise the process of opening business accounts for SME clients.

At the same time, the Bank adapted operational processes to new regulations, including:

- split payment: introduction of VAT accounts;
- implementation of customers' rights in connection with the EU Regulation on Data Protection Act.

Two series of workshops were organised for SME customers:

- Business Academy "Entrepreneur in a changing world": a series of meetings devoted to macroeconomic trends which are important from the point of view of SME companies (with the participation of professor Marek Belka), and workshops on the financing of companies. The meetings took place in Poznań, Warsaw, Kraków, Gdańsk, Katowice and Lublin, nearly 250 customers participated.
- "Split payment without secrets" meetings: the purpose of these was to prepare customers for changing regulations regarding Split Payment, i.e. issues related to the split payment mechanism, which may result in significant difficulties with regard to taxpayers' financial liquidity. The meetings were conducted jointly with the Grant Thornton consulting company in 12 Polish cities. Over 700 people from nearly 450 companies participated.

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, discounting of letter 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 the first half of 2018, the Bank issued 382 bank guarantees at the request of SME customers for a total value of PLN 61.09 million.

In the first half of 2018, the Bank opened 102 import letters of credit with a total value of PLN 19.11 million at the request of customers from this segment, and handled 33 export letters of credit with a total value of PLN 6.99 million issued by third-party banks.

Commercial volumes

As at 30 June 2018, SME Banking deposits on a consolidated level amounted to PLN 7,262 million and were PLN 125 million, i.e. 10% lower than at the end of 2017. In the period analysed, a decrease on the funds current and savings account balances occurred, while simultaneously term deposits and overnights increased.

As at 30 June 2018 the value of the loans and advances portfolio in the SME Banking on a consolidated level amounted to PLN 8,898 million, and was lower by 5% than at the end of 2017 and concerned primarily investment loans.

Table 28. Deposits and loans – SME Banking ⁵

in PLN '000	30.06.2018	31.12.2017	change y/y	
			in PLN '000	share %
Current accounts	5,124,632	5,315,720	(191,088)	(4%)
Savings accounts	286,394	300,225	(13,831)	(5%)
Term deposits	1,309,835	1,238,436	71,400	6%
Overnight deposits	540,954	532,467	8,487	2%
Accounts and deposits	7,261,816	7,386,848	(125,032)	(2%)
Consumer loans	968	738	229	31%
Investment loans	5,665,920	5,961,768	(295,848)	(5%)
Overdrafts	2,031,986	2,056,238	(24,252)	(1%)
Lease receivables	496,712	577,260	(80,549)	(14%)
Credit cards	940	904	35	4%
Short-term loans	701,758	814,159	(112,401)	(14%)
Net loans and advances	8,898,283	9,411,068	(512,785)	(5%)

Gross income: SME Banking segment

In the first half of 2018, the gross result of the SME segment was PLN 35.3 million, compared to a PLN 7.8 million loss in the same period of 2017. The improvement was mainly due to lower impairment losses, lower operating expenses and a higher interest income.

The income on SME banking activity in the first half of 2018 amounted to PLN 171.8 million and was similar to the result at the end of June 2018 (lower by 0.3%). This result constitutes 12.8% of the Group's total income on banking activity.

Table 29. Gross income: SME Banking segment ⁶

in PLN '000	6 months ended 30.06.2018	6 months ended 30.06.2017	change y/y	
			in PLN '000	share %
Interest income	124,259	115,162	9,097	8%
Fee and commission income	36,859	47,283	(10,424)	(22%)
Trading and other income	10,724	9,886	838	8%
Income on banking activity	171,841	172,331	(490)	0%
Impairment losses	(24,280)	(59,407)	35,127	(59%)
Operating expenses and amortisation and depreciation	(58,315)	(57,906)	(409)	1%
Expense allocation	(36,171)	(42,473)	6,302	(15%)
Operating result	53,074	12,664	40,410	319%
Tax on financial institutions	(17,755)	(20,437)	2,682	(13%)
Gross profit of the segment	35,320	(7,772)	43,092	x

⁵ See: footnote on p. 52

⁶ See: footnote on p. 53

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 an annual turnover equal to or exceeding PLN 60 million, or in the case of whom the Bank's exposure is equal to or greater than PLN 25 million, as well as to entities operating as part of 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 (listed, 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 function within the aforesaid groups.

Corporate Banking conducts operations based on stable customer relations, special emphasis is 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 in the first half of 2018 was cooperation with companies focused on international expansion and on the development of foreign trade products. A Foreign Trade Program was created to acquire customers who specialise in imports and exports. Through the program, we reached 1,600 companies from all over Poland.

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

In April 2018 the Bank launched a new cash service product for corporate customers: CDMs located directly at the customer's headquarters (Micro-CDMs). The new service model facilitates operations from the customer's perspective.

As part of a business breakfast series for corporate clients that took place in the first half of 2018, topics related to the introduction of split payment provisions were discussed. Representatives of 760 companies participated, the meetings were organised in 12 Polish cities.

The Bank focuses on increased product specialisation 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, services are provided to customers by dedicated relationship managers at 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, micro-CDMs, 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; export/import letters of credit, discounting of letters of credit, debt financing, nostro and loro guarantees
- **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** – organising the issue 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/import documentary letters of credit, export and import documentary collection, discounting of letters of credit, debt 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 the first half of 2018, the Bank issued 1,703 bank guarantees at the request of Corporate Segment customers, with a total value of PLN 1,078.04 million.

In the first half of 2018, the Bank opened 628 import letters of credit with a total value of PLN 271.30 million at the request of customers from this segment and handled 145 export letters of credit with a total value of PLN 94.78 million issued by other banks for those customers.

Commercial volumes

As at 30 June 2018, consolidated Corporate Banking deposits amounted to PLN 13,495 million and were PLN 2,099 million, i.e. 13% lower than at the end of 2017.

Table 30. Deposits and loans - Corporate Banking ⁷

in PLN '000	30.06.2018	31.12.2017	change y/y	
			in PLN '000	share %
Current accounts	6,136,961	6,969,640	(832,679)	(12%)
Saving accounts	7,653	11,311	(3,658)	(32%)
Term deposits	5,573,435	6,825,903	(1,252,468)	(18%)
Overnight deposits	1,776,902	1,787,431	(10,529)	(1%)
Deposits	13,494,951	15,594,284	(2,099,334)	(13%)
Consumer loans	0	25	(25)	x
Investment loans	5,980,184	6,145,369	(165,185)	(3%)
Overdrafts	3,392,408	3,007,400	385,008	13%
Mortgages	643	0	643	x
Lease receivables	1,379,342	1,489,447	(110,105)	(7%)
Credit cards	2,269	1,809	460	25%
Short-term loans	2,544,531	2,236,104	308,427	14%
Other loans	4,414	2,153	2,261	105%
Factoring	69,116	21,771	47,344	217%
Net loans and advances	13,372,906	12,904,077	468,829	4%

⁷ See: footnote on p. 52

As at 30 June 2018 the value of the loans and advances portfolio in the Corporate Banking segment amounted to PLN 13,373 million, i.e. 4% more than at the end of 2017. The increase concerned primarily overdrafts and short-term advances.

Gross income: Corporate Banking segment

In the first half of 2018, the gross result of Corporate Banking was PLN 89.8 million, and was similar to the results in the first half of the previous year. Despite the lack of income generated by the deconsolidated BGŻ BNP Paribas Faktoring Sp. z o.o. company, the improvement in banking operations results and lower operating costs were balanced by the increase in risk costs recorded in the first half of 2018.

In the first six months of 2018, the banking income of Corporate Banking was PLN 236.1 million, which is 0.2% more than at the end of the first half of 2017. It represented 17.6% of the total net income on the Group's banking activity.

Table 31. Gross income: Corporate Banking segment⁸

in PLN '000	6 months ended 30.06.2018	6 months ended 30.06.2017	change y/y	
			in PLN '000†	share %
Interest income	137,082	135,148	1,934	1%
Fee and commission income	60,436	61,236	(800)	(1%)
Trading and other income	39,130	39,741	(611)	(2%)
Income on banking activity	236,648	236,125	523	0%
Impairment losses	(17,486)	(8,056)	(9,430)	117%
Operating expenses and amortisation and depreciation	(78,010)	(74,704)	(3,306)	4%
Expense allocation	(27,674)	(40,043)	12,369	(31%)
Operating result	113,477	113,401	76	0%
Tax on financial institutions	(23,654)	(22,674)	(980)	4%
Gross profit of the segment	89,823	90,727	(904)	(1%)

The results achieved in the Segment of Corporate Banking in the first half of 2018 as compared to the first 6 months of 2017 was negatively affected by the sale and deconsolidation of the subsidiary BGŻ BNP Paribas Faktoring Sp. z o.o.

If the interest and commission results obtained by the company and allocated to the Corporate Banking segment in the first half of 2017 were disregarded, the increase in net interest income would be +5.4%, net commission income +7.5%, and the result on banking activities +4.7%.

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.

⁸ See: footnote on p. 53

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

Corporate and Institutional Banking concentrates on 4 main areas of activity:

- conducting operations on domestic and international currency and interest rate markets. As part of this activity, market risk management tasks are implemented in the trading book, quotation of currency market instruments and interest rate market instruments (including derivatives market transactions), determination of the currency exchange rates prevailing in the Bank as well as structuring and managing risks related to offering structured products by the Bank;
- direct sale of financial market products enabling management of currency risk, interest rate risk and changes in commodity prices to the customers;
- development of macroeconomic analyses and forecasts for the Bank's commercial and treasury activities, as well as for external needs; cooperation with external institutions and centres conducting research activities in the scope of performed analyses;
- arranging issues of debt securities for corporate clients.

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 ALM Treasury combines the features of a business line with those of a competency centre responsible for the management of interest rate risk, current and structural liquidity of the Bank, structural currency risk, determining and managing internal transfer prices for all products offered by the Bank. The ALM Treasury focuses on both prudential (compliance with external and internal regulations) and optimization aspects (financing cost management and generating profit 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 30 June 2018, the Bank was a correspondent bank of ca. 1000 other banks, and held 36 nostro accounts for 23 major currencies in foreign banks.

In the discussed period, the Bank held 18 loro accounts denominated in two currencies for 15 foreign banks and 1 foreign financial institution. 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 the first half of 2018, 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 resources management

Headcount

At the end of June 2018, the Capital Group of Bank BGŽ BNP Paribas had 7,596 FTEs (including employees on maternity leave, childcare leave and longer sick leave) as compared to 7,808 FTEs at the end of June 2017 (decrease by 212 FTEs).

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

Table 32. Headcount in the Capital Group of the Bank

in FTEs	30.06.2018	31.12.2017	30.06.2017
Capital Group of the Bank	7,596	7,634	7,808
Total Bank, including:	7,321	7,386	7,510
Head Office	3,396	3,410	3,358
Branches	3,795	3,833	4,010
Mobile Relationship Managers	91	93	95
Brokerage Office	35	35	33
Training Centre	0	11	11
Trade Unions	4	4	4
TFI BGŽ BNPP	24	25	23
Dimperre Investments Sp. z o.o.	10	0	0
BGŽ BNP Paribas Faktoring Sp. z o.o.	0	0	62
BFN ACTUS Sp. z o.o.	0	0	1
BNP Paribas Leasing Services Sp. z o.o.*	0	0	0
BNP Paribas Group Service Center S.A.	241	223	212

* employment in the company is 0.25 of FTE

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 BGŽ 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 provisions of the above mentioned Policy were updated 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 system and internal control system, remuneration policy and detailed method of estimating 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, Private Banking, Personal Finance, SME Banking, Corporate 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 the first half of 2018, the training activity was performed in close cooperation with the Bank's business lines.

The total number of training participants was 97,947, including 87,716 e-learning participants.

Major training initiatives in the first half of 2018:

- courses dedicated to the new product offering and use of the operating systems in the new formula of induction training for the employees of sale network in the Retail and Business Banking;
- courses raising the level of product knowledge, dedicated to the sale network employees, including those focusing on investment funds and sales of insurance products;
- courses supporting development of sales skills and enhancing the quality of customer service, addressed to the sale network employees of Retail and Business Banking and Corporate Banking;
- courses increasing leadership competencies of managers and communication skills, including trainings on providing Feedback – Bank Manager Academy of Bank BGŻ BNP Paribas;
- courses supporting the implementation of the new organizational culture, including trainings on providing Feedback;
- courses supporting the development of a risk culture at the Bank as well as pro-active employee attitudes and behaviours, especially in the areas of operational risk and compliance;
- courses on stress management skills – anti-stress trainings;
- foreign language courses.

Development programs implemented in the first half of 2018

- “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. The current edition of the program focuses on strengthening the leadership competences needed to manage change and the ability to provide feedback.
- “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 good practices.
- The “Digital Ambassadors” Program - the aim of the program is to build Digital Culture in the Bank by equipping employees with digital competences. The key role in this process is performed by the Digital Ambassadors whose task is to: acquire knowledge and skills in the field of functioning and implemented tools, promotion of social tools and digital solutions supporting work at a distance and business efficiency, transferring knowledge to colleagues, participation in testing and implementing new solutions, and in a selected transformation project, promoting new work techniques, gathering and transferring information on the needs of employees to IT, as well as tracking market innovations in order to implement them at the Bank.
- Development program for the highest managerial staff – training workshops – focused on strengthening cooperation, breaking silos, strengthening entrepreneurship and client-centeredness.

- Continuation of the Inner Labour Market initiative initiated in 2014, which aims to strengthen the professional mobility of employees within 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 of the Bank and other entities of the Capital Group of Bank BGŻ BNP Paribas or attend meetings (in classrooms and online) focusing on professional development. The Occupational Mobility Days include training courses and conference on providing feedback.
- Feedback culture building program - workshops addressed to the managerial staff, aimed at preparing for the implementation of feedback culture in teams.
- Moon mission - development workshops using virtual reality aimed at strengthening the organizational culture.
- HR Library – available for every employee library offers literature on: motivation, sales, personal development, management and leadership.

Internship and traineeship programs

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

- The "Focus on Development" internship program, addressed to 4th and 5th year students, recruitment to the program lasts throughout the whole year. The purpose of this program is to transfer knowledge, prepare for the profession and strengthen the Bank's image as a desirable employer.
- "Ambassador Duo" program, addressed to 2th and 3th year students. The program is aimed at building the Bank's image of an attractive employer through the actions of Bank representatives at selected universities, where they undertake activities whose task is to build the Bank's image as an attractive employer.

11.12. Information technology

In the first half of 2018, IT initiatives were implemented in two major areas:

- 1) **Bank Transformation** – (i) The digitization of customer service includes tools such as the website, online banking in the retail and corporate area as well as mobile applications.; (ii) Further optimization of operational processes, (iii) Beginning works on the reconstruction of the data management area; (iv) Implementing new solutions that support employees in performance of their daily duties.
- 2) **Bank's daily activities** – projects focusing mainly on creating a new offer for clients as well as infrastructure and regulatory projects resulting from new requirements in national or international law, including: the RODO project on the protection of personal data and the Split Payment project allowing a split VAT payment.

Since January 2018, 26 projects were implemented of a total value of PLN over 73 million in the Bank. Over 100 projects are being implemented at present.

Major completed IT initiatives in the first half of 2018

- **January** – (i) Enabling customers to change data from an ID card by electronic means (PI@net / Product Centre), (ii) Implementation of forms for servicing and reporting the status of mutual collaterals established in the case of derivative contracts between Bank BGŻ BNPP and other banks in Poland and abroad, (iii) Implementation of changes resulting from the provisions of MiFID II;
- **February** - (i) QR code payments - the ability for quick payments in the GOMobile application by scanning QR codes on invoices and bills, (ii) history of cash transfers - the ability to easily renew and respond to received transfers, all necessary data for the transfer are automatically read from the account history, (iii) Counterproposition in the credit process – in case of a negative credit decision, the client receives a counterproposition for a smaller amount and instalment. (vi) Implementation of the mechanism for checking the validity of the identification number (Legal Entity Identifies) on the FX PI@net transaction platform applicable for the entities performing transactions on the financial markets through the Bank - a change in the adjustment to the guidelines of the new MiFID II regulation, (v) Replacement of the recording and archiving system of telephone conversations at the Dealing Room, (vi) Implementation of CMO reporting - Central Operational Monitoring;
- **March** – (i) Face ID – functionalities for customers with iPhone X phones that allow secure login to the application by scanning and recognizing the face of the client (ii) Implementation of the password change process by the client - omitting the need to contact the Call Centre for this purpose, (iii) Implementation of technical monitoring of critical applications, (iv) Implementation of the new KYC policy (Know Your Customer) and automation of these processes in the Back Office. (v) Implementation of new currencies (Egyptian pound EGP, Ukrainian hryvnia UAH and Serbian RDS dinar) as part of the Non Deliverable Forwards, i.e. short-term interbank market instruments settled in cash;

- **April** – (i) Implementation of new functionalities for clients within the partnership with Carrefour (implementation of a cash loan and after-sales service in electronic form, Carrefour mobile application - with some additional functionalities such as a credit card transfer or sales offers before logging in), (ii) Implementation of optimization of automation in the Visiona card system in order to improve the quality of customer service, (iii) Integration with RTV Euro AGD, and thus continued sale of the Bank's instalment loans in their stationary stores, (iv) Implementation of post-sales processes servicing for loans in the Venus system - one system for all branches, (v) Preparation of an IT solution regarding a paperless credit process and electronic signature for dealers, (vi) BIK implementation for entrepreneurs and BIK Archive – with the functionality of automatic download of credit reports and management of archive reports;
- **May** – (i) Card blocking - customers who lost their card can quickly and automatically block it using the dedicated functionality in the mobile application, (ii) Payment templates for Carrefour - customers using the Carrefour mobile application have the ability to download their templates from online banking and use them in a mobile application, they can also use them for quick payment before logging into the application, (iii) Implementation of changes necessary for the Bank to comply with the provisions on the protection of personal data (RODO / GDPR), (iv) Implementation of micro-payments allowing stores to optimize cash management (v) Implementation of a new scoring model for corporate clients. (vi) Automation of renewal processes in Agro Express (mortgage for a farmer). Agro Lider product automation (cash loan secured with a mortgage). (vii) Increasing the quality of reports preventing money laundering;
- **June** – (i) Providing Apple Pay customers with Apple Wallet applications. (ii) SplitPayment - introduction of the required by law possibility to extract VAT from the cash transfer, (iii) Implementation of the cross-selling function of the loan as part of the partnership with Carrefour, (iv) Pilot implementation of tools in the Legal Division to handle internal customer inquiries, (v) Transfer of all payment card services to one system (Visiona), and transfer of card processor support from FTP to MPTS - card processing by one processor (MasterCard), (vi) Fulfilment of the obligation to report FATCA clients to the Ministry of Finance.

Infrastructure projects performed by the Bank:

- development of infrastructure for the needs of maintaining backup copies for databases - DataDomain,
- starting the process of providing new computers to employees based on the new Windows 10 standard,
- consolidation of video solutions in the Bank - combining the Cisco Video Rooms solution with Skype for Business,
- implementation of the Right Management System (RMS) solution for Outlook applications for selected Bank units in order to protect confidential data from being leaked outside the Bank,
- implementation of a store with applications for users based on a Microsoft solution,
- optimization of license costs for Oracle databases,
- decommissioning and archiving exSygma Bank systems,
- expansion of the wireless network infrastructure - providing a larger capacity for the growing number of users,
- implementation of a new solution balancing network traffic for all banking applications.

12. DESCRIPTION OF THE ACTIVITIES OF BANK BGŻ BNP PARIBAS S.A. CAPITAL GROUP IN THE FIRST HALF OF 2018

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

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

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

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

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

- **BGŻ BNP Paribas FIO**, which started its operations in March 2016. It comprises seven sub-funds with a diversified investment policy, which enable customers to invest in various classes of assets, both on the local and global market. BGŻ BNP Paribas FIO also offers an Individual Retirement Account - IKE BGŻ BNP Paribas FIO and an Individual Pension Insurance Account - IKZE BGŻ BNP Paribas FIO. As at the end of June 2018, assets under management totalled approx. PLN 1,712.9 million;
- **BGŻ SFIO**, the management of which was taken over by the entity from Ipopema TFI in January 2016, once a relevant authorization had been granted by the Office of Competition and Consumer Protection. It comprises four sub-funds. As at the end of June 2018, assets under management exceeded PLN 87.4 million;
- **BNP Paribas FIO**, which entered the Polish market in 2005. It comprises three sub-funds which invest mainly in the Polish market. As at the end of June 2018, assets under management totalled PLN 49.4 million;
- **Avantage FIZ** established in November 2015. It is the first in the above group of products, which is dedicated mainly to affluent customers, as the minimum investment amount is higher and the investment strategy complex. As at the end of June 2018, assets under management exceeded PLN 13.1 million;
- **BGŻ BNP Paribas Globalnej Alokacji FIZ**, established in June 2016. The fund fulfils its investment objectives by investing assets in the shares of THEAM QUANT - MULTI ASSET DIVERSIFIED - a sub-fund managed by a BNP Paribas Group Company. As at the end of June 2018, assets under management exceeded PLN 3.6 million.

TFI BGŻ BNPP has partnered with the Bank to distribute units in the funds that it offers under an agreement concluded with the Brokerage Office of the Bank.

Table 33. Basic financial data of TFI BGŻ BNPP

in PLN '000	30.06.2018	31.12.2017	31.12.2016
Balance sheet total	17,796	17,130	12,657
Long-term investments	644	650	622
Equity	11,672	12,592	9,755
including: net financial result	1,342	2,821	(3,595)

The share capital of TFI BGŻ BNPP amounts to PLN 9,048 thousand and is divided into 377,000 shares with the par value of PLN 24.00 each. As at 30 June 2018, its equity totalled PLN 11.7 million and was sufficient to ensure security of the entity's daily operations.

As at 30 June 2018, assets under management of TFI BGŻ BNPP exceeded PLN 1,866.4 million. Due to rapid growth observed since mid-2015 (launch of additional products, increased scale of business operations, organizational changes), the entity reported a loss for 2016, but as at the end of 2017 and the first half of 2018 the balance is positive. This trend continued in the first half of 2018. Such performance was anticipated under the entity's development plan approved by the Supervisory Board. As the value of AUM of the funds managed by the entity is increasing rapidly, it should generate profits in the subsequent years of its operations.

12.2. Bankowy Fundusz Nieruchomościowy Actus Spółka z o.o.

The entity was established in 1999 to carry out the following:

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

As at 31 December 2017, the entity's investment portfolio comprised undeveloped land in Wrocław-Marszowice, with the area of 46.7977 ha. In accordance with the Local Development Plan, the real property will be used for residential building purposes.

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

Table 34. Basic financial data of BFN Actus Spółka z o.o.

in PLN '000	30.16.2018*	31.12.2017	31.12.2016
Balance sheet total	54,664	54,785	54,772
Long-term investments	54,435	54,435	54,466
Equity	46,502	46,557	46,557
including: net financial result	(54)	(229)	(895)

* - data not audited

12.3. BNP Paribas Leasing Services Spółka z o.o.

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

Pursuant to a Resolution of the Extraordinary Shareholders' Meeting of FLP dated 30 June 2014, the liquidation procedure was opened for FLP on 1 July 2014. In the first half of 2016, the entity did not carry out any operations but only took measures aimed to close the liquidation procedure.

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

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

Table 35. Basic financial data of BNP Paribas Leasing Services Spółka z o.o.

in PLN '000	30.06.2018	31.12.2017	31.12.2016
Balance sheet total	1,565,651	869,606	148,479
Long-term investments	669,691	547,249	78,601
Equity	(25,595)	(11,280)	724
including: net financial result	(7,349)	(12,005)	(1,446)

* receivables due to the granted financing

Currently, the Company has 56 branches (54 opened in 2016, 2 more, located in Pietrowice Wielkie and Zabrze, in 2017).

In the first quarter of 2018, the Company developed business for banking clients in the Micro and Personal Finance lines. It also acquired new production for larger clients from the Bank and to offer financial products for SME and corporate clients.

As at 30 June 2018, the Company's share capital comprised 2 equal shares with the total par value of PLN 20 000. Total assets amounted to PLN 1,565,651 thousand.

12.4. BNP Paribas Group Service Center S.A.

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

The scope of the entity's business activity includes:

- **services auxiliary to insurance brokerage**, consisting in administration and performance of group insurance contracts made by the Bank;
- **agency services** for insurance services,
- **financial intermediation services** for Bank BGŻ BNP Paribas S.A., consisting in:
 - provision of information regarding the terms of loan agreements to applicants;
 - supporting the Bank's customers in completion of loan applications;
 - accepting the documents required by the Bank and filed by customers, verifying them in terms of correctness and completeness and submitting them to the Bank;
 - registering documents in the Bank's operating system;
 - informing customers of the credit decisions issued by the Bank;
- **accounting and bookkeeping services** selected BNP Paribas Group companies;
- **leasing** the Avaya telecom platform to the Bank;
- comprehensive **management of loyalty programs**, for parties connected with the Bank;
- **provision of IT services**, including application and banking and finance system development;
- provision of **marketing services** for employees of the Bank's partners.

Table 36. Basic financial data of BNP Paribas Group Service Center S.A.

in PLN '000	30.06.2018	31.12.2017	31.12.2016
Balance sheet total	23,494	19,072	25,594
Long-term investments	13,396	10,298	20,420
Equity	17,498	14,467	23,879
including: net financial result	6,418	18,406	16,554

12.5. BGZ Poland ABS1 Designated Activity Company

BGZ Poland ABS1 Designated Activity Company ("SPV") based in Ireland, 3rd Floor Kilmore House, Park Lane, Spencer Dock, Dublin. A special purpose company with which the Bank carried out a securitization transaction for a part of the loan portfolio. The Group has no equity involvement in this unit nor is it affiliated with it organizationally. The subject of the company's activities is limited in the manner described in Article 92a Paragraph 4 of the Banking Law. The sole activity of this entity is the acquisition of receivables and the issuance of securities.

Pursuant to the concluded agreements, the Bank transferred receivables from the portfolio of loans and cash advances and car loans granted in the Polish currency to SPV. Subsequently, SPV issued securities and took out a loan, secured with the above-mentioned receivables.

SPV is consolidated for the purpose of preparing the consolidated financial statements of the Group.

13. KEY RISK MANAGEMENT

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

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

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.

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 Products Approval, Services, Transaction and Businesses 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.

13.1. Credit risk

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

The Bank's credit risk management system has been defined in the Credit Policy of Bank BGŻ BNP Paribas S.A. adopted by the Management Board. Detailed financing principles and criteria applicable to the product offering of each business line, types of available loans, objectives, financing terms and limits have been defined in the credit policies of

each business line. It is the Bank's intention, in accordance with the criteria established in the credit policy, to cooperate with customers enjoying good reputation and a good economic and financial condition.

Additionally, the aforementioned credit policies 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.

Subsidiaries of the Bank

The principles of the Bank's supervision over the credit risk generated by the activity of subsidiaries is specified in the "BGŽ BNP Paribas S.A. Credit Policy".

The Bank recommends, opines and accepts policies, principles and methodologies applied by its subsidiaries in terms of credit risk management.

In the Bank and its subsidiaries, credit risk management methods are applied in parallel, including:

- a rating system for Corporate Banking customers and Small and Medium Enterprises Banking;
- risk classification system according to IFRS standards;
- assessment of the creditworthiness of the Bank's joint clients and companies;
- a model for making credit decisions;
- the Bank's internal limits system for concentration risk, including limits on the portfolios of receivables of subsidiaries.

Debt restructuring and collection

In the first half of 2018, the Bank obtained a total of PLN 343.6 million of receivables, of which:

- PLN 164.1 million – as a result of debt collection activities (corporate entities – PLN 46.2 million, micro enterprises – PLN 37.8 million, SME – PLN 15.7 million, Personal Finance – PLN 51.8 million mortgages – PLN 12.6 million);
- PLN 70.2 million – as a result of portfolio restructuring;
- PLN 109.3 million – as a result of NPL portfolio sale.

13.2. Liquidity, currency and interest rate risks

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. 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, were also defined.

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 policy on liquidity risk management 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 policy 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, which is presented in the below table:

Table 37. Structure of loan portfolio financing

in PLN million	30.06.2018
Net loans and advances	53,257
Total sources of funding	60,566
Customer deposits, including:	52,598
- retail customers	27,473
- corporate	23,699
- other financial institutions	1,426
Long-term lines of credit	5,786
Debt securities issued	2,182

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 30 June 2018, the structure of open long-term lines of credit (including those obtained in the process of loan portfolio securitization) was as follows:

Table 38. Structure of loans from the BNP Paribas group

in million	30.06.2018
CHF	856
EUR	219
PLN	728

Table 39. Structure of loans from the EBRD, EBI and EIB

in million	30.06.2018
EUR	130
PLN	2,490

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 the first half of 2018 indicated the necessity to adjust the model. The adjusted model was implemented on 1 June 2018.

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 on interest rate risk 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);
- sensitivity due to different reference rates (basic risk);
- average investment length of capital and non-interest bearing current accounts (structural elements);
- 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 30 June 2018. Utilization of set limits is below the maximum values.

Table 40. Interest rate gap (in PLN million)

Term	Gap
1M	-8,211
3M	-385
6M	-281
1Y	-2,755
2Y	-3,954
3Y	-4,209
5Y	-1,761
10Y	614

The average length of capital investment and non-interest bearing current accounts as at 30 June 2018 was 4.7 years. The sensitivity of interest income at the offsets of interest rate curves by +50bp as at 30 June 2018 is presented in the table below:

Table 41. Sensitivity of interest income (in PLN million)

1st year	2nd year	3rd year
9.8	21.3	32.4

13.3. 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 the end of June 2018, 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.

13.4. Country risk

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

The Bank 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 30 June 2018, treasury transactions (including deposits and derivatives) represented 25% of the Bank's exposure towards countries, foreign lending operations of the Bank accounted for 37%, while the remaining part, i.e. 38%, was related to international trade transactions (letters of credit and guarantees). France accounted for 49%, Belgium for 13%, the Netherlands for 12%, Great Britain for 8%, and Germany for 5% of the exposure. The remaining exposure was related to Luxembourg, Italy and Switzerland.

13.5. Operational risk

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

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

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

- tools used for purposes of recording operational events, together with the principles of their recording, allocation and reporting;
- operational risk analysis, its monitoring and 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 task of the internal control system at the Bank is continuous analysis and supervision over the course and results of work of individual employees and teams in such a way as to provide rational assurance that the goals of the given unit / organizational unit and of the Bank as a whole are achieved in an optimal manner. The purpose of internal control is effective risk control, including risk prevention or early detection. The role of the internal control system is to achieve general and specific objectives of the internal control system, which should be considered at the design stage of control mechanisms. The principles of the internal control system are described in the "Policy on internal control at BGŻ BNP Paribas S.A." document, approved by the Bank's Management Board. This document describes the main principles, organizational framework and standards for the functioning of the control environment at the Bank, complying with the PFSA requirements provided in Recommendation H. Detailed internal regulations concerning specific areas of the Bank's activity are adapted to the specifics of the Bank's operations. The appropriate organizational units of the Bank, in accordance with the scope of the tasks assigned to them, are responsible for developing detailed regulations relating to the area of internal control.

The internal control system at the Bank is based on the 3 defence lines model, which consists of:

- 1st defence line, which are organizational units from particular areas of banking and support areas,
- 2nd defence line, which are organizational units responsible for risk management, units / organizational units regardless of the risk management related to the first-line defence, and the compliance unit,
- 3rd defence line, which is independent i objective internal audit unit.

The Bank ensures internal control through independent monitoring of compliance with control mechanisms, including on-going verification and testing.

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 (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.

13.6. Legal risk

As at 30 June 2018, no proceedings had been instituted before courts, arbitration or public administration bodies with respect to the Bank's receivables or liabilities, the value of which would exceed 10% of the Bank's equity.

As at 30 June 2018 the total value of the litigation initiated against the Bank, as well as the total value of the litigation initiated by the Bank is less than 10% of the Bank's equity.

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. 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)

As at 30 June 2018 the Bank received 26 requests for settlement from companies (marchands), due to interchange fees paid due to the use of payment cards (the number of requests did not change since 31.12.2017). 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.

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

As at 30 June 2018, the Bank was the defendant in (72) seventy two 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, as well as the return of the spread.

The total value of claims claimed in the abovementioned cases is PLN 24.94 million.

14. GROWTH PERSPECTIVES OF BANK BGŻ BNP PARIBAS S.A. CAPITAL GROUP

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, between 2015 and 2017 a bank merger was conducted, which included: Bank 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 products and services, credit cards, instalment loans and cash loans.

The completion of operational mergers allowed the Bank to move to the next stage of business development on the Polish market. The opportunity to work on the same systems, with a unified offer, created the opportunity to optimize expenditures and concentrate resources on the development of business and banking activities. 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.

The merger of three complementary organizations enabled the establishment of a financial institution willing to become the leading 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 4.5% and 4.2% in the deposit market at the end of June 2018, while the Bank BGŻ BNP Paribas S.A. Capital Group was the seventh largest banking group in Poland in terms of asset value.

The concentration on the Polish banking market has been growing for the last few years, as a result of mergers and acquisitions. 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.

On 10 April 2018, Bank BGŻ BNP Paribas S.A. concluded an agreement with Raiffeisen Bank International AG and BNP Paribas SA regarding the acquisition of the core business of Raiffeisen Bank Polska S.A. ("RBPL"), excluding foreign currency mortgage loans for housing and other purposes granted by RBPL, other credit exposures, as well as all legal relationships between RBPL and 6 investment funds in liquidation, managed between November 2017 by FinCrea TFI S.A., by demerger of RBPL and separating the core business of the Bank. It is planned that the closing of the transaction (subject to obtaining the required consents) will take place in the fourth quarter of 2018. The acquisition of the core business of RBPL is an important element of the new Fast Forward strategy for 2018-2021, adopted by the Bank's Management Board and Supervisory Board in May 2018.

The main assumption of the strategy is focus on the customer and digital transformation of products, services and processes, aimed at accelerating development and increasing profitability. In recent years, Bank BGŻ BNP Paribas has built a significant position on the market, but it still has the potential to grow in the main areas of activity:

- in the retail segment, the Bank plans to implement a package of initiatives supporting further development of this area by redesigning the customer service process with a focus on comprehensive service in digital channels, optimization of network productivity, sales and remote service model and the use of advanced big data analytics to meet customer needs in a best possible way,
- in the microenterprise segment, the Bank aspires to be one of the first choice banks, focusing on creation of a new customer service path and Value Proposition for e-commerce and startup customers,
- in the enterprise segment, the Bank intends to strengthen its established position, focusing on the implementation of the new Value Proposition in the field of the e-banking system, investment banking and solutions supporting the international expansion of domestic companies.

The acquisition of Raiffeisen Bank Polska's core business will allow the Bank to strengthen its position in large cities and to develop the prosperous customer base, as well as to become one of the leaders in the Private Banking segment. In the SME area, the acquired business with a strong distribution network, an innovative product platform and modern centralized customer service will ensure that the Bank will become one of the leading players in the fast-growing and highly profitable segment.

The basic activity of RBPL can be characterized as a leading medium-sized bank, located in larger cities, with a rich product offer (pro forma data of the core business of RBPL at the end of 2017):

- assets amounting to PLN 39.8 billion,
- gross loans amounting to PLN 19.0 billion,

- deposits amounting to PLN 34.4 billion,
- net assets amounting to PLN 3.8 billion.

The planned acquisition will strengthen the position of Bank BGŻ BNP Paribas S.A. among the largest banks in Poland. Active participation in the consolidation of the Polish banking sector will enable the creation of a larger, more profitable and more efficient Bank that will fully meet the growing needs of clients.

The assumptions related to the transaction provide for PLN 500 million gross of cost synergies between 2019-2021 (from 2021, PLN 350 million of recurring cost synergies per year) and gross restructuring costs in the amount of PLN 500 million in 2018-2019. Full implementation of the assumed cost synergies should allow reducing the level of the Cost / Income ratio to approximately 50% in 2021.

Despite the challenges resulting from the adopted strategy, as well as existing and potential risk factors in the external environment, the Group positively assesses the prospects of business development in the coming years, expecting the increase in the scale of operations, improvement of results, profitability and efficiency relations.

15. SUBSEQUENT EVENTS

4.07.2018 Entering into the National Court Register information on the increase of share capital of Bank BGŻ BNP Paribas S.A. on 3 July 2018

Increase of the share capital took place based on the Resolution No. 37 of the Ordinary General Meeting concerning the share capital increase from PLN 84,238,318 to PLN 97,538,318, i.e. by PLN 13,300,000 by issuance of:

- 2,500,000 series J ordinary bearer shares acquired at an issue price of PLN 60.15 per share, and
- 10,800,000 series K ordinary registered shares acquired at an issue price of PLN 60.15 per share.

5.07.2018 Notifications from BNP PARIBAS S.A. and BNP Paribas Fortis SA / NV about the change in the share in the total number of votes.

10.07.2018 Decision of the PFSA of 9 July 2018 on granting permission to classify J series ordinary bearer shares and K series ordinary registered shares issued by Bank BGŻ BNP Paribas S.A. as Common Equity Tier 1 instruments.

The second notification of the planned demerger of Raiffeisen Bank Polska S.A.

16.07.2018 Conditional registration of ordinary bearer series J of Bank BGŻ BNP Paribas S.A. in the securities depository kept by the National Depository of Securities [KDPW] – KDPW's statement no. 441/2018 of 13 July 2018.

17.07.2018 Information on the admission and introduction to the exchange trading of series J bearer ordinary shares of Bank BGŻ BNP Paribas S.A. on the WSE Main List – WSE's [GPW] Resolution No. 768/2018 of 16 July 2018.

Decision of the European Commission of 16 July 2018 on not raising objections to the notified concentration involving the acquisition of control on the core business of Raiffeisen Bank Polska S.A. by Bank BGŻ BNP Paribas S.A. and declaration that the notified concentration is compliant with the common market.

18.07.2018 Announcement of the National Depository for Securities S.A. from 17 July 2018 regarding the registration of series J ordinary bearer shares of Bank BGŻ BNP Paribas S.A. on 19 July 2018

08.08.2018 Information from the Polish Financial Supervision Authority regarding the buffer rate of other systemically important institution imposed on Bank BGŻ BNP Paribas S.A.

As a result of the review, the Authority concluded that there are no triggers to repeal or amend the Authority's Decision of 4 October 2016, as set out in the Authority's Decision of 19 December 2017. This means that the Authority's Decision on imposing on the Bank (on a consolidated and separate basis) a buffer of other systemically important institution equivalent to 0.25% of the total risk exposure amount calculated in accordance with article 92 paragraph 3 of the EU CRR Regulation (No. 575/2013), of 19 December 2017, remains in force.

24.08.2018 Extraordinary General Meeting of the Bank

- Presentation of significant elements of the contents of the demerger plan of Raiffeisen Bank Polska S.A., report of the Management Board of 28 April 2018 justifying the demerger of Raiffeisen Bank Polska S.A., auditor's report and any significant changes in assets and liabilities that occurred between the date of preparation of the demerger plan and the date of adoption of the resolution on the demerger of Raiffeisen Bank Polska S.A.
- Resolution regarding the demerger of Raiffeisen Bank Polska S.A., assuming an increase in the share capital of Bank BGŻ BNP Paribas S.A. and the change of the Bank's Statute
- Appointment of Mr. Michel Falvert and Mr. Stéphane Vermeire as members of the Bank's Supervisory Board until the end of the current 5-year term.
- Resolutions on the adoption of the uniform text of the Statute of Bank BGŻ BNP Paribas S.A.
- Resolution on determining and adoption of the Policy on remuneration of the Members of the Supervisory Board of Bank BGŻ BNP Paribas S.A.

16. 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 Consolidated Interim Report of Bank BGŻ BNP Paribas S.A. Capital Group for the period of 6 months ended 30 June 2018 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 Capital Group of Bank as well as its financial performance.
- the Management Board's Report on the Activities of Bank BGŻ BNP Paribas S.A. Capital Group for the first half of 2018 gives a true view of the development and achievements as well as the capital position of the Capital Group of the Bank, including a description of the key risks and threats.

Appointment of the entity authorized to audit financial statements

The Management Board of Bank BGŻ BNP Paribas S.A. hereby declares that Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Warsaw ("Deloitte"), was appointed by the Supervisory Board of the Bank, in accordance with law, as an entity authorized to audit the interim financial statements of the Bank and the interim consolidated financial statements of the Capital Group of the Bank.

On 21 September 2017, acting pursuant to § 20.1.1g) of the Bank's Statute, the Supervisory Board of the Bank prolonged, for the duration of two years, the existing agreement concluded on 12 June 2015 with Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Warsaw, al. Jana Pawła II 22, 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 2018 - 2019.

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

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

29.08.2018	Przemysław Gdański <i>President of the Management Board</i>	signature
29.08.2018	Jean-Charles Aranda <i>Vice-President of the Management Board</i>	signature
29.08.2018	Daniel Astraud <i>Vice-President of the Management Board</i>	signature
29.08.2018	Philippe Paul Bézieau <i>Vice-President of the Management Board</i>	signature
29.08.2018	Blagoy Bochev <i>Vice-President of the Management Board</i>	signature
29.08.2018	Przemysław Furlepa <i>Vice-President of the Management Board</i>	signature
29.08.2018	Wojciech Kemblowski <i>Vice-President of the Management Board</i>	signature
29.08.2018	Jaromir Pelczarski <i>Vice-President of the Management Board</i>	signature
29.08.2018	Jerzy Śledziewski <i>Vice-President of the Management Board</i>	signature